

Life Assurance Holding Corporation Limited

Company No. 2970583

Annual Report & Accounts

2003



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LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONTENTS

PAGE

Company Information	3
Directors' Report	4
Statement of Directors' Responsibilities	5
Independent Auditors' Report	6
Consolidated Profit and Loss Account - Technical Account	7
Consolidated Profit and Loss Account - Non-technical Account	8
Consolidated Balance Sheet - Assets	9
Consolidated Balance Sheet - Liabilities	10
Parent Undertaking Balance Sheet	11
Consolidated Shareholders' Cash Flow Statement	12
Accounting Policies	13
Notes to the Accounts	17

LIFE ASSURANCE HOLDING CORPORATION LIMITED

DIRECTORS AND OFFICERS

Names of the Directors

Jonathan C C Meggs - appointed as Chairman 23 July 2003
Jonathan J Yates - Managing Director (appointed 31 January 2004)
Andrew Crossley
David W Davies
Mike C Ramsay
Norman M M Riddell
Frederick J Sievert
Michael Sproule
Peter Brown (Alternate Director for Andrew Crossley)

Sir Mark Weinberg - (resigned as Chairman on 23 July 2003 and as a Director on 25 July 2003)
Derek N D Netherton (resigned 25 July 2003)
John L Wybrew - (resigned 31 January 2004 as Director and Managing Director)
Norman H Reid (resigned 31 January 2004)

Secretary

Paul Shakespeare (appointed 30 January 2004)
Norman H Reid (resigned 30 January 2004)

Registered Office

Windsor House
Telford Centre
Shropshire
TF3 4NB

Auditors

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Consulting Actuaries

Tillinghast-Towers Perrin
71 High Holborn
London
WC1V 6TH

Solicitors

Herbert Smith, London
Wragge & Co, Birmingham
Nicholson, Graham & Jones, London

LIFE ASSURANCE HOLDING CORPORATION LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2003

The Directors present their report and the audited financial statements on pages 7 to 41 for the year to 31 December 2003. The unaudited results on an Achieved Profits Basis are shown in the supplementary statements given on pages 42 to 49. These results have been reviewed by the Group's Consulting Actuaries, Tillinghast-Towers Perrin and their statement is set out on page 50.

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.

Results, dividends and transfers in reserves

The results for the year on a Modified Statutory Solvency Basis are set out on pages 7 and 8. The Directors do not propose the payment of a dividend after the declaration of the bonuses. The retained profit for the year was £59,839,000 (2002 - £95,335,000 loss).

Future prospects

The Directors continue to view the future of the Group with confidence.

Regulatory matters

The Financial Services Authority (FSA) is supervising an industry-wide investigation into the selling of pension transfers, opt-outs and freestanding additional voluntary contributions (FSAVCs). The Group is investigating potential cases of mis-selling and offering compensation where this is found to be appropriate. The Group has made provisions for the anticipated costs of making such compensation and for the costs associated with the review, although as disclosed in Note 39 there is some uncertainty with respect to the final amount of compensation payable.

Directors' interests

No Director had disclosable interests in the share capital of the Company other than the E shares.

Directors

The directors of the Company are shown on page 3. J C C Meggs was appointed as Chairman on 23 July 2003 following the resignation of Sir Mark Weinberg who also resigned as a director on 25 July 2003. Upon the retirement of J L Wybrew as Managing Director on 31 January 2004, J J Yates was appointed as Managing Director with effect from that date. N H Reid resigned as a director on 31 January 2004.

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 2003 was 25 days (2002: 39 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.

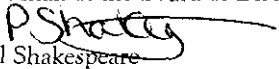
Political and charitable donations

The Group paid £21,951 (2002: £19,920) to charitable organisations during the year.

Auditors

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

On behalf of the Board of Directors


Paul Shakespeare
Secretary

30 March 2004

LIFE ASSURANCE HOLDING CORPORATION LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement should be read in conjunction with the Independent Auditors' Report set out on page 6 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.

Website posting

These financial statements are published on the Group's website www.windsor-life.com, the maintenance and integrity of which is the responsibility of the Group. A printed version of the Annual Report and Accounts is available from the Group's registered office. The work carried out by the auditors does not involve consideration of the maintenance and integrity of the website, and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website.

The uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements. No assurances can be given in this regard other than the fact of compliance with UK regulations.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

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

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated balance sheet, the consolidated cashflow statement and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report including the opinion has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions 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. The other information comprises only the directors' report.

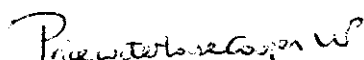
Basis of audit opinion

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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2003 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 LLP
Chartered Accountants and Registered Auditors
London

30 March 2004

LIFE ASSURANCE HOLDING CORPORATION LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003**

Technical Account - Long-term Business

	Notes	2003 £'000	2002 £'000
Earned premiums, net of reinsurance:			
Gross premiums written	1	381,511	412,557
Outward reinsurance premiums		(9,802)	(13,700)
		<u>371,709</u>	<u>398,857</u>
Investment income	3a	190,334	186,526
Unrealised gains on investments	3a	849,344	-
		<u>1,411,387</u>	<u>585,383</u>
Net income in year			
Claims incurred, net of reinsurance:			
Claims paid			
- gross amount		(351,372)	(494,787)
- reinsurers' share		2,077	20,183
		<u>(349,295)</u>	<u>(474,604)</u>
Net claims paid			
Change in the provision for claims			
- gross amount		(105)	(8,629)
- reinsurers' share		(1)	(254)
		<u>(106)</u>	<u>(8,883)</u>
Net change in claims provision	21		
		<u>(349,401)</u>	<u>(483,487)</u>
Net claims cost			
Change in other technical provisions, net of reinsurance:			
Long-term business provision, net of reinsurance			
- gross amount		10,073	137,770
- reinsurers' share		(164)	(1,061)
		<u>9,909</u>	<u>136,709</u>
Other technical provisions, net of reinsurance -	21		
Technical provisions for linked liabilities	21	(636,388)	714,763
		<u>(626,479)</u>	<u>851,472</u>
Net change in other technical provisions in year			
Net operating expenses	5a	(29,680)	(50,211)
Investment expenses and charges	3a	(327,542)	(188,923)
Unrealised losses on investments	3a	-	(767,142)
Other technical charges	4	(8,301)	(8,152)
Tax attributable to the long-term business	12	5,865	497
Transfers (to)/from the fund for future appropriations	21	(29,249)	12,345
		<u>46,600</u>	<u>(48,218)</u>
Balance on the technical account - long term business			
		<u>46,600</u>	<u>(48,218)</u>

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

The accounting policies and notes on pages 13 to 41 form an integral part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003**

Non-technical Account

	Notes	2003 £'000	2002 £'000
Balance on the technical account - long-term business			
Shareholders' profit/(loss) from long-term business		46,600	(48,218)
Tax credit attributable to balance on the long-term business technical account	12	19,971	-
		<hr/>	<hr/>
Shareholders' pre-tax profit/(loss) from long-term business		66,571	(48,218)
Investment income	3b	24,267	32,431
Investment expenses and charges	3b	(10,764)	(52,274)
Unrealised gains/(losses) on investments	3b	6,532	(29,086)
Other non-technical income		-	(1)
Other charges	5b	(1,630)	(7,188)
		<hr/>	<hr/>
Profit/(loss) on ordinary activities before taxation		84,976	(104,336)
Tax on profit/(loss) from ordinary activities	12	(25,137)	9,001
		<hr/>	<hr/>
Retained profit/(loss) for the financial year	19, 34a	59,839	(95,335)
		<hr/> <hr/>	<hr/> <hr/>

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 profit after taxation for the year is £102,888,000 (2002 - loss £116,033,000).

The Group has no recognised gains or losses other than its profit for the period, accordingly no statement of total recognised gains or losses is disclosed.

The accounting policies and notes on pages 13 to 41 form an integral part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2003

	Notes	2003 £'000	2002 £'000
ASSETS			
Investments			
Land and buildings	14a	57,394	52,889
Other financial investments	14b	905,312	854,254
Total investments		<u>962,706</u>	<u>907,143</u>
Assets held to cover linked liabilities	15	4,291,235	3,656,688
Reinsurers' share of technical provisions			
Long term business provision	21	7,793	7,957
Claims outstanding	21	1,087	1,088
Total reinsurers' share		<u>8,880</u>	<u>9,045</u>
Debtors			
Debtors arising out of direct insurance operations			
- policyholders		243	414
Debtors arising out of reinsurance operations		18	15,689
Deferred tax asset	27a	35,595	35,547
Other debtors	26a	19,168	25,670
Total debtors		<u>55,024</u>	<u>77,320</u>
Other assets			
Tangible assets	16	3,443	4,896
Purchased interest in long-term business	20	264,685	272,986
Cash at bank and in hand		17,131	13,061
Total other assets		<u>285,259</u>	<u>290,943</u>
Prepayments and accrued income			
Accrued interest and rent		15,583	15,964
Deferred acquisition costs		1,700	2,046
Other prepayments and accrued income	26c	-	4
Total prepayments and accrued income		<u>17,283</u>	<u>18,014</u>
Total assets		<u>5,620,387</u>	<u>4,959,153</u>

The accounting policies and notes on pages 13 to 41 form an integral part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2003 (continued)

	Notes	2003 £'000	2002 £'000
LIABILITIES			
Capital and reserves			
Called up share capital	17	73,051	73,051
Share premium	18	83,911	83,911
Capital redemption reserve	18	1	1
Other reserves	18	762	762
Profit and loss account	19	116,558	56,719
		<hr/>	<hr/>
Shareholders' funds	34a	274,283	214,444
<hr/>			
Equity shareholders' funds		201,398	141,559
Non-equity shareholders' funds		72,885	72,885
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Fund for future appropriations	21	71,514	42,265
 Technical provisions			
Long-term business provision	21	822,071	832,144
Claims outstanding	21	29,957	29,852
 Technical provisions for linked liabilities			
	21	4,288,176	3,651,788
 Provisions for other risks and charges			
Provisions for pension and similar obligations	11	1,236	1,342
Other provisions	28a	10,141	13,420
 Deposits received from reinsurers			
	36	10,437	15,309
 Creditors			
Creditors arising out of direct insurance operations		1,354	1,975
Creditors arising out of reinsurance operations		2,629	4,850
Amounts owed to credit institutions	29	104,023	135,166
Other creditors (incl taxation and social security)	31	4,566	16,598
		<hr/>	<hr/>
Total liabilities		5,620,387	4,959,153
		<hr/> <hr/>	<hr/> <hr/>

The financial statements were approved by the Board of Directors on 30 March 2004.



J J Yates - Director

The accounting policies and notes on pages 13 to 41 form an integral part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

PARENT UNDERTAKING BALANCE SHEET AS AT 31 DECEMBER 2003

	Notes	2003 £'000	2002 £'000
Fixed Assets			
Investments -			
Shares in and loans to subsidiary undertakings	24	90,678	5,404
Contingent subordinated loan to group undertaking	25	487,309	498,157
Current Assets			
Debtors -			
Amounts owed by Group undertakings		6,145	2,070
Other debtors	26a	6,612	13,678
Prepayments and accrued income	26c	-	4
Cash at bank and in hand		130	-
		<u>12,887</u>	<u>15,752</u>
Creditors - Amounts falling due within one year			
Bank loans and overdrafts	32b	(31,500)	(32,399)
Other creditors (including taxation and social security)	31	(1,747)	(1,718)
		<u>(20,360)</u>	<u>(18,365)</u>
Net current liabilities			
Total assets less current liabilities		<u>557,627</u>	<u>485,196</u>
Provisions for other risks and charges	28b	(6,588)	(6,294)
Creditors - amounts falling due after more than one year	32b	(72,016)	(102,767)
		<u>(78,604)</u>	<u>(109,061)</u>
NET ASSETS		<u><u>479,023</u></u>	<u><u>376,135</u></u>
Capital and reserves			
Called up share capital	17	73,051	73,051
Share premium account	18	83,911	83,911
Capital redemption reserve	18	1	1
Other reserves	18	762	762
Profit and loss account	19	321,298	218,410
		<u>479,023</u>	<u>376,135</u>
SHAREHOLDERS' FUNDS			
(including non-equity interests)	34b	<u><u>479,023</u></u>	<u><u>376,135</u></u>
<hr/>			
Equity shareholders' funds		406,138	303,250
Non-equity shareholders' funds		72,885	72,885
		<u><u>479,023</u></u>	<u><u>376,135</u></u>

The financial statements were approved by the Board of Directors on 30 March 2004.


J J Yates - Director

The accounting policies and notes on pages 13 to 41 form an integral part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £'000	2002 £'000
Net Cash Outflow from Operating Activities	37a	(5,060)	(12,389)
Net Returns on Investments and Servicing of Finance			
Interest received		21,498	9,089
Interest paid		(10,365)	(12,769)
Repayment of loan made to the long-term fund		10,848	10,848
		<hr/> 21,981	<hr/> 7,168
Net Capital Expenditure			
Transfer to the long-term fund		-	(10,000)
Receipts in respect of sale of fixed assets		-	(7,554)
		<hr/> -	<hr/> (17,554)
Financing			
Repayments of Borrowings		(31,500)	(31,500)
		<hr/> (31,500)	<hr/> (31,500)
Net Cash Outflow	37c	<hr/> (14,579)	<hr/> (54,275)
<u>Portfolio Investments</u>			
The net cash outflows were applied/divested as follows:			
Decrease in cash holdings		(1,340)	(7,107)
		<hr/> (1,340)	<hr/> (7,107)
Sale of Portfolio investments (variable rate):			
- Government securities		(2,605)	(65,648)
- Other securities		(20,321)	(8,923)
Acquisition of Portfolio investments:			
- Government securities		9,687	9,253
- Other securities		-	18,150
		<hr/>	<hr/>
Net Cash Outflow		<hr/> (14,579)	<hr/> (54,275)

The accounting policies and notes on pages 13 to 41 form an integral 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, and the special provisions relating to insurance companies of Schedule 9A to, the Companies Act 1985;
- the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP") dated December 1998;
- applicable accounting standards; and
- the historical cost convention modified to include the revaluation of investments,

except for disclosures of departures from the requirements of the Companies Act 1985 relating to depreciation required under Statement of Standard Accounting Practice 19 (SSAP 19) - Accounting for Investment Properties. A description of the departure is given in the accounting policy note relating to investments below. The balance sheet of the Company has been prepared in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985.

Going concern

These financial statements have been prepared on the going concern basis.

In assessing the appropriateness of the going concern basis, the Directors have considered the Group's ability to service the syndicated bank loan of £103.5 million set out in note 29. The loan is subject to semi annual repayments of principal and interest with a final instalment of £72 million due in March 2005.

Life Assurance Holding Corporation Limited is reliant on the continuing emergence of surplus from its main operating subsidiary, Windsor Life Assurance Company Limited (Windsor Life), and the ability of Windsor Life to pay dividends, in order to make repayments of principal and interest. Based upon current projections prepared by management, and in the absence of severe adverse developments (the most significant of which are outside the control of the Group), the Directors believe that the Group will have sufficient funds available to make the semi annual repayments, which are due in May and November 2004. The Directors further believe that the final instalment of £72 million, due in March 2005, will be able to be repaid on the due date. However as described above this is subject to dividends being paid from its main operating subsidiary undertaking, Windsor Life and it is possible that adverse developments could cause a shortfall in the funds available for re-payment of the final instalment.

The Directors have concluded, having made appropriate enquiries, that should any such shortfall arise, it could be re-financed by way of short-term borrowings. In the light of this the directors have formed a judgement, at the time of approving the financial statements, that it is appropriate to adopt the going concern basis in preparing the financial statements.

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.

Profit recognition

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 (the purchased interest in long-term business asset) is capitalised on the basis of the assumptions made at the date of acquisition. That part of the shareholders' interest which will be recognised as profit over the lifetime of the in-force policies is amortised and the discount unwound on a systematic basis over the anticipated lives of the related contracts, which in the case of the major acquisition of CAN, the Directors have determined to be 36 years.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

ACCOUNTING POLICIES – continued

Premiums

Premiums, consideration for annuities and reinsurance 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.

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; and
- 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, unlisted investments, mortgages and loans at Directors' valuation and units held in unit trusts at bid price. Land and buildings are valued at open market value as determined by independent professional advisers.

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 requirements 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. Owner occupied properties, or any parts of properties that are owner occupied, do not satisfy the definition of investment properties under SSAP 19 and are therefore valued at an open market existing use basis, based on vacant possession, as required by FRS 15.

(ii) Investment income and expenses

Investment income includes dividends, interest, rents and gains on the realisation of investments and related expenses. Realised losses on investments are included in investment expenses and charges. Dividends are recorded on the date on which the shares are quoted ex-dividend. 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 investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return on investments related to long-term investments is recorded in the technical account. The investment return in relation to shareholder fund investments is recorded in the non-technical account.

(iv) Subsidiary undertakings

Investments in subsidiary undertakings are valued at cost in the Company balance sheet unless there is evidence of permanent diminution in value in which case the lower value is adopted.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

ACCOUNTING POLICIES - continued

Interest payable

Interest payable is charged to the profit and loss account on an accruals basis. Gains or losses arising from interest rate swaps are also credited or charged to the profit and loss account on an equivalent accruals basis. Both components of the interest are reported together on an aggregate basis.

Long-term business provision and provision for linked liabilities

The long-term business provision is determined by the Reporting 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 Interim Prudential Sourcebook for Insurers. For conventional with-profit business the calculation principally 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 provision has been modified by adding back the deferral of acquisition costs determined in accordance with the valuation method for certain contracts. This adjusted basis is referred to as the modified statutory solvency basis.

For unitised with-profit and non-linked business the calculation uses a gross premium valuation method, with explicit allowance for future expenses and (where appropriate) future bonuses. For linked business a unit reserve is held, together with a long-term provision calculated using a cash flow projection method.

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 Windsor Life Assurance Company Limited's 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 year but which relate to subsequent financial years, 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. 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.

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.

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:

	Rate
Leasehold land and buildings	Remaining 50 years or lease term if lower
Computer equipment	33.33% pa
Motor Vehicles	22.00% pa
Fixtures, fittings and office equipment	20.00% pa

Freehold land and buildings are carried at valuation without depreciation.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

ACCOUNTING POLICIES – *continued*

Taxation

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

Provision is made for deferred tax assets and liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise and discounted to take into account the likely timing of payments and the pattern of the expected realisation of investments. Deferred tax is recognised in the profit and loss account for the period. Deferred tax assets are recognised where it is considered more likely than not, that there is expected to be adequate taxable income in the foreseeable future against which the deferred assets may be recovered.

Deferred tax assets or liabilities within subsidiary undertakings are, on consolidation, merged as either a single asset or liability to the extent that they arise within separate taxable entities where there exists a group election that permits the transfer of tax relief from one company to another within the Group.

Pension scheme

Pension arrangements for the majority of staff are operated through a defined benefit scheme. Such costs are charged to the technical account 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 technical account in respect of these schemes is the cost to the Company of pensions in the accounting period.

The Accounting Standards Board issued FRS 17 "Retirement benefits" in November 2000. The Group has adopted the required transitional disclosure provisions.

Finance leases

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

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 anticipated shortfall, between projected rent expense and income, is provided for in full at appropriate discounted rates.

Long-term reinsurance contracts and similar arrangements

Some long-term reinsurance 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 reinsurance 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 liability to a reinsurer 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:

	2003 £'000	2002 £'000
Direct assurance	381,349	412,024
Reassurance inwards	162	533
Gross premiums written	<u>381,511</u>	<u>412,557</u>

	<u>Gross direct premiums written</u>			
	<u>Regular premiums</u>		<u>Single premiums</u>	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Non-participating:				
Annuity	-	-	40,049	11,772
Life	3,859	4,400	-	-
Pensions	1,415	1,562	26,239	30,231
Permanent Health	784	886	-	-
	<u>6,058</u>	<u>6,848</u>	<u>66,288</u>	<u>42,003</u>
Participating:				
Annuity	-	-	50,409	9,323
Life	5,683	6,370	684	975
Pensions	630	710	-	-
	<u>6,313</u>	<u>7,080</u>	<u>51,093</u>	<u>10,298</u>
Linked:				
Life	56,835	67,957	150	57
Pensions	60,070	66,758	130,232	206,531
Permanent Health	4,310	4,492	-	-
	<u>121,215</u>	<u>139,207</u>	<u>130,382</u>	<u>206,588</u>
Total direct gross premiums (all individual business)	<u>133,586</u>	<u>153,135</u>	<u>247,763</u>	<u>258,889</u>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

1. Segmental analysis (continued)

(b) Gross annualised new business premiums

	2003 £'000	2002 £'000
Direct assurance	247,894	259,157

	<u>New Business (Direct)</u>			
	Regular premiums		Single premiums	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Non-participating:				
Annuity	-	-	40,049	11,772
Pensions	-	-	26,239	30,231
	-	-	66,288	42,003
Participating:				
Annuity	-	-	50,409	9,323
Life	25	59	684	975
	25	59	51,093	10,298
Linked:				
Life	13	10	150	57
Pensions	93	199	130,232	206,531
	106	209	130,382	206,588
Total gross new business (all individual business)	131	268	247,763	258,889

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

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

1. Segmental analysis (continued)

(c) Geographical analysis of gross inwards reinsurance premiums

	2003	2002
	£'000	£'000
Europe (excluding UK)	-	82
USA	162	451
	<u>162</u>	<u>533</u>

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

(d) Reinsurance balance

The reinsurance balance amounted to a charge to the long-term business technical account at 31 December 2003 of £7,726,000 (2002 - £5,168,000 credit).

2. Assets attributable to the long-term business fund

The total assets shown in the Balance Sheet includes £5,309,539,000 (2002 - £4,627,300,000) attributable to the long-term business fund.

3. Investment return summary

(a) Long-term insurance business

	2003	2002
	£'000	£'000
Investment income:		
Income from land and buildings	11,193	11,073
Income from other investments	179,141	175,453
	<u>190,334</u>	<u>186,526</u>
Investment expenses and charges:		
Investment management expenses, including interest	(21,648)	(7,855)
Losses on the realisation of investments	(305,894)	(181,068)
	<u>(327,542)</u>	<u>(188,923)</u>
Net unrealised gains/(losses) on investments	849,344	(767,142)
Net investment return less interest expenses included in the long-term business technical account	<u>712,136</u>	<u>(769,539)</u>

(b) Shareholders' interest

	2003	2002
	£'000	£'000
Investment income:		
Income from investments	24,267	32,431
Investment expenses and charges:		
Investment management expenses, including interest	(10,764)	(31,422)
Loss on the realisation of investments	-	(20,852)
	<u>(10,764)</u>	<u>(52,274)</u>
Net unrealised gains/(losses) on investments	6,532	(29,086)
Net investment return less interest expenses included in the non-technical account	<u>20,035</u>	<u>(48,929)</u>
(c) Total investment return		
Net investment return	<u>732,171</u>	<u>(818,468)</u>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

4. Other Technical Charges

	2003 £'000	2002 £'000
Movement on shareholders' interest in long-term business in force (note 20)	8,301	8,152
Total net technical charges	<u>8,301</u>	<u>8,152</u>

5. Net operating expenses

(a) Technical account

	2003 £'000	2002 £'000
Acquisition costs	3,889	2,665
Change in deferred acquisition costs	346	534
Administrative expenses	25,486	47,108
Reinsurance commissions	(41)	(96)
	<u>29,680</u>	<u>50,211</u>

(b) Non-technical account - other charges

	2003 £'000	2002 £'000
Administrative expenses	<u>1,630</u>	<u>7,188</u>

6. Net administrative expenses

(a) Net administrative expenses are after charging:

	2003 £'000	2002 £'000
Technical account:		
Commissions	<u>1,194</u>	<u>(1,276)</u>

(b) Auditors' remuneration and expenses (inclusive of VAT)

	Technical £'000	Non-technical £'000	2003 £'000	2002 £'000
Audit fees	428	74	502	477
Tax fees	103	12	115	539
Non-audit fees	566	-	566	591
	<u>1,097</u>	<u>86</u>	<u>1,183</u>	<u>1,607</u>

The Non-technical values include the audit fee for the Company of £74,025 (2002: £100,000).

7. Interest payable

	2003 £'000	2002 £'000
Included in Technical account investment management expenses and charges (note 3a):		
Interest payable on capitalised finance leases	67	16
Loan interest payable	21,197	7,671
Other finance costs	<u>26</u>	<u>37</u>
Included in Non-technical account investment management expenses and charges (note 3b):		
Interest payable on bank loans and overdrafts	10,365	12,769
Other finance costs	<u>415</u>	<u>465</u>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

8. Lease charges

	2003	2002
	£'000	£'000
Operating lease rental charges - Other	983	1,244
Finance lease charges - Other	67	16

In addition operating lease rentals of £1,719,790 (2002 - £1,902,000) have been charged directly against the property leases provision during the year.

9. Staff costs

	2003	2002
	£'000	£'000
Wages and salaries	11,618	18,968
Social security costs	934	1,390
Regular pensions charges	1,539	1,946
Other pensions costs	174	50
	<u>14,265</u>	<u>22,354</u>

In addition £225,600 (2002 - £3,529,000) of long-term incentives including national insurance has been charged in the non-technical account. Redundancy payments of £1,576,000 were made by the Group during the year.

The average number of employees (including directors) during the year was as follows:

	2003	2002
	No.	No.
Administration and operation of the business	<u>552</u>	<u>837</u>

During the year employees' contracts of employment were with LAHC, although the costs of employment were recharged in full to the principal subsidiary undertaking.

10. Directors' emoluments

The aggregate emoluments of the 11 (2002: 11) directors who served during the year (including pension scheme contributions) were as follows:

	2003	2002
	£'000	£'000
Emoluments	794	676
Payments under long-term incentive scheme	-	2,927
Pension contributions	<u>173</u>	<u>120</u>

Retirement benefits are accruing to 2 directors (2002 - 2) under defined benefit schemes. In addition 1 of the directors (2002 - 1) also had contributions paid into a Funded Unapproved Retirement Benefit Scheme ("FURBS").

	2003	2002
	£'000	£'000
Highest paid director:		
Emoluments	456	422
Payments under long-term incentive scheme	-	1,952
Pension scheme contributions	<u>145</u>	<u>97</u>

Accrued pension for the highest paid director at 31 December 2003 is £18,700 (2002 - £16,605) and accrued lump sum at 31 December 2003 is £42,075 (2002 - £37,361) based on his service with the group.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

11. Pension Provisions

(a) Group Reporting - SSAP 24

The Group operates a funded defined benefit scheme for certain LAHC employees the assets of which are held in separate, Trustee-administered funds. This was closed to new members on 1 October 2000 except for existing employees at that date who were not yet eligible to join. These remaining staff have now decided on their preferences as their eligibility has now crystallised. The existing Group scheme also became contributory.

	2003	2002
	£'000	£'000
The movement in the provision for pension obligations is as follows:		
At 1 January	1,342	1,445
Net amortisation in period	(106)	(103)
At 31 December	<u>1,236</u>	<u>1,342</u>

The last full actuarial valuation of the Windsor Pension and Life Assurance Scheme was performed by IPS Actuarial Services Limited a firm of independent actuaries as at 1 January 2001. At the valuation date the market value of the assets of £56,251,000 was marginally less than the actuarial value of the liabilities on an attained age method. The funding level was 99.8%. On a Minimum Funding Requirement (MFR) basis the Scheme was 102.4% funded. The valuation assumed that the annual investment return would be 6.5% and annual salary growth 5%. The defined benefit scheme pension cost charge for the year was £1,481,000 (2002 - £1,850,000). Contributions of £nil were outstanding as at 31 December 2003 (£nil at 31 December 2002).

A full actuarial valuation of the scheme is currently being undertaken as at 1 January 2004. Based on their knowledge of asset and liability movements in the Scheme fund, the directors anticipate the Scheme will show a deficit on full valuation. The directors are considering how this deficit might be addressed, including making increased contributions to the scheme.

When the Scheme was closed to new members on 1 October 2000 the Group also arranged with Friends Provident for a Group Personal Pension scheme to be created. The Scheme is a defined contribution pension scheme. Contributions payable for the year are charged to the technical account. The value of contributions due for the period was £58,000 (2002 - £95,028). At 31 December 2003 £6,533 (2002: £14,230) contributions were outstanding and due for collection on or after 1 January 2004.

(b) FRS 17

The valuation used for FRS 17 disclosures has been based on the most recent full actuarial valuation at 1 January 2001 and updated by IPS Actuarial Services Limited to take account of the requirements of FRS17 to 31 December 2003. Scheme assets are stated at their market value on 31 December 2003. In accordance with the requirements of FRS17 a full valuation as at 1 January 2004 is currently being undertaken. The projected unit method of valuation has been adopted.

The major assumptions used by the actuary were:

	At 31 December 2001	At 31 December 2002	At 31 December 2003
Discount rate	5.75%	5.50%	5.25%
Inflation rate	2.50%	2.00%	2.50%
Rate of increase in salaries	4.50%	4.00%	4.00%
Rate of increase in pensions	2.50%	2.00%	2.50%
Rate of increase in deferred benefits during deferment	3.00%	3.00%	3.00%

Under the projected unit method because the Group Scheme is closed the age profile will increase, hence the current service cost is expected to rise. Recognition has been taken of the impact of the departure of staff following redundancies declared and provided for in these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

11. Pension Provisions (continued)

(b) FRS 17 (continued)

The assets in the Scheme with their expected rates of return (net of administrative expenses) and the liabilities measured in accordance with the requirements of FRS 17 are:

Long-term rate of return expected at:	31 December 2001	31 December 2002	31 December 2003
Equities	7.50%	7.00%	7.25%
Bonds	5.00% - 5.25%	4.50% - 4.75%	4.75% - 5.00%
Other	4.00% - 7.25%	4.00% - 6.75%	3.75%
Value at:	31 December 2001 £'000	31 December 2002 £'000	31 December 2003 £'000
Equities	20,581	27,945	34,915
Bonds	22,337	13,995	24,452
Other	16,306	11,447	367
Total market value of assets	59,224	53,387	59,734
Present value of Scheme liabilities	(70,525)	(73,497)	(83,458)
Deficit in the Scheme	(11,301)	(20,110)	(23,724)
Related deferred tax asset (30%)	3,390	6,033	7,117
Net pension liability	(7,911)	(14,077)	(16,607)

Were FRS17 to be reflected in the Group's results, on the basis of the above assumptions, the impact is set out below:

	31 December 2003 £'000
Included within Operating profits:	
Current service cost	1,135
Past service cost	31
Gains/losses on any settlements or curtailments	8
Total charge to operating profit	1,174
Included within Finance costs/(income):	
Interest cost	(4,014)
Expected return on assets in the scheme	3,339
Net charge to finance costs	(675)
Impact - Loss before taxation	499
Included in Statement of Total Recognised Gains and Losses:	
Difference between the expected and actual return on assets	3,658
Experience gains and losses arising on Scheme liabilities	666
Effects of changes in demographic and financial assumptions	(7,575)
Actuarial loss recognised in the Statement of Total Recognised Gains and Losses	(3,251)

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

11. Pension Provisions (continued)

(b) FRS 17 (continued)

The following items existing at the reporting date are shown appropriately as a proportion of the present value of the assets and liabilities at the balance sheet date:

	31 December 2003 £'000	31 December 2003 %
Difference between expected and actual return on Scheme assets (expressed as a percentage of the scheme assets)	3,658	6%
Experience gains and losses arising on the scheme liabilities	666	1%
Total actuarial loss recognised in the Statement of Total Recognised Gains and Losses (expressed as a percentage of the present value of the scheme liabilities)	4,324	7%

The following amounts would be reflected in the net assets of the Group and the Company:

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Net Assets at 31 December				
Net assets excluding SSAP 24 pension liability	275,519	479,023	215,786	376,135
Pension liability under FRS 17 (net of deferred tax)	(16,607)	(16,607)	(14,077)	(14,077)
Revised net assets	258,912	462,416	201,709	362,058
Reserves at 31 December				
Profit and loss reserve excluding SSAP 24 pension liability	117,794	321,298	58,061	218,410
Pension liability under FRS 17 (net of deferred tax)	(16,607)	(16,607)	(14,077)	(14,077)
	101,187	304,691	43,984	204,333

Analysis of movements during the year:

	2003 £'000	2002 £'000
Opening deficit at 1 January	(14,077)	(7,911)
Changes in assumptions	(7,575)	(165)
Returns on assets	3,658	(9,456)
Movement in deferred tax	1,084	2,643
Experience gains and losses	666	359
Charges and contributions	(363)	453
Closing deficit at 31 December	(16,607)	(14,077)

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

12. Taxation

(a) Tax charges/(recoveries)	2003 £'000	2002 £'000
Long-term business technical account:		
UK corporation tax	981	4,835
Adjustments in respect of prior year	(1,632)	9,055
	<hr/>	<hr/>
Tax (recovery)/charge	(651)	13,890
Deferred tax (see note 13)	(5,214)	(14,387)
	<hr/>	<hr/>
Total tax recovery	(5,865)	(497)
	<hr/>	<hr/>
Non-technical account:	2003 £'000	2002 £'000
UK corporation tax at 30% (2002: 30%)	-	-
Tax credit attributable to balance on long-term business technical account at 30% (2002:30%)	19,971	-
	<hr/>	<hr/>
Tax charge	19,971	-
Deferred tax (see note 13)	5,166	(9,001)
	<hr/>	<hr/>
Total tax charge/(recovery)	25,137	(9,001)
	<hr/>	<hr/>

The balance on the technical account has been grossed up at an effective rate of 30% (2002 - 30%) in accordance with the rates applicable to the long-term business fund of a life assurance company. Corporation tax in the non-technical account has been calculated at 30% (2002 - 30%).

(b) Factors affecting tax charge for the period.

The tax assessed in the Non-technical account for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003 £'000	2002 £'000
Profit/(loss) on ordinary activities before tax only reported in the non-technical account	18,405	(56,118)
	<hr/>	<hr/>
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	5,522	(16,835)
Effects of:		
Expenses permanently disallowed for tax purposes/(reversed)	(802)	9,037
Capital losses carried forward	-	5,611
Unrealised capital gains	(1,960)	-
Utilisation of tax losses	(2,182)	(650)
Capital allowances for period in excess of depreciation	(578)	-
Losses carried forward	-	2,837
	<hr/>	<hr/>
Current non-technical corporation tax charge for year	-	-
	<hr/>	<hr/>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

13. Deferred tax charge	2003	2002
	£'000	£'000
Origination and reversal of timing differences	(5,917)	(3,728)
Decrease/(increase) in discount	703	(10,659)
Deferred tax charge for year - Technical account	<u>(5,214)</u>	<u>(14,387)</u>
Origination and reversal of timing differences	6,160	(10,504)
Decrease in discount	(994)	1,503
Deferred tax charge/(release) for year - Non-technical account	<u>5,166</u>	<u>(9,001)</u>
Total deferred tax movement for year (note 27a)	<u>(48)</u>	<u>(23,388)</u>

14. Investments		
(a) Land and buildings	Market Value	Cost
	£'000	£'000
Freehold land and buildings		
At 1 January 2003	52,889	56,029
Net surplus on revaluation	4,505	.
At 31 December 2003	<u>57,394</u>	<u>56,029</u>

Land and buildings were valued at 31 December 2003 on an open market existing use basis (and at market value based possession for owner occupied properties or where part occupied using market value based on vacant possession for the owner occupied part) by Insignia Richard Ellis, a firm of independent Chartered Surveyors.

Included in the investment properties above is the Company's head office building, Windsor House. The current carrying value of the property of £11,742,000 (2002: £7,554,000) is included above.

(b) Other financial investments - Group

	Current Value 2003 £'000	Current Value 2002 £'000	Cost 2003 £'000	Cost 2002 £'000
Listed investments:				
Shares and other variable yield securities and units in unit trusts	149,245	144,552	130,885	156,675
Debt securities and other fixed income securities	742,538	694,526	754,111	662,537
	<u>891,783</u>	<u>839,078</u>	<u>884,996</u>	<u>819,212</u>
Unlisted investments:				
Loans secured by mortgages	30	30	30	30
Loan notes	10,000	10,000	10,000	10,000
Other loans (secured on policies)	3,499	5,146	3,499	5,146
	<u>13,529</u>	<u>15,176</u>	<u>13,529</u>	<u>15,176</u>
Total other financial investments	<u>905,312</u>	<u>854,254</u>	<u>898,525</u>	<u>834,388</u>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

15. Assets held to cover linked liabilities

	Current value 2003 £'000	Current value 2002 £'000	Cost 2003 £'000	Cost 2002 £'000
Assets held to cover linked liabilities	4,291,235	3,656,688	4,497,453	4,752,103

16. Tangible assets

Group

	Motor vehicles £'000	Computer equipment £'000	Fixtures, fittings and office equipment £'000	Leasehold land and buildings £'000	Freehold land and buildings £'000	Total £'000
Cost or valuation:						
At 1 January 2003	903	4,241	1,892	67	2,759	9,862
Additions	60	20	-	-	-	80
Disposals	(945)	(1,612)	-	-	-	(2,557)
At 31 December 2003	18	2,649	1,892	67	2,759	7,385
Depreciation:						
At 1 January 2003	(312)	(3,200)	(1,375)	(17)	(62)	(4,966)
Charged in the year	(57)	(687)	(177)	(3)	(5)	(929)
Disposals	351	1,602	-	-	-	1,953
At 31 December 2003	(18)	(2,285)	(1,552)	(20)	(67)	(3,942)
Net book value:						
At 31 December 2003	0	364	340	47	2,692	3,443
At 31 December 2002	591	1,041	517	50	2,697	4,896

On 30 June 1997 Rogers Chapman, Chartered Surveyors, valued the freehold land (originally costing £11,203,500) on an open market value basis for existing use at £4,067,500. The valuation did not take into account any selling costs or taxation liability or benefit that might arise upon disposal. An option to sell this freehold land and building for £2.75m was granted in November 2001 and this extended option expires in 2004. However this impaired value was adopted at 31 December 2001 and the carrying value reduced appropriately.

The comparative depreciation charge for the year ended 31 December 2002 was £1,444,000.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

17. Share Capital

(a) Authorised share capital

	2003		2002	
	Number	£'000	Number	£'000
Equity share capital:				
Ordinary 1p				
A shares	3,800,000	38	3,800,000	38
B shares	3,800,000	38	3,800,000	38
C shares	9,750,000	98	9,750,000	98
E shares	230,031	2	230,031	2
	<hr/>	<hr/>	<hr/>	<hr/>
Total ordinary share capital	17,580,031	176	17,580,031	176
Undesignated 1p	13,275,000	132	13,275,000	132
	<hr/>	<hr/>	<hr/>	<hr/>
Total equity share capital	30,855,031	308	30,855,031	308
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Non-equity share capital:				
1st series convertible redeemable preference 1p				
A shares	2,000,000	20	2,000,000	20
B shares	2,000,000	20	2,000,000	20
J shares	375,000	4	375,000	4
	<hr/>	<hr/>	<hr/>	<hr/>
	4,375,000	44	4,375,000	44
	<hr/>	<hr/>	<hr/>	<hr/>
2nd series convertible redeemable preference 1p				
A shares	2,000,000	20	2,000,000	20
B shares	2,000,000	20	2,000,000	20
J shares	375,000	4	375,000	4
	<hr/>	<hr/>	<hr/>	<hr/>
	4,375,000	44	4,375,000	44
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred shares 1p	7,660,394,969	76,604	7,660,394,969	76,604
	<hr/>	<hr/>	<hr/>	<hr/>
Total Non-equity share capital	7,669,144,969	76,691	7,669,144,969	76,691
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total share capital	7,700,000,000	77,000	7,700,000,000	77,000
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

17. Share Capital (continued)

(b) Allotted, issued and fully paid share capital

	2003		2002	
	Number	£'000	Number	£'000
Equity share capital:				
Ordinary 1p				
A shares	3,771,165	38	3,771,165	38
B shares	3,771,165	38	3,771,165	38
C shares	8,919,325	89	8,919,325	89
E shares	119,538	1	119,538	1
	<hr/>	<hr/>	<hr/>	<hr/>
Total ordinary share capital	16,581,193	166	16,581,193	166
Undesignated 1p	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total equity share capital	16,581,193	166	16,581,193	166
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Non-equity share capital:				
<i>1st series convertible</i>				
redeemable preference 1p				
A shares	2,000,000	20	2,000,000	20
B shares	2,000,000	20	2,000,000	20
J shares	375,000	4	375,000	4
	<hr/>	<hr/>	<hr/>	<hr/>
	4,375,000	44	4,375,000	44
	<hr/>	<hr/>	<hr/>	<hr/>
<i>2nd series convertible</i>				
redeemable preference 1p				
A shares	2,000,000	20	2,000,000	20
B shares	2,000,000	20	2,000,000	20
J shares	375,000	4	375,000	4
	<hr/>	<hr/>	<hr/>	<hr/>
	4,375,000	44	4,375,000	44
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred shares 1p:				
- Warranty guarantee	7,279,343,261	72,793	7,279,343,261	72,793
- Converted 'E' shares	394,969	4	394,969	4
	<hr/>	<hr/>	<hr/>	<hr/>
	7,279,738,230	72,797	7,279,738,230	72,797
	<hr/>	<hr/>	<hr/>	<hr/>
Total Non-equity share capital	7,288,488,230	72,885	7,288,488,230	72,885
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total share capital	7,305,069,423	73,051	7,305,069,423	73,051
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

17. Share Capital (continued)

(c) Authorised and issued share capital - movements in year

	2003		2002	
	Authorised £'000	Issued £'000	Authorised £'000	Issued £'000
Balance brought forward	77,000	73,051	77,000	73,052
Redeemed in year				
- E Ordinary shares	-	-	-	(1)
	<u>77,000</u>	<u>73,051</u>	<u>77,000</u>	<u>73,051</u>

(d) Principal rights of the non-equity convertible redeemable shares

Conversion to ordinary shares could have been made on the occurrence of a First Series Conversion Event. 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. No Second Series Conversion event under article 3m is now possible. Conversion to ordinary shares will be based on the net asset value at the time of the 1st conversion event. Any shares not converting to ordinary shares will become deferred shares. All conversions will be on a one for one share exchange. Redemption in all cases is at the option of the Company. The redemption amount will be the amount paid up on the shares held.

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.

(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 which may be 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.

Deferred shares issued under the conversion to E shares, warranty recovery clause or the warranty guarantee, are 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. None of the deferred share class has any voting rights.

On winding up Deferred shares resultant from a conversion only have rights to a return of capital at the value paid up after the primary repayment rights of each ordinary share are fulfilled.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

17. Share Capital (continued)

(f) Rights attributable to E shares

The E shares of the Company rank pari passu with the other ordinary shares of the Company in respect of voting rights, dividends and the rights on return of capital.

Under the terms of the Senior Executive Long-Term Incentive Scheme, Messrs Reid and Wybrew were issued with an allocation of shares in the Company. Mr Reid has waived his rights to require the Company to purchase his allocation of shares.

18. Reserves

The reserves of the Group and Company are:

	Share Premium account £'000	Other reserves £'000	Capital redemption £'000	Total reserves £'000
At 1 January and 31 December 2003	83,911	762	1	84,674

19. Profit and loss account

	Group Total reserves £'000	Company Total reserves £'000
At 1 January 2003	56,719	218,410
Retained profit for the year	59,839	102,888
At 31 December 2003	116,558	321,298

20. Purchased interest in the long-term business in force

The shareholders' interest in the long-term business in force represents the cost of Value of in force purchased at the time of acquisitions and certified by an independent firm of actuaries amortised in line with an internal actuarial assessment of the run-off of policies.

	2003 £'000	2002 £'000
At 1 January	272,986	281,138
Amortisation for year	(8,301)	(8,152)
Purchased interest in long-term business at 31 December	264,685	272,986

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

21. Policyholder liabilities and fund for future appropriations

	Long-term business provision £'000	Out- standing claims £'000	Technical provision for linked liabilities £'000	Fund for future appropriations £'000
At 1 January 2003	824,187	28,764	3,651,788	42,265
Movement for the year	(9,909)	106	636,388	29,249
At 31 December 2003	<u>814,278</u>	<u>28,870</u>	<u>4,288,176</u>	<u>71,514</u>
Made up of:				
Gross provision liability	822,071	29,957	4,288,176	71,514
Recoverable from reinsurers	(7,793)	(1,087)	-	-
At 31 December 2003	<u>814,278</u>	<u>28,870</u>	<u>4,288,176</u>	<u>71,514</u>
Gross provision liability	832,144	29,852	3,651,788	42,265
Recoverable from reinsurers	(7,957)	(1,088)	-	-
At 31 December 2002	<u>824,187</u>	<u>28,764</u>	<u>3,651,788</u>	<u>42,265</u>

The movement in 2003 on the long-term business provision is analysed as follows:

	Gross £'000	Reinsured £'000	Total £'000
At 1 January 2003	832,144	(7,957)	824,187
(Credited)/charged to profit and loss account	(10,073)	164	(9,909)
At 31 December 2003	<u>822,071</u>	<u>(7,793)</u>	<u>814,278</u>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

22. Long-term business provision

The long-term business provision has been determined by Mr N J Rutter, the Reporting Actuary of Windsor Life Assurance Company Limited and a Fellow of the Institute of Actuaries, using standard actuarial techniques.

The principal assumptions underlying the calculation were as follows:

Class of business		Mortality	Interest rates per annum		Expenses per policy	
			2003	2002	2003	2002
Life						
- conventional WP	100% AM92/AF92		3.00%	3.00%	*	*
- WP Structured Settlements	**		2.75%	3.00%	£50.45	£55.12
- conventional NP	100% AM92/AF92		3.20%	3.20%	£28.64	£31.29
- unitised WP	70% A67/70		3.20%	3.20%	£47.73	£52.15
Pensions						
- conventional WP	100% AM92/AF92		3.75%	3.75%	*	*
- conventional NP	100% AM92/AF92		4.00%	4.00%	£36.43	£39.81
- unitised WP	70% A67/70		4.00%	4.00%	£60.69	£66.31
- annuities	80% PMA92/ 100% PFA92		5.00%	4.75%	£30.27	£33.07
	With CMI 17 improvement rates					

* Valued using net premium method, with no explicit expense assumption

** For structured settlements mortality is assumed to move gradually from that within the premium basis to standard annuitant mortality.

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:

Per policy expenses	2003	2002
Regular premium pension	£60.69	£66.31
Single premium pension	£23.10	£25.24
Regular premium life	£47.73	£52.15
Single premium life	£18.86	£20.61
Expense inflation	4.00%	4.00%
Mortality (linked business)	70% A67/70	70% A67/70

An additional allowance for AIDS mortality was included using 33% of basis R6A, as recommended by the Government Actuary's Department.

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.

23. 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 £16,562,000 (2002 - £22,403,000). 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.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

24. Fixed asset investments

(a) The Company's investments are made up of:

	Shares in and loans to subsidiary undertakings £'000
At 1 January 2003	5,404
Adjustment to provision for diminution in value (see note i)	85,274
At 31 December 2003	<u>90,678</u>

(i) The Directors have revised the carrying value of the Company's investments in subsidiary undertakings in the manner set out in the accounting policies. In doing this the Directors have considered the value of all fixed assets of the Company without necessarily revaluing those assets. They are satisfied that they are worth, in total, not less than the aggregate amount at which they are stated in the Company's financial statements. The relevant items in question are accordingly stated on the basis that a revaluation of the Company's fixed assets took place at that time. The total cumulative provision for diminution in value is £308,297,000.

(ii) On 5 June 2001 the consideration for the sale of G Developments Limited to Aberdeen Asset Management Limited (AAM) was received in part in the form of £10m of loan stock in AAM. The loan stock terms and conditions of the transaction are that interest will be paid on the stock at the rate of 1% above LIBOR and that AAM will redeem all stock outstanding on 20 June 2006 at par.

(b) Subsidiary undertakings

The subsidiary undertakings of the Company are all registered in England and Wales and 100% of their ordinary share capital is owned by the Group: (* directly held by the Company)

<u>Company</u>	<u>Principal activity</u>
Windsor Life Assurance Company Limited *	Long-term insurance
Gresham Life Assurance Society Limited	Long-term insurance
LAHC Employee Trust Limited *	Trustees to LAHC Employee Share Trust
C Financial Management Limited *	Intermediate Holding Company
C Life Assurance Company Limited	Dormant
C Life Pensions Limited	Dormant
CLPT Limited	Dormant
RFSG (UK) Plc *	Intermediate Holding Company
ALAC (UK) Limited	Non-trading
RAFS Limited	Non-trading
RLPTC Limited	Dormant
Targetchief Limited *	Intermediate Holding Company
GLH Limited	Intermediate Holding Company
GL&P Plc	Non-trading
FPS Holdings Limited	Non-trading
G Assurance & Pension Services Limited	Non-trading
G Financial Services Limited	Non-trading
G Management Services Limited	Management Services Company
G Trustees Limited	Trustee Company
Gresham Investment Management Limited *	Dormant

The following former subsidiary undertakings have been liquidated during the year:

C Investment Management Services Limited	CFP Limited
Homeview Data Services Limited	CLMS Limited
C Computer Services Limited	CLAR Limited

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

25. Long-term loan to group undertaking	Company 2003 £'000	Company 2002 £'000
Contingent subordinated long-term loan	487,309	498,157

The long-term loan is a loan to the Company's principal subsidiary undertaking. The loan is repayable over a period of up to 50 years in equal instalments, although the rate of principal repayment may be varied by the Appointed Actuary of Windsor Life. Repayments of interest and capital are contingent on the surpluses arising from the GAN pension business held by the with-profit sub fund of Windsor Life.

26. Debtors, prepayments and accrued income

(a) Other debtors

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Due from indemnifiers	-	-	250	250
Other debtors	19,168	157	25,420	253
	<u>19,168</u>	<u>157</u>	<u>25,670</u>	<u>503</u>
Deferred tax asset (note 27)	35,595	6,455	35,547	13,175
	<u>54,763</u>	<u>6,612</u>	<u>61,217</u>	<u>13,678</u>

(b) Financing reinsurance treaties

The net amount of the financing outstanding of £10,437,000 (2002: £15,309,000) 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 repayments in the year of £5,474,000 (2002 - Nil) are reflected in "Outward reinsurance premiums" in the technical account.

(c) Prepayments and accrued income

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Current assets	-	-	4	4

27. Deferred tax asset

(a) Group

	Accumulated losses £'000	Timing differences £'000	Deferred tax asset £'000	Discounting £'000	Net Asset £'000
At 1 January 2003	53,723	(15,429)	38,294	(2,747)	35,547
Amount (credited)/charged to the profit & loss account	(8,095)	7,852	(243)	291	48
At 31 December 2003	<u>45,628</u>	<u>(7,577)</u>	<u>38,051</u>	<u>(2,456)</u>	<u>35,595</u>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

27. Deferred tax asset (continued)

(b) Company

	Accumulated losses £'000	Timing differences £'000	Deferred tax asset £'000	Discounting £'000	Net asset £'000
At 1 January 2003	12,778	2,117	14,895	(1,719)	13,175
Amount (credited)/charged to the profit & loss account	(7,925)	(39)	(7,964)	1,244	(6,720)
At 31 December 2003	<u>4,853</u>	<u>2,078</u>	<u>6,931</u>	<u>(475)</u>	<u>6,455</u>

(c) Deferred tax asset

Deferred tax assets are recognised only when projections indicate that it is more likely than not that timing differences will reverse or losses will be relieved within the group.

28. Provisions for other risks and charges

The movement in the provision is as follows:

(a) Group

	Legal £'000	Property leases £'000	Total £'000
At 1 January 2003	625	12,795	13,420
Additional provision	271	955	1,226
Utilised in year	(113)	(1,719)	(1,832)
Provision released unused	(508)	(2,580)	(3,088)
Discount unwind	-	415	415
At 31 December 2003	<u>275</u>	<u>9,866</u>	<u>10,141</u>

(b) The Company

	£'000
Property leases	
At 1 January 2003	6,294
Additional provision	2,354
Utilised in year	(521)
Provision released unused	(1,788)
Discount unwind	249
At 31 December 2003	<u>6,588</u>

(c) Explanation of provisions

- "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. All provisions are discounted at 4.68% (2002: 4.22%).
- "Legal" provisions are estimates established on the likely outcome of each case based upon the amount and timing of the settlement and associated costs.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

29. Amounts owed to credit institutions

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Loan notes	16	16	16	16
Bank loan (secured)	103,500	103,500	133,624	133,624
Bank overdrafts	-	-	874	874
Swaps contract interest accrued	507	507	652	652
	<u>104,023</u>	<u>104,023</u>	<u>135,166</u>	<u>135,166</u>

(a) The total amount of financial liabilities for the Group and Company is analysed as follows:

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Fixed interest rates	103,516	103,516	133,640	133,640
Overdraft repayable on demand	-	-	874	874
Interest accrued not yet due	507	507	652	652
	<u>104,023</u>	<u>104,023</u>	<u>135,166</u>	<u>135,166</u>

(b) Finance leases

Details of the amount included in creditors and due under a finance lease are given in note 30.

(c) Terms and conditions

The £103.5 million loan 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 quarterly at LIBOR plus 1.0% to 1.5% and a fixed 0.0625% p.a. for the Mandatory Liquid Asset (MLA) cover.

The £103.5 million loan is covered by an interest rate swaps contract for £106.5 million which is intended to fix the LIBOR 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.

30. Finance lease liabilities

	2003 £'000	2002 £'000
Total finance liabilities	<u>714</u>	<u>812</u>
The amount falls due in:		
- one year or less	52	48
- between two and five years	232	272
- after five years	<u>430</u>	<u>492</u>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

31. Creditors

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Amounts due to Group undertakings	-	771	-	671
Finance Lease	52	-	48	-
Other creditors (including taxation and social security)	4,514	976	16,550	1,047
	<u>4,566</u>	<u>1,747</u>	<u>16,598</u>	<u>1,718</u>

32. Creditors due after one year

(a) Analysis by category

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Bank loans and overdrafts	72,000	72,000	102,751	102,751
Loan Notes	16	16	16	16
	<u>72,016</u>	<u>72,016</u>	<u>102,767</u>	<u>102,767</u>

(b) Analysis of total borrowings by due date

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Due within 5 years:				
More than 1 year less than 2 years -				
- bank loan	72,000	72,000	30,873	30,873
- loan notes	16	16	16	16
More than 2 years less than 5 years -				
- bank loans and overdrafts	-	-	71,878	71,878
Total due between 1 to 5 years	<u>72,016</u>	<u>72,016</u>	<u>102,767</u>	<u>102,767</u>
Total due in more than 1 year	<u>72,016</u>	<u>72,016</u>	<u>102,767</u>	<u>102,767</u>
Total due in less than 1 year -				
- bank loans and overdrafts	31,500	31,500	32,399	32,399
Total loans and overdrafts	<u>103,516</u>	<u>103,516</u>	<u>135,166</u>	<u>135,166</u>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

33. Operating lease commitments

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

	Land and Buildings 2003 £'000	Other 2003 £'000	Land and Buildings 2002 £'000	Other 2002 £'000
Operating leases which expire:				
- within one year	741	.	50	1
- between one and five years	518	112	1,394	28
- after five years	2,999	871	3,026	1,110
	<u>4,258</u>	<u>983</u>	<u>4,470</u>	<u>1,139</u>

Against the liabilities for land and buildings there are sub-leases for which there are contracted rents receivable of £3,128,000 (2002: £3,873,000)

34. Reconciliation of Movement in Shareholders' Funds

(a) Group

	2003 £'000	2002 £'000
Opening shareholders' funds at 1 January	214,444	309,779
Profit/(loss) for the financial year	59,839	(95,335)
Closing shareholders' funds at 31 December	<u>274,283</u>	<u>214,444</u>

(b) Company

	2003 £'000	2002 £'000
Opening shareholders' funds at 1 January	376,135	492,168
Profit/(loss) for the financial year after tax	102,888	(116,033)
Closing shareholders' funds at 31 December	<u>479,023</u>	<u>376,135</u>

35. Financial and capital commitments

All commitments for capital expenditure are provided for in the accounts.

36. Deposits received from reinsurers

	2003 £'000	2002 £'000
Financing reinsurance (note 26b)	<u>10,437</u>	<u>15,309</u>

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

	2003 £'000	2002 £'000
Operating profit/(loss) before tax after interest	84,976	(104,336)
Add back policyholder amounts:		
(Profit)/loss on long-term business - gross	(66,571)	48,218
Investment return charged to operating profit	1,897	14,529
Adjustments for non-cash items:		
(Increase)/decrease in debtors and prepayments	(23,735)	(9,114)
Increase/(decrease) in creditors and other provisions	5,828	(12,630)
Fixed asset depreciation	5	6
Revaluation of investment properties	(4,188)	-
Realised/unrealised (gains)/losses	(3,272)	50,938
	<u>(5,060)</u>	<u>(12,389)</u>

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

	Shareholders' funds 2003 £'000	Long-term business funds 2003 £'000	Total 2003 £'000
Cash and deposits	1,205	15,926	17,131
Investment properties	11,742	45,652	57,394
Other financial investments	22,446	882,866	905,312
	<u>35,393</u>	<u>944,444</u>	<u>979,837</u>

(c) Movement in opening and closing shareholder portfolio investments

	At 1 January 2003 £'000	Cashflow £'000	Gains £'000	At 31 December 2003 £'000
Cash and deposits	2,545	(1,340)	-	1,205
Investment properties	7,554	-	4,188	11,742
Other financial investments	32,413	(13,239)	3,272	22,446
	<u>42,512</u>	<u>(14,579)</u>	<u>7,460</u>	<u>35,393</u>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

38. Related party transactions

The Company has made use of the exemption under FRS8 from reporting on the transactions with its subsidiary undertakings.

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

- (a) £2.3 million of pensions were paid on behalf of the Windsor Pension & Life Assurance Scheme for later reimbursement. This facility is conducted at minimal cost to the Scheme. At 31 December 2003 the balance outstanding was £nil (2002 - £nil).
- (b) The Group's pension scheme invested in the Windsor Life Managed Fund up to September 2003 when the entire holding was sold and subsequent to that date there have been no further transactions with Windsor Life.
- (c) The Head Office part occupied by the Group is owned by the Shareholders' Fund in the Life Company.

39. Contingent Liabilities

Liabilities may arise in respect of claims that are contingent on factors such as the interpretation of contracts, regulatory action or ombudsman rulings and it is not possible to predict with any certainty the incidence, timing or resultant financial impact of these events.

The Financial Services Authority ("FSA") is supervising an industry wide investigation into the selling of pension transfers, opt outs and free-standing additional voluntary contributions. In addition the FSA is encouraging private individuals to review the suitability of their own savings and investment products, in particular certain mortgage endowment contracts. In common with other companies where individual policyholders have registered a complaint against the company, Windsor Life is investigating these potential cases of mis-selling and offering compensation where this is found to be appropriate. The Company has made provisions for the anticipated cost of making good such complaints including the costs associated with investigating all claims. The anticipated costs have been calculated based on certain assumptions and therefore there is some uncertainty with respect to the final compensation payable.

Under the agreement for the sale of G Developments Limited in 2001 the Company issued a warranty limited to £25 million for a maximum of 6 years in respect of the tax deed.

LIFE ASSURANCE HOLDING CORPORATION LIMITEDPROFIT AND LOSS ACCOUNTFOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £'000	2002 £'000
Management recharges		(26)	(244)
Provision against investment in subsidiary		85,274	(85,689)
Expenses		(4,691)	(4,219)
Operating profit/(loss) - continuing operations		80,557	(90,152)
Other interest receivable		21,664	9,089
Realised losses		-	(32,962)
Other income		-	1,594
Unrealised (loss)/gain on investments		-	240
Interest payable (net of discount unwind)		(10,613)	(12,971)
Loss on ordinary activities before taxation		91,608	(125,163)
Taxation recovered		(6,720)	9,130
		84,888	(116,033)
Dividends received from subsidiary undertakings		18,000	-
Retained profit/(loss) pre-dividends		102,888	(116,033)
Dividends proposed to shareholders		-	-
Net profit/(loss) retained for the period	19	102,888	(116,033)

All transactions arise from continuing operations.

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

This statement is not presented as part of the annual report of LAHC. The pre-dividend total is however reported on the non-technical account - page 8.