Life Assurance Holding Corporation Limited

Report & Financial Statements

31st December 2001

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONTENTS PAGE

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CHAIRMAN'S REVIEW

The year 2001 has been a challenging and busy period for the Company against a background of falling equity markets worldwide. Systems and administration developments continued throughout the group in the management of the book of business that the Company now operates, with the aim of providing the best possible service we can for our policyholders. The main developments are listed below and include the transfer of the group's investment management services, the launch of a website for the operating company and also the distribution of our first newsletter!

INVESTMENT MANAGEMENT TRANSACTION

In June 2001 the company was pleased to announce that we had agreed the transfer of the Group's investment function to Aberdeen Asset Management Limited (AAM). Under this Agreement, AAM became manager, under an exclusive contract, of the investment funds of the LAHC Group and specifically its principal subsidiary Windsor Life Assurance Company Limited. The funds to be managed totalled approximately £5.5 billion at the time of the deal, and the contract is intended to be for a period of at least ten years.

INTERNET

The Company was very pleased to launch its website at the end of the year. The site covers a wide range of information and activities including:-

- Information about Windsor Life
- Our Products
- Customer Services Information
- Investments
- Working Environment & Opportunities
- Contacting the Company

We are hoping that the site will be of interest to new and existing policyholders, potential employees and a general information base for anyone wishing to learn more about our operations. Visitors can access the site at www.windsor-life.com.

NEWSLETTER

At the end of the year, the company also produced a newsletter for all its policyholders to bring them up to date with the latest developments of the company (including the launch of the website). The Company intends to produce subsequent newsletters to keep policyholders informed of the latest news and developments.

ACQUISITIONS

Although no acquisitions were made during the period, to date the company has a very successful track record in the area of acquisitions and has shown significant growth since its formation in December 1994. We remain committed to the rationalisation of the UK life and pensions industry and consider ourselves to be well positioned to take advantage of further forecast opportunities. Regulatory pressures, along with the drive to develop new marketing techniques in the new e-economy, are forcing organisations to look critically at the cost of administration of older legacy portfolios, and it is principally in this area that we intend to derive a competitive advantage. As a low cost provider with proven transition management expertise, LAHC intends to be a leading player in the continued consolidation of the market.

COMPANY MISSION STATEMENT

The Company Mission Statement remains the same as in the last published accounts and is printed below.

Sir Mark Weinberg 6 June 2002

LIFE ASSURANCE HOLDING CORPORATION LIMITED

MISSION STATEMENT

To advance the profitable growth of Windsor Life by providing a professional service to our policyholders. The key features of this service are:

excellent policy administration,
prompt payment of benefits, and
sound investment returns.

CORE VALUES

Our Customers

We willingly serve our customers, meaning our policyholders and each other.
We recognise customers' interests and treat them as we would ourselves.
We are all part of the company's business relationship with its policyholders.
We are the custodians of policyholders' benefits.

Our People

We want a climate which stimulates creative thoughts and deeds and having fun.
We encourage open communication every which way.
We are accountable for what we do and the way we do things.
We provide opportunities for members of staff to develop.
We reward personal performance and its contribution to company performance.

Our Business

We demand the highest professional and ethical standards in all our business dealings.
At no time shall integrity be compromised.
We recognise our social and economic obligations to the community.
We are building the company to benefit policyholders, shareholders and ourselves.

STRATEGY

To acquire life companies (via LAHC) and merge their strengths with ours.
To support sales channels arising from the strategy.

Success tomorrow means continuously building on the success of today. Achieving our Mission and Strategy depends on the dedication and application of skills of all members of staff working to the same ends. Our Core Values give our commitment to communication, opportunities, rewards and, not least, having fun along the way.

BOARD OF DIRECTORS BIOGRAPHIES

The present Directors of the Company are:

Sir Mark Weinberg - Chairman * º +
Aged 70, 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 plc.

John Wybrew - Managing Director º
Aged 59, 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.

Andrew Crossley * + º
Aged 45, is a non-executive director who was appointed to the Board in September 2001. He is Group Financial Controller of Prudential plc. Previously he was Group Financial Controller of Legal & General Group plc.

Mike C Ramsay * □
Aged 57, 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.

Derek N D Netherton * □
Aged 57, 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, Plantation & General Investments plc and Hiscox plc.. He was formerly a director of J Henry Schroder & Co Limited.

Norman M M Riddell *
Aged 54, 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.

Norman Reid
Aged 54, 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.

Michael Sproule * □ º
Aged 54, is a non-executive director of the Company who joined the board in September 2001. He is also a Senior Vice President of New York Life Insurance Company, USA.

Jonathan C C Meggs * º +
Aged 41, is a non-executive director of the Company who joined the board in December 1994 on the formation of the Company. He is a General Partner of JPMorgan Partners, the private equity arm of JPMorgan Chase & Co, based in London and Group Head of the European Business. Prior to joining JPMP in 1996, Mr Meggs was a Director of The Chase Manhattan Bank, N.A. responsible for mezzanine and equity investments. Mr Meggs has held many board seats and Directorships in companies in the telecoms and financial services sector.

Key:

□	Member of Audit & Controls Committee
º	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

HSBC plc
27-32 Poultry
London
EC2P 2BX

Auditors

PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London
SE1 1SZ

STATEMENT OF CORPORATE GOVERNANCE

Although not mandatory for the Company as a limited company, the Directors consider that the Group has worked throughout the year towards full compliance with all the provisions of the Code of Best Practice established by the Committee on Corporate Governance and 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 six non-executive Directors; there are also three positions for non-executive Directors which are currently vacant. The Board is fully responsible for the control of the Group, with certain further 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 (and therefore the Company does not comply with the Code) 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 roles of the Chairman and Chief Executive within the Company are separate and identifiable.

During the year the following Directors resigned from their positions with the Company; Mr H Atkins resigned on 4 August 2001, Mr Simon Yun-Farmbrough resigned on 8 August 2001 and Mr R Kernan resigned on 31 December 2001. Where replacement Directors have been appointed, their details are shown on page 5.

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 biographics as shown on page 5.

The Board is supplied with information in relation to each area for discussion at its meetings. 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 incorporate the requirements of the Code with regard to the approval of nominations for individuals to serve at Board level.

The Company does 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 J Meggs. Its responsibility is to review and determine the remuneration of all Directors and of the Directors of the subsidiary companies. The Report of the Committee is shown on pages 10 to 12. 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 four 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. 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 and 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 10 to 12.

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 acknowledge that the Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The internal controls are designed to cover all risks that may prevent the achievement of the Group's objectives including all business, operational, financial and compliance risks. The controls procedures and the systems which the Group has established are designed to manage, rather than eliminate, the risk of failure to meet business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

The system of internal control is embedded within the day to day operations of the Group, and is an essential and integral part of the risk management process. A strong culture is combined with clear management responsibility and accountabilities for individual and collective control.

Carrying on from the risk framework established in previous years, where executive and management were required to follow a process of identifying, evaluating and then managing the key risks faced by the Group, further significant actions have continued. Regular self-assessment of the risks and the effectiveness of controls for which they are responsible, are carried out as part of this process, with regular reports to the Board and the Audit & Controls Committee. This risk framework also provides a continuous improvement process for the Group's internal controls.

The Directors believe that the company has established an appropriate framework to comply with the combined code recommendation on internal controls and that it can demonstrate this on an ongoing basis. It remains their intention to maintain compliance with the existing requirements of the Financial Services Authority and any new requirements, and appropriate controls are in place to enable this to be satisfied. A comprehensive monitoring process, leading back to the Board, has been operated throughout the year. The directors review the effectiveness of controls on the basis of regular reports to the main board and the Audit & Controls Committee; compliance reports and presentations from the compliance officer on, at least, a quarterly basis; reports from the audit executive highlighting the key controls and wider risk issues.

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. 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. Internal Audit advises management on the extent to which systems of internal control are efficient and effective, on the relative strength of the risk management processes, on compliance with legal and regulatory requirements and on the safeguarding of its overall resources. It provides objective assurance on risk and control to senior management and the Board. Internal Audit's work is focused on areas of greatest risk to the Group, as determined by a structured risk assessment process involving executive directors and senior managers. The output from this process is summarised in a plan which is approved by the Audit Committee.

Part D - Accountability & Audit - continued

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.

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 Listing Rules of the Financial Services Authority 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 Jonathan Meggs, Sir Mark Weinberg and Mr Andrew Crossley. 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 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 2001 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 was in place covering the period from the 1 January 1997 to the 31 December 1999. The purpose of this plan was to encourage executives to think longer term and to develop an affinity with the growth in the Company beyond the one year horizon. This benefits both shareholders and management. Benefits under this plan did not vest on an annual basis; participants did not have an entitlement until the end of the scheme period.

Under the scheme, Executive Directors of the Company and its principal subsidiary shared 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. For the purposes of this calculation, values were adjusted for dividend payments and capital injections. 33.33% of payments arising under this scheme have been paid in March 2000, 33.33% was paid in March 2001 and the remaining 33.33% was settled in early 2002.

A new three year bonus plan has been agreed covering the period from the 1 January 2000 to the 31 December 2002, under which certain Executive Directors and Assistant Executives of the principal subsidiary of the Company will receive a percentage of the increase in the Embedded Value of the Company from 1 January 2000 to the 31 December 2002 in excess of a hurdle rate set at 12% per annum compound. In the case of each Executive to whom the scheme applies, a "cap" and "collar" arrangement has been agreed upon to determine the parameters of any payment due under the scheme.
At the time of publication of these accounts, no further incentive plan has been agreed for the remaining Executive Directors of the Company.

iii Long-term incentives (continued)

(b) Allocation of E shares

The Company motivated 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 provided for an allocation of shares in the Company on the earlier of a listing or sale of the Company, and 31 December 1999. As the other options were not fulfilled, a 50% allocation took place as at 31 December 1999 with the remaining 50% being allocated as at 31 December 2000. During 2001 the two Directors in receipt of E shares exercised their options requiring the Company to purchase the allocation of shares which took place as at 31 December 1999. Under the terms of the new Long-term incentive scheme, the two Directors have waived their rights to require the Company to purchase the allocation of shares which took place as at 31 December 2000 subject to a replacement incentive scheme being agreed.

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 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. 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 £95,400) 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 17.6% (2000-15.1%) of pensionable salary.

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 following. Accrued pension for the highest paid director as at 31 December 2001 is £14,707. The accrued commutable lump sum as at 31 December 2001 is £33,092. The transfer value of the fund at that date was £241,890. The Company has also contributed £47,758 to a Funded Unapproved Retirement Benefit Scheme because Mr Wybrew's pensionable earnings are subject to an earnings cap of £95,400. Mr Reid, the other executive director, has accrued pensions of £28,761 and the commutable lump sum is £64,712. The transfer value of his fund at that date was £384,270.

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

The emoluments (excluding the long-term incentives) of the two executive Directors are borne entirely by the principal subsidiary undertaking, Windsor Life.

REPORT OF THE REMUNERATION COMMITTEE (continued)

Remuneration Table

		Emoluments, excluding pension contributions					Long-term incentives (a)		Pension contributions	
		Salary & fees £'000	Benefits £'000	Annual bonus £'000	**Total Emoluments 2001 £'000**	Total Emoluments 2000 £'000	**Share redemption value 2001 £'000**	Share redemption value 2000 £'000	**Paid or credited 2001 £'000**	Paid or credited 2000 £'000
Executive										
J L Wybrew (Highest paid director)		260	17	92	**369**	369	**0**	3,347	**62**	52
N H Reid		124	17	29	**170**	164	**0**	1,674	**19**	17
Non-executive										
Sir Mark Weinberg		0	0	0	**0**	0	**0**	0	**0**	0
H Atkins		0	0	0	**0**	0	**0**	0	**0**	0
A Crossley	(c)	0	0	0	**0**	0	**0**	0	**0**	0
R M Kernan		0	0	0	**0**	0	**0**	0	**0**	0
J C C Meggs	(c)	0	0	0	**0**	0	**0**	0	**0**	0
D N D Netherton		0	0	0	**0**	0	**0**	0	**0**	0
M Ramsay		25	0	0	**25**	25	**0**	0	**0**	0
N Riddell		23	0	0	**23**	23	**0**	0	**0**	0
M Sproule		0	0	0	**0**	0	**0**	0	**0**	0
S Yun-Farnbrough	(c)	0	0	0	**0**	0	**0**	0	**0**	0
		432	34	121	**587**	581	**0**	5,021 (b)	**81**	69

Long-term Incentives

a) Full details of the incentive schemes for the Directors are reported on pages 10 and 11.

b) As explained in the Report of the Remuneration committee the two Directors in receipt of the E shares have waived their rights to require the Company to purchase the second tranche of shares issued dependent on a replacement incentive scheme being agreed. This has resulted in the reversal during the year of the cost of the second tranche of shares previously reported as remuneration. The two Directors will remain as ordinary shareholders of the Company.

Non-executive remuneration

c) Payments are made directly to the third party employers of the non-executive directors for their services £46,000. (2000: £40,000)

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2001

The Directors present their report and the audited financial statements for the year to 31 December 2001.

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.

As condition 3.1 of Schedule 2 of the Deed Poll can no longer be met, the subordinated unsecured non-interest bearing convertible B stock 1998 was cancelled on 5 December 2001.

Indemnities

On the 15 June 2001 the company completed the negotiation of a reduction in the original purchase price of Windsor Life Assurance Company Limited. The company has now accepted a settlement of £33 million from New York Life. To the extent that this is believed to exceed the potential liabilities a reduction in the original cost of acquisition has been recorded.

On the 19 April 2001 the company completed the negotiation of a reduction of £310 million in the original purchase price of Targetchief plc. This also resolved any amounts that may have been due under the deferred payments. To the extent that the amount paid is believed to exceed the potential liabilities a reduction in the original cost of acquisition has been recorded.

Other issues of shares

In accordance with the Articles of Association the Company issued at various dates in the year 3,612,706,900 1p Deferred shares at par for £36,127,069. These were issued under the warranty guarantees while they prevailed.

Sale of Investment Management Function

On 5 June 2001, the Group agreed to sell its investment management function to Aberdeen Asset Management Limited for consideration of 15 million ordinary equity shares in Aberdeen Asset Management Limited, and £10 million of Aberdeen Asset Management Limited loan notes. This sale was achieved by the disposal of G Developments Limited, to which the investment function and the ownership of two unit trusts had been transferred. In addition it was agreed that Aberdeen Asset Management Limited would manage the investments of Windsor Life Assurance Company Limited under an investment management agreement which is intended to be for a period of at least 10 years.

Post balance sheet events

On 8 January 2002 the Company bought back 110,493 of its own 1p E shares representing 0.66% of the called-up share capital. The redemption was required by the Directors who received the E shares in accordance with the terms of their issue as part of an executive incentive scheme. The consideration was £2,999,508.

At the date of signing the financial statements the shares held in Aberdeen Asset Management had declined in value from £59,850,000 at 31 December 2001 to £40,725,000.

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 ("FSA") continues to supervise industry-wide investigations into the selling of pension transfers and opt-outs (Pension Review) and into the selling of free-standing additional voluntary contribution plans (FSAVC Review).

In addition, the Financial Services Authority has been considering the potential mis-pricing issue in respect of some endowment policies sold by some product providers under the original LAUTRO guidance. The Group is investigating potential cases of mis-pricing in this respect, in consultation with the FSA 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 all such compensation although as disclosed in note 37 there is some uncertainty with respect to the final amount of compensation payable. During the year, the Company has completed commutations of relevant indemnities against such costs. As a consequence, in respect of regulatory matters, no amounts remain due under indemnities.

Directors' interests

No Director had disclosable interests in the share capital of the Company other than the E shares. The Directors' interests in the share capital of the company's parent undertaking are disclosed in the accounts of that company.

Directors appointed and resigned during the year

The directors of the Company together with biographical notes, are shown on page 5. Andrew Crossley and Michael Sproule were appointed on 13 September 2001. Howard Atkins resigned from the Board on 4 August 2001. Simon Yun-Farmbrough resigned from the Board on 8 August 2001. Richard Kernan resigned from the Board on 31 December 2001.

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 2001 was 37 days (2000: 36 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.

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 continues to keep under review its systems for the impact of the future adoption of the euro by the United Kingdom. It is not anticipated that the total financial cost of this level of preparation for the introduction of the euro will be material to the Company.

Political and charitable donations

The Group paid £23,058 (2000: £17,410) to charitable organisations during the year.

Auditors

A resolution to re-appoint PricewaterhouseCoopers as auditors to the Company will be proposed at the next annual general meeting.

On behalf of the Board of Directors

N H Reid
Secretary

6 June 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement should be read in conjunction with the Independent Auditor's Report set out on page 16, the Corporate Governance statement on pages 7 to 9 and the Remuneration Committee report on pages 10 to 12, 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.

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

We have audited the financial statements on pages 17 to 52 which have been prepared in accordance with the accounting policies set out on pages 24 to 27.

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 on page 15.

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.

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.

We also, at the request of the directors (because the Company applies the Financial Services Authority Listing Rules as if it were a listed Company), review whether the corporate governance statement on pages 7 to 9 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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 Group at 31 December 2001 and the loss 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
London

6 June 2002

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2001

Technical Account - Long-term Business	Notes	Before Exceptional Items 2001 £'000	Exceptional Items 2001 £'000	Total 2001 £'000	2000 £'000
Earned premiums, net of reinsurance:					
Gross premiums written	1	353,351	-	353,351	340,105
Outward reinsurance premiums		(18,332)	-	(18,332)	(18,278)
		335,019	-	335,019	321,827
Investment income	3	942,984	-	942,984	380,427
Other technical income	4	128,253	-	128,253	50,925
Net income in year		1,406,256	-	1,406,256	753,179
Claims incurred, net of reinsurance:					
Claims paid -					
- gross amount		(466,124)	-	(466,124)	(548,118)
- reinsurers' share		7,581	-	7,581	48,025
Net claims paid		(458,543)	-	(458,543)	(500,093)
Change in the provision for claims-					
- gross amount		(300)	-	(300)	5,749
- reinsurers' share		(2,205)	-	(2,205)	410
Net change in claims provision		(2,505)	-	(2,505)	6,159
Net claims cost		(461,048)	-	(461,048)	(493,934)
Change in other technical provisions, net of reinsurance:					
Long-term business provision, net of reinsurance -					
- gross amount		90,077	-	90,077	5,034
- reinsurers' share		(30,574)	-	(30,574)	(2,477)
	21	59,503	-	59,503	2,557
Other technical provisions, net of reinsurance – Technical provisions for linked liabilities	21	495,237	-	495,237	183,344
Net change in other technical provisions in year		554,740	-	554,740	185,901
Net operating expenses	6a	(74,694)	-	(74,694)	(83,277)
Unrealised losses on investments	3	(1,397,775)	-	(1,397,775)	(317,259)
Investment expenses and charges	3	(377)	-	(377)	(411)
Other technical charges	4	(13,812)	(213,425)	(227,237)	-
Tax attributable to the long-term business	12	2,634	-	2,634	(5,208)
Transfers from the fund for future appropriations	21	28,727	-	28,727	28,448
Balance on the technical account - long-term business		44,651	(213,425)	(168,774)	67,439

All of the amounts above are in respect of continuing operations, except for the discontinuing activities as disclosed in Note 5.

The accounting policies and notes on pages 24 to 52 form part of these financial statements.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2001

Non-technical Account	Notes	Before Exceptional items £'000	Exceptional items £'000	Total 2001 £'000	2000 £'000
Balance on the technical account - long-term business (page 17)		44,651	(213,425)	(168,774)	67,439
Tax credit attributable to balance on the long-term business technical account	12	(5,919)	(91,468)	(97,387)	36,176
Shareholders' pre-tax (loss)/profit from long-term business		38,732	(304,893)	(266,161)	103,615
Investment income	3b	11,730	-	11,730	23,970
Unrealised (losses)/gains on investments	3b	(16,528)	-	(16,528)	19
Other non-technical income		-	-	-	5,710
Other charges	6b	(21,556)	-	(21,556)	(37,189)
(Loss)/Profit on ordinary activities before taxation		12,378	(304,893)	(292,515)	96,125
Tax on loss/profit on ordinary activities	12	9,740	91,468	101,208	(33,904)
Retained (loss)/profit for the financial year	19, 34	22,118	(213,425)	(191,307)	62,221

All of the amounts above are in respect of continuing operations, except for the discontinuing activities as disclosed in Note 5.

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 for the year is £11,196,000 (2000 - profit £5,614,000).

The accounting policies and notes on pages 24 to 52 form part of these financial statements.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	2001 £'000	2000 £'000
(Loss)/Profit for the year (page 18)		(191,307)	62,221
Discontinued Operations			
Unrealised gain on disposal of subsidiary undertaking	5	86,125	-
Total recognised losses and gains relating to the year		(105,182)	62,221

The accounting policies and notes on pages 24 to 52 form part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2001

	Notes	2001 £'000	2000 £'000
ASSETS			
Intangible assets			
Negative goodwill	13	-	(13,291)
Investments			
Land and buildings	14a	51,171	54,310
Other financial investments	14b	1,125,899	961,043
Total investments		1,177,070	1,015,353
Shareholders' interest in the long-term business in force	20	350,782	578,019
Assets held to cover linked liabilities	15	4,381,436	4,878,956
Reinsurers' share of technical provisions			
Long-term business provision	21	8,303	38,877
Claims outstanding	21	715	-
Total reinsurers' share		9,018	38,877
Debtors			
Debtors arising out of direct insurance operations - policyholders		2,288	1,793
Debtors arising out of reinsurance operations		1,702	3,869
Amounts due from shares to be issued		-	36,889
Other debtors	26a	39,916	242,230
Total debtors		43,906	284,781
Other assets			
Tangible assets	16	5,699	6,581
Cash at bank and in hand		18,420	13,887
Total other assets		24,119	20,468
Prepayments and accrued income			
Accrued interest and rent		14,116	15,400
Deferred acquisition costs		2,580	3,201
Other prepayments and accrued income	26c	2,001	2,984
Total prepayments and accrued income		18,697	21,585
Total assets		6,005,028	6,824,748

The accounting policies and notes on pages 24 to 52 form part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2001 (continued)

	Notes	2001 £'000	2000 £'000
LIABILITIES			
Capital and reserves			
Called up share capital	17	73,052	36,925
Share premium	18a	83,911	83,911
Other reserves	18a	762	-
Shares to be issued	18a	-	36,889
Profit and loss account	19	176,893	282,075
Shareholders' funds	34	334,618	439,800
Equity shareholders' funds		261,733	366,153
Non-equity shareholders' funds		72,885	73,647
Fund for future appropriations	21	54,439	83,166
Technical provisions			
Long-term business provision	21	998,619	1,088,696
Claims outstanding	21	3,634	2,880
Technical provisions for linked liabilities	21	4,366,551	4,861,788
Provisions for other risks and charges			
Provisions for pensions and similar obligations	11	1,445	1,555
Other provisions	27a	15,933	58,427
Deposits received from reinsurers	33	9,192	19,953
Creditors			
Creditors arising out of direct insurance operations		28,838	26,533
Creditors arising out of reinsurance operations		4,312	4,935
Amounts owed to credit institutions	28	167,312	209,320
Other creditors including taxation and social security	29	20,135	27,695
Total liabilities		6,005,028	6,824,748

The financial statements were approved by the Board of Directors on 6 June 2002.

N H Reid - Director

The accounting policies and notes on pages 24 to 52 form part of these financial statements.

PARENT UNDERTAKING BALANCE SHEET AS AT 31 DECEMBER 2001

	Notes	2001 £'000	2000 £'000
Fixed Assets:			
Investments in subsidiary undertakings	24	366,319	474,594
Other financial investments	14	59,850	-
Current Assets:			
Investments	14	38,951	-
Debtors -			
Amounts owed by Group undertakings	25	511,813	524,710
Amounts unclaimed under shareholder indemnity		-	36,889
Other debtors	26a	1,155	195,006
Prepayments and accrued income	26c	2,001	2,751
Cash at bank and in hand		6,780	4,471
		560,700	763,827
Creditors: Amounts falling due within one year			
Bank loans and overdrafts	30b	(32,295)	(42,769)
Other creditors (including taxation and social security)	29	(19,812)	(254,912)
Net current assets		508,593	466,146
Total assets less current liabilities		934,762	940,740
Provision for other risks and charges	27	(3,740)	(43,113)
Creditors – amounts falling due after more than one year	30b	(135,017)	(166,551)
NET ASSETS		796,005	731,076
Financed by:			
Capital and reserves -			
Called up share capital	17	73,052	36,925
Share premium account	18b	83,911	83,911
Other reserves	18b	762	-
Shares to be issued	18b	-	36,889
Profit and loss account	19	638,280	573,351
SHAREHOLDERS' FUNDS (including non-equity interests)	34	796,005	731,076

	2001	2000
Equity shareholders' funds	723,120	657,429
Non-equity shareholders' funds	72,885	73,647
	796,005	731,076

The financial statements were approved by the Board of Directors on 6 June 2002.

N H Reid - Director

The accounting policies and notes on pages 24 to 52 form part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	2001 £'000	2000 £'000
Net Cash Outflow from Operating Activities	35a	(7,826)	(7,224)
Net Returns on Investments and Servicing of Finance			
Interest Received		19,220	23,970
Interest Paid		(15,727)	(26,461)
Loan repaid		10,847	10,847
		14,340	8,356
Net Capital Expenditure			
Refunds in respect of undertakings acquired		68,000	11,390
Receipts in respect of sale of fixed assets		-	21
		68,000	11,411
Financing			
Issue of share capital		36,127	16,677
Repayments of Borrowings		(41,500)	(35,000)
		(5,373)	(18,323)
Increase/(Decrease) in Cash	35c	69,141	(5,780)

Portfolio Investments

The net cash inflows/(outflows) were applied/divested as follows:

		2001 £'000	2000 £'000
Increase/(decrease) in cash holdings		2,902	(946)
		2,902	(946)
Sales of portfolio investments (variable rate):			
- Other securities		66,239	(4,834)
Net Cash Inflow/(Outflow)		69,141	(5,780)

The accounting policies and notes on pages 24 to 52 form part of these financial statements.

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.

Changes in Accounting Policies

The transitional disclosures required under FRS17 "Retirement Benefits" have been presented in note 11. These disclosures are presented in addition to the requirements under the existing standard. The full provisions of the new standard are not required to be implemented until the 31 December 2003 year-end and will be accounted for in Windsor Life Assurance Company Limited. FRS18 "Accounting Policies" has been adopted in the current year but this did not require any change in accounting policy.

The movement in the value of the long-term business in force has been grossed up for the effective rate of tax in accordance with FRS 16. Prior period figures have been restated. This has had no impact on the results for the financial year or shareholders funds.

Changes in Accounting Estimates

The embedded value as at the 31 December 2001 has been prepared based on assumptions which are consistent with the recommendations contained in applicable industry guidance on the achieved profits method issued by the ABI. The adjustments to bring certain embedded value assumptions in line with the guidance have been treated as a change in accounting estimate, refer to note 20.

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) 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 (the PVIF asset) 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 grossed up for taxation at the effective tax rate and is charged/credited to the profit and loss account in Other technical income/charges. The amount reflected in the profit and loss account is non-distributable reserve and 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.

ACCOUNTING POLICIES - continued

Claims

Maturity claims and annuities are charged against revenue when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the long-term business provision and/or the technical provision for linked liabilities. Death claims and all other claims are accounted for when notified.
Claims payable include related internal and external claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

Bonuses

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

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

Terminal bonuses are included in the cost of claims.

Investments

(i) Investment valuations

Listed investments are included in the balance sheet at mid-market value, 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 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 in the case of overseas dividends. 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 long-term fund investments is dealt with through the technical account. The investment return 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.
Hedging is used by the Group to manage their interest risk profile. Hedging is where a financial instrument that has a value or cash flow impact that is expected, wholly or partly, to move inversely with changes in the value or cash flows of a position being hedged. Any gain or loss on the hedge is then either recognised in the profit and loss account at the same time as the hedged item or used to adjust the value at which an item is carried in the financial statements.

(v) Investments in subsidiary undertakings are included in the Company balance sheet at the lower of cost and net asset value.

ACCOUNTING POLICIES - continued

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.

Long-term business provision
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 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. 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 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 year but which relate to a 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, in respect of conventional with profit 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:

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

Freehold land is carried at valuation without depreciation. Following the implementation of FRS 15 - Tangible Fixed Assets, the Group has adopted a policy of not re-valuing its properties. Under the transitional provisions of FRS 15 previously re-valued properties are included at their valuation at 30 June 1997. Any subsequent permanent impairment is reflected in the carrying value.

Taxation
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.

ACCOUNTING POLICIES - continued

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

Pension scheme
Pension arrangements for the staff employed by LAHC up to 30 September 2000 are operated through a defined benefit scheme in the UK. Such costs are charged to profit and loss in order to spread the costs evenly over the estimated service lives of the employees. New staff since 1 October 2000 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.

The Accounting Standards Board issued FRS 17 "Retirement benefits" in November 2000. This standard will not be mandatory for the Group until the year ended 31 December 2003. 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 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. If an acquisition appears to give negative goodwill, the fair values of the assets are tested for impairment. Where it it concluded that 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 acquired are recognised in the profit and loss account in the periods expected to be benefited. The amortisation period of positive and negative goodwill may extend beyond 20 years where actuarial valuations are capable of continued measurement.

Warranties and Indemnities
Indemnities receivable from former parent undertakings of acquired undertakings remaining as receivable as at 31 December 2001 were included in the Balance Sheet. Claims not indemnified are recognised in the technical account. Where the Company has subsequently negotiated a reduction in the original acquisition consideration in exchange for cancelling the indemnities any surplus remaining above the level determined as necessary to cover the future costs of compensation is accounted for as an adjustment to goodwill.

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 was received from the parent undertaking the Shares To Be Issued Reserve was reduced and the Issued Share Capital was created. Any excess Shares to be Issued Reserve created has been transferred to the Other Reserves upon the cancellation of the indemnity.

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 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.

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:

	2001 £'000	2000 £'000
Direct assurance	350,230	338,165
Reassurance inwards	3,121	1,940
Gross premiums written	353,351	340,105

	Gross direct premiums written			
	Regular premiums		Single premiums	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Non-participating:				
Annuity	-	-	1,915	5,807
Life	4,954	5,635	-	-
Pensions	1,773	2,037	27,390	20,416
Permanent Health	994	799	-	-
	7,721	8,471	29,305	26,223
Participating:				
Annuity	-	-	19,819	1,822
Life	6,971	7,396	1,386	9,179
Pensions	815	906	-	-
	7,786	8,302	21,205	11,001
Linked:				
Life	78,610	101,267	58	418
Pensions	78,415	87,336	122,562	90,341
Permanent Health	4,568	4,806	-	-
	161,593	193,409	122,620	90,759
Total direct gross premiums (all individual business)	177,100	210,182	173,130	127,983

NOTES TO THE ACCOUNTS (continued)

1. Segmental analysis (continued)

b) Gross annualised new business premiums

	2001 £'000	2000 £'000
Direct assurance	173,167	128,047
Reassurance inwards	-	-
	173,167	128,047

	New Business (Direct)			
	Regular premiums		Single premiums	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Non-participating:				
Annuity	-	-	1,915	5,807
Pensions	-	-	27,390	20,416
Life	-	22	-	-
	-	22	29,305	26,223
Participating:				
Annuity	-	-	19,819	1,822
Life	12	36	1,386	9,179
	12	36	21,205	11,001
Linked:				
Life	1	2	58	418
Pensions	21	4	122,562	90,341
Permanent Health	3	-	-	-
	25	6	122,620	90,759
Total gross new business (all individual business)	37	64	173,130	127,983

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

NOTES TO THE ACCOUNTS (continued)

1. Segmental analysis (continued)

(c) Geographical analysis of gross inwards reassurance premiums

	2001	2000
	£'000	£'000
Europe (excluding UK)	259	667
USA	2,862	1,273
	3,121	1,940

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 20 includes £6,024,985,000 (2000 - £6,755,483,000) attributable to the long-term business fund.

(e) Reinsurance balance

The reinsurance balance in respect of the long-term business for the year ended 31 December 2001 was £12,956,000 debit, (2000 - £30,156,000 credit) to the long-term business technical account.

2. Acquisitions

As a result of the acquisition of GAN the following amounts have been charged to the profit and loss account in the current year in respect of absorbing the business:

	2001	2000
	Long-term Business	Long-term Business
	£'000	£'000
Administrative expenses – reorganisation costs	-	6,524

3. Investment return summary

	2001	2000
	£'000	£'000
a) Long-term insurance business		
Investment income:		
Income from land and buildings	11,200	10,134
Income from other investments	181,466	183,327
Gains on the realisation of investments	750,318	186,966
	942,984	380,427
Investment expenses and charges:		
Investment management expenses, including interest	(377)	(411)
Net unrealised (losses)/gains on investments	(1,397,775)	(317,259)
Net investment return included in the long-term business technical account	(455,168)	62,757

	2001	2000
b) Shareholders' interest	£'000	£'000
Investment income:		
Income from investments	11,730	23,968
Gain on the realisation of investments	-	2
	11,730	23,970
Net unrealised (losses)/gains on investments	(16,528)	19
Net investment return included in the non-technical account	(4,798)	23,989
c) Total investment return		
Net investment return	(459,966)	86,746

4. Other Technical Income/Charges

	Before Exceptional Items 2001 £'000	Exceptional Items 2001 £'000	Total 2001 £'000	2000 £'000
Other technical income/expense comprises:				
Amounts due from indemnifiers	64,029	-	64,029	33,597
Amortisation/Impairment to PVIF	64,224	-	64,224	356
	128,253	-	128,253	33,953
Movement on shareholders' interest in long-term business in force (note 20):	(13,812)	(213,425)	(227,237)	16,972
Total net technical income/(expenses)	114,441	(213,425)	(98,984)	50,925

5. **Disposals**

On 5 June 2001 the Company sold its interest in G Developments Ltd to Aberdeen Asset Management Limited. This subsidiary undertaking held the Group's investment management contract. The consideration for the sale was received in the form of 15 million 10p ordinary shares in Aberdeen Asset Management Limited worth £76.125 million and £10 million of loan stock. The ordinary shares terms and conditions are that the shares can be sold after determined dates, first quarter within 12 months, second quarter within 18 months and the remaining holding within 2 years. The loan stock terms and conditions are that interest will be paid on the stock at the rate of 1% above LIBOR and the company will redeem all Stock outstanding on 30 June 2006 at par. The gain on disposal of £86.125million is unrealised (non-cash consideration) and as such has been reported in the Statement of Total Recognised Gains and Losses. G Developments made no material contribution to the profit before tax and the net operating cashflow, to the servicing of finance or tax and had not traded recently.

6. Net operating expenses

a) Technical account

	2001 £'000	2000 £'000
Acquisition costs	3,011	1,515
Change in deferred acquisition costs	512	3,435
Administrative expenses	69,912	78,217
Reinsurance commissions and profit participation	1,259	110
	74,694	83,277

	2001 £'000	2000 £'000
Net operating expenses are after charging:		
Auditors' remuneration and expenses (inclusive of VAT)		
- Audit work	350	417
- Non-audit work	270	526
Commissions	2,740	1,356

b) Non-technical account

	2001 £'000	2000 £'000
Administrative expenses	21,556	37,189

Non-technical expenses includes audit remuneration of £85,775 (2000 - £50,000) for audit fees and £Nil (2000 - £Nil) for non-audit work.

NOTES TO THE ACCOUNTS (continued)

7. Interest payable

	2001 £'000	2000 £'000
Included in Technical account administration expenses (note 6a):		
Interest payable on bank loans and overdrafts	-	1,844
Interest payable on capitalised finance leases	69	121
Interest on other Group loans	7,724	17,223
Other finance costs	57	68
Included in Non-technical account administration expenses (note 6b):		
Interest payable on bank loans and overdrafts	15,031	18,613
Interest on other loans	-	176
Other finance costs	605	709

8. Lease charges

	2001 £'000	2000 £'000
Operating lease rental charges – Other (Technical)	982	511
Finance lease charges – Other (Technical)	69	121

In addition operating lease rentals of £3,867,000 (2000 - £2,684,000) have been charged directly against the property leases provision.

9. Staff costs

	2001 £'000	2000 £'000
Wages and salaries	18,164	19,302
Social security costs	1,140	1,458
Regular pensions charges	1,976	1,906
Other pensions costs	43	66
	21,323	22,732

In addition £(2,404,000) (2000 - £5,021,000) of long term incentives have been (credited)/charged in the non-technical account. The element relating to the LAHC Executive Directors is set out in the Report of the Remuneration Committee on pages 10 and 12.

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

	2001 No.	2000 No.
Administration	457	636
Investment	-	2
Integration and development	297	223
Average number of persons employed in the year	754	861

During the year employees' contracts of employment were with LAHC. Staff employed to work on the pension mis-selling investigation are included in the staff numbers above under integration and development.

10. Directors' emoluments

Details of the Directors' emoluments included in note 9 are set out in the Report of the Remuneration Committee on pages 10 to 12.

NOTES TO THE ACCOUNTS (continued)

11. Pension provisions

a) Group reporting - SSAP 24

The Group operates a funded defined benefit scheme for 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. The existing Group scheme also became contributory.

The amount is as follows:

	2001 £'000	2000 £'000
As at 1 January 2001	1,555	1,657
Net amortisation in period	(110)	(102)
As at 31 December 2001	1,445	1,555

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. An early valuation was necessary because the Scheme has been closed to new members. 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 is 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 £1,923,000 (2000 - £1,906,000). Contributions of £nil were outstanding as at 31 December 2001 (£550 at 31 December 2000).

When the scheme was closed to new members on 1 October 2000 the company 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 £52,243 (2000 - £960). At 31 December 2001 £13,865 (2000: £960) of contributions were outstanding and due for collection on or after 1 January 2002 and were subsequently paid shortly after the year end.

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 2001. Scheme assets are stated at their market value on 31 December 2001.

The major assumptions used by the actuary were:

Valuation method	Projected unit method
Discount rate	5.75%
Inflation rate	2.50%
Rate of increase in salaries	4.50%
Rate of increase in pensions	2.50%
Rate of increase in deferred benefits during deferment	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.

NOTES TO THE ACCOUNTS (continued)

11. Pension provisions (continued)

b) FRS17 (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	Value at 31 December 2001 £'000
Equities	7.50%	20,581
Bonds	5%-5.25%	22,337
Other	4%-7.25%	16,306
Total market value of assets		59,224
Present value of Scheme liabilities		(70,525)
Deficit in the Scheme		(11,301)
Related deferred tax asset		3,390
Net pension liability		(7,911)

	Group 2001 £'000	Company 2001 £'000
Net Assets at 31 December 2001		
Net assets excluding pension liability	334,618	796,005
Pension liability	(7,911)	(7,911)
Net assets including pension liability	326,707	788,094
Reserves at 31 December 2001		
Profit and loss reserve excluding pension liability	176,893	638,280
Pension liability	(7,911)	(7,911)
Profit and loss reserve including pension liability	168,982	630,369

On a Group consolidated basis there is no effect as the Embedded Valuation takes account of the net FRS17 liability.

12. Taxation

	2001 £'000	2000 £'000
Long-term business technical account:		
UK corporation tax	(190)	(12,955)
Adjustments in respect of prior year	3,541	10,632
Group relief	(717)	(2,885)
	2,634	(5,208)
Non-technical account:		
Tax credit attributable to balance on long-term business technical account at 30%	-	(28,902)
Change in shareholders interest in the long-term business in force	97,387	(7,274)
Adjustments in respect of prior year	3,104	(613)
Group relief	717	2,885
	101,208	(33,904)

Corporation tax in the technical account has been calculated at an effective rate of 30% in accordance with the rates applicable to the long-term business fund of a life assurance company (2000: 20% and 30%).

NOTES TO THE ACCOUNTS (continued)

13. *Goodwill*

	2001
	£'000
At 1 January	(13,291)
Negative goodwill arising during the year	(50,933)
Amortisation/write off negative goodwill in respect of impairment to PVIF (see note 20)	64,224
Net book value at 31 December	-

During the year the Company re-negotiated the purchase consideration of certain previously acquired undertakings. This resulted in the creation of additional negative goodwill, where upon the directors have undertaken an impairment test of the net monetary assets at acquisition which primarily comprised of a PVIF asset. The write off of negative goodwill relates to the impairment of the PVIF asset as set out in note 20.

14. Investments

(a) Land and buildings

	Market Value £'000	Cost £'000
Freehold land and buildings:		
At 1 January 2001	54,310	53,543
Additions	2,877	2,877
Disposals	(4,775)	(2,620)
Net deficit on revaluation	(1,241)	-
At 31 December 2001	51,171	53,800

Independent open-market valuations were last performed at 31 December 2001.

Windsor House, the Group's head office, is included above at the current carrying value of £8.9 million. The property is subject to a finance lease with a value outstanding of £847,962 and the repayment commitments are set out in note 29.

b) Other financial investments - Group

	Current value 2001	Current value 2000	Cost 2001	Cost 2000
Listed investments:	£'000	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	305,518	287,900	298,097	197,129
Debt securities and other fixed income securities	804,435	666,890	773,327	630,449
	1,109,953	954,790	1,071,424	827,578
Unlisted investments:				
Loans secured by mortgages	56	68	56	68
Loan notes	10,000	-	10,000	-
Other loans (secured on policies)	5,890	6,185	5,890	6,185
	15,946	6,253	15,946	6,253
Total other financial investments	1,125,899	961,043	1,087,370	833,831

c) Other financial investments - Company

	Current value 2001	Current value 2000	Cost 2001	Cost 2000
Listed investments:	£'000	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	59,850	-	76,125	-
Debt securities and other fixed income securities	38,951		39,191	
Total other financial investments	98,801	-	115,316	-

NOTES TO THE ACCOUNTS (continued)

15. Assets held to cover linked liabilities

	Current value 2001 £'000	Current value 2000 £'000	Cost 2001 £'000	Cost 2000 £'000
Assets held to cover linked liabilities	4,381,436	4,878,956	4,615,256	3,795,784

16. Tangible assets

(a) 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 2001	863	9,506	1,117	67	4,325	15,878
Additions	360	1,454	810	-	-	2,624
Disposals	(354)	(249)	-			(603)
Revaluation	-	-	-	-	(1,566)	(1,566)
At 31 December 2001	869	10,711	1,927	67	2,759	16,333
Depreciation:						
At 1 January 2001	(368)	(7,984)	(879)	(16)	(50)	(9,297)
Charged in the year	(184)	(1,330)	(292)	-	(7)	(1,813)
Disposals	236	240	-	-	-	476
At 31 December 2001	(316)	(9,074)	(1,171)	(16)	(57)	(10,634)
Net book value:						
At 31 December 2001	553	1,637	756	51	2,702	5,699
At 31 December 2000	495	1,522	238	51	4,275	6,581

The charge for depreciation for the year ended 31 December 2000 was £2,390. Rogers Chapman, Chartered Surveyors on 30 June 1997 valued the freehold land (originally costing £11,203,500) on an open market value basis for existing use at £4,067,500. The valuation does not take into account any selling costs or taxation liability or benefit that might arise upon disposal. An agreement to sell this freehold land and building for £2.75m was reached in November 2001 but this has yet to complete. However this impaired value has been adopted at 31 December 2001 and the carrying value reduced appropriately.

NOTES TO THE ACCOUNTS (continued)

17. Share Capital

a) Authorised share capital

	2001 Number	2001 £'000	2000 Number	2000 £'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
Total ordinary share capital	17,580,031	176	17,580,031	176
Un-designated 1p	13,275,000	132	13,275,000	132
Total equity share capital	30,855,031	308	30,855,031	308
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
Deferred shares 1p *	7,660,394,969	76,604	7,660,394,969	76,604
Total Non-equity share capital	7,669,144,969	76,692	7,669,144,969	76,692
Total share capital	7,700,000,000	77,000	7,700,000,000	77,000

* See note 17c i

NOTES TO THE ACCOUNTS (continued)

17. *Share Capital (continued)*

b) Allotted, issued and fully paid share capital

	2001 Number	2001 £'000	2000 Number	2000 £'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	230,031	2	230,031	2
Total ordinary share capital	16,691,686	167	16,691,686	167
Un-designated 1p	-	-	-	-
Total equity share capital	16,691,686	167	16,691,686	167
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
Deferred shares 1p:				
- Warranty guarantee	7,279,343,261	72,793	3,666,636,361	36,666
- Converted 'E' shares	394,969	4	394,969	4
	7,279,738,230	72,797	3,667,031,330	36,670
Total Non-equity share capital	7,288,488,230	72,885	3,675,781,330	36,758
Total share capital	7,305,179,916	73,052	3,692,473,016	36,925

NOTES TO THE ACCOUNTS (continued)

17. Share capital (continued)

c) Authorised and issued share capital - movements in year

	2001		2000	
	Authorised £'000	Issued £'000	Authorised £'000	Issued £'000
Balance brought forward	77,000	36,925	77,000	20,248
Issued in year				
- Warranty Deferred shares	-	36,127	-	16,677
- E Deferred shares	-	-	2	2
- E Ordinary shares	-	-	1	1
Converted in year	-	-	(3)	(3)
Balance carried forward	77,000	73,052	77,000	36,925

i) The new authorised equity and deferred share capital was created as at December 2000 as required to fulfil the obligations to convert the remaining Convertible Redeemable E Preference shares which vested on 31 December 2000. The approval for the creation of the authorised E Ordinary share capital and the additional Deferred shares by conversion of the authorised Convertible Redeemable E preference shares was agreed by the Board of Directors on 22 March 2001.

ii) In 2001 deferred 1p shares were issued under the warranty guarantee clause at par for cash as follows:

	Number	£'000
9 February 2001	223,290,300	2,233
13 March 2001	108,315,400	1,083
9 April 2001	106,101,200	1,061
29 May 2001	135,094,800	1,350
15 June 2001	3,039,905,200	30,399
Total deferred shares issued in 2001	3,612,706,900	36,127
Balance carried forward from 2000	3,666,636,361	36,666
Total Warranty deferred shares carried forward	7,279,343,261	72,793

17. 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. 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. 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.

h) Additional rights attributable to 'E' Ordinary shares

Under the terms of the new Long-term incentive scheme, the two Directors have waived their rights to require the Company to purchase the allocation of shares that took place as at 31 December 2000.

i) Loan Stock

As Condition 3.1 of Schedule 2 of the GAN Deed Poll can no longer be met, the expectation to create the subordinated unsecured non-interest bearing convertible B stock 1998 was cancelled on 5 December 2001. No shares had ever been created.

NOTES TO THE ACCOUNTS (continued)

18. Reserves

a) The reserves of the Group are:

	Share Premium account £'000	Other reserves £'000	Shares to be issued reserve £'000	Total reserves £'000
At 1 January 2001	83,911	-	36,889	120,800
Transfer to refund Deferred shares not required to be issued	-	762	(762)	-
Shares issued (note 17c)	-	-	(36,127)	(36,127)
At 31 December 2001	83,911	762	-	84,673

b) The reserves of the Company are:

	Share Premium Account £'000	Other reserves £'000	Shares to be issued reserve £'000	Total reserves £'000
At 1 January 2001	83,911	-	36,889	120,800
Transfer to refund Deferred shares not required to be issued	-	762	(762)	-
Shares issued (note 17c)	-	-	(36,127)	(36,127)
At 31 December 2001	83,911	762	-	84,673

19. Profit and loss account

	Group 2001 £'000	Company 2001 £'000
As at 1 January 2001	282,075	573,351
Unrealised gain on disposal (note 5)	86,125	76,125
Retained loss for the year	(191,307)	(11,196)
As at 31 December 2001	176,893	638,280

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

	2001 £'000	2000 £'000
Increase/(decrease) during the year		
Revaluation in year	(2,206)	(10,615)
Impairment of PVIF asset	(64,224)	(22,352)
Net discount unwind relating to acquired business in force	52,618	49,940
	(13,812)	16,973
Adjustments to align assumptions to ABI Guidance *		
- DSS Rebates	(117,299)	-
- Vesting Pension	(23,020)	-
- Expenses	(73,106)	-
	(213,425)	-
Net of tax movement	(227,237)	16,973
Valuation at 1 January	578,019	561,046
Valuation at 31 December	350,782	578,019

* The achieved profits results for 2001 have been reported in line with guidance on supplementary reporting long term insurance business "The Achieved Profits Method", issued in December 2001 by the ABI. The adjustments required to bring the embedded value assumptions in line with the guidance are:

* DSS Rebates
This guidance states that future rebates on contracted-out personal pension business should be treated as new business at the point they are received. Previously these rebates were included in the value of in-force.

* Vesting Pensions
The guidance makes no specific reference to profits which a life office might be expected to make on pension business post-vesting, however there is an argument that they should be treated as new business at the point of vesting. Previously a prudent allowance for these post-vesting profits were included in the value of in-force.

* Expenses
LAHC carries a level of management and associated expense necessary for it to pursue its acquisition strategy. Previously, this expense was excluded when calculating the value of in-force on the grounds that it would be set against the profits of such future acquisitions. Under the guidance this expense is now included in the maintenance expenses assumed. The guidance requires that no credit be taken for uncertain future events such as acquisitions, which by their nature, cannot be relied on with any certainty. Previously, the expenses included in the calculation of the value of in-force were assumed to be kept within the current scale of operation due to the acquisition strategy being followed by LAHC. In accordance with the guidance, a higher level of future expense inflation has been included.

These adjustments have been treated as a change in accounting estimate.

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

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

General assumptions:	2001	2000
Inflation - RPI	2.5% pa	2.75% pa
- expense	7.0% pa	3.75% pa
Discount rate	8.5% pa	8.25% pa
Tax rates (average)		
- shareholders	30%	30%
- policyholders	22%	22%

Specific assumptions:	2001 Life business	2001 Pensions business	2000 Life business	2000 Pensions business
Mortality	60% Sel + 33% R6A AIDS	60% Ultimate	60% Sel + 33% R6A AIDS	60% Ultimate
Yield on non-linked fund (before tax and investment management expenses)				
- non-profit	6.00%	6.00%	5.75%	5.75%
- with-profit	7.10%	7.10%	6.76%	6.76%
Growth in unit values (before tax and management charges)	7.20%	7.20%	6.81%	6.81%

Discontinuance rate assumptions are based on the company's recent experience and vary by product class and duration in force. Example rates are as follows:

	2001 assumption for policy year				2000 assumption for policy year			
Year	7	10	13	16	7	10	13	16
Linked mortgage endowments	8%	8%	5%	4%	7.5%	7.5%	6%	4%
Linked pensions	18%	15%	12.5%	10%	15%	15%	10%	9%

21. Policyholder liabilities and fund for future appropriations

	Long-term business provision £'000	Outstanding claims £'000	Technical provision for linked liabilities £'000	Fund for future appropriations £'000
At 1 January 2001	1,049,819	2,880	4,861,788	83,166
Movement for the year	(59,503)	39	(495,237)	(28,727)
At 31 December 2001	990,316	2,919	4,366,551	54,439
Made up of:				
Gross provision liability	998,619	3,634	4,366,551	54,439
Recoverable from reinsurers	(8,303)	(715)	-	-
Net total 31 December 2001	990,316	2,919	4,366,551	54,439
Gross provision liability	1,088,696	2,880	4,861,788	83,166
Recoverable from reinsurers	(38,877)	-	-	-
Net total 31 December 2000	1,049,819	2,880	4,861,788	83,166

The movement in 2001 on the long-term business provision is analysed as follows:

	Gross £'000	Reinsured £'000	Total £'000
At 1 January 2001	1,088,696	(38,877)	1,049,819
Charged to profit and loss account	(90,077)	30,574	(59,503)
At 31 December 2001	998,619	(8,303)	990,316

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.

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

Class of business		Mortality	Interest rates per annum 2001	Interest rates per annum 2000	Expense per policy 2001	Expense per policy 2000
Life	- conventional WP	70% A67/70	2.75%	2.25%	*	*
	- conventional NP	70% A67/70	3.40%	3.25%	£30.09	£27.58
	- unitised WP	70% A67/70	3.40%	3.00%	£50.15	£45.97
Pensions	- conventional WP	70% A67/70	3.25%	2.75%	*	*
	- conventional NP	70% A67/70	4.25%	4.00%	£38.28	£35.08
	- unitised WP	70% A67/70	4.25%	3.50%	£63.80	£58.46
	- annuities in payment	PMA92/PFA92 with CMI 17 improvement rates	5.25%	5.50%	£31.80	£30.00

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

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	2001	2000
Regular premium pension	£63.80	£58.46
Single premium pension	£24.30	£22.26
Regular premium life	£50.15	£45.97
Single premium life	£19.85	£18.14
Expense inflation	4.0%	4.0%
Mortality (linked business)	70% A67/70	78% A67/70

NOTES TO THE ACCOUNTS (continued)

22. Long-term business provision (continued)

(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.

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 £30,980,000 (2000 - £30,718,000). 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.

24. Fixed asset investments

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

	Shares in subsidiary undertakings £'000	Loan to subsidiary undertaking £'000	Total £'000
As at 1 January 2001	419,519	55,075	474,594
Net movement in year	(108,275)	-	(108,275)
As at 31 December 2001	311,244	55,075	366,319

b) 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
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 Company

*directly held by the Company

25. Amounts owed by related undertakings

	Company 2001 £'000	Company 2000 £'000
Long-term loan	509,005	519,853
Other net amounts owed	2,808	4,857
	511,813	524,710

Included in long-terms loans are £509,004,750 (2000: £519,852,750) of loans to the Company's principal subsidiary undertaking. The loan is repayable over a period of up to 50 years. Repayments of interest and capital will be contingent on the surpluses arising in the subsidiary undertaking.

26. Debtors, prepayments and accrued income

a) Other debtors

	Group 2001 £'000	Company 2001 £'000	Group 2000 £'000	Company 2000 £'000
Due from indemnifiers	1,100	1,100	196,303	196,303
Other debtors	38,816	55	45,927	(1,297)
	39,916	1,155	242,230	195,006

b) Financing reassurance treaty

The group has one financing reassurance treaty in place. The net amount of the financing outstanding of £9m (2000: £20m) 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 £12m (2000: £14m) are reflected in "Outward reinsurance premiums" in the technical account.

c) Other prepayments and accrued income:

	Group 2001 £'000	Company 2001 £'000	Group 2000 £'000	Company 2000 £'000
Current assets	626	626	747	747
Amount relating to periods commencing after one year	1,375	1,375	2,237	2,004
	2,001	2,001	2,984	2,751

NOTES TO THE ACCOUNTS (continued)

27. Provisions for other risks and charges

	Group 2001 £'000	Company 2001 £'000	Group 2000 £'000	Company 2000 £'000
Deferred tax on Deferred Acquisition Costs	476	-	585	-
Other provisions	15,457	3,740	57,842	43,113
	15,933	3,740	58,427	43,113

The movement in the provisions is as follows:

a) Group	Deferred Consideration £'000	Legal and Other £'000	Property leases £'000	Deferred tax £'000	Total £'000
As at 1 January 2001	39,598	3,143	15,101	585	58,427
Additional provision	-	463	2,318	-	2,781
Utilised in year	-	(161)	(3,780)	(109)	(4,050)
Provision released	(39,598)	(1,801)	(487)	-	(41,886)
Discount unwind	-	-	661	-	661
As at 31 December 2001	-	1,664	13,813	476	15,933

b) The Company	Deferred Consideration £'000	Legal and Other £'000	Property leases £'000	Total £'000
As at 1 January 2001	39,598	435	3,080	43,113
Additional provision	-	-	1,120	1,120
Utilised in year	-	-	(600)	(600)
Provision released	(39,598)	(435)	-	(40,033)
Discount unwind	-	-	140	140
As at 31 December 2001	-	-	3,740	3,740

c) Explanation of provisions

i) Provisions for deferred acquisition payment included interest. Under the sale and purchase agreement dated 31 December 1997, LAHC had committed to make payments should certain events occur. These requirements have now been cancelled and the provision released.

ii) Deferred tax relates to the tax on the Deferred Acquisition Costs. These are expected to be utilised as the related costs reduce.

iii) 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 4.75% (2000: 6%).

iv) Other provisions include legal cases. Legal provisions relate to estimates established on the likely outcome of each case to determine the amount or timing of the settlement and associated costs.

28. Amounts owed to credit institutions

	Group 2001 £'000	Company 2001 £'000	Group 2000 £'000	Company 2000 £'000
Loan notes	17	17	52	52
Bank borrowings (secured)	167,295	167,295	199,268	199,268
Bank overdrafts	-	-	10,000	10,000
	167,312	167,312	209,320	209,320

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

	Group 2001 £'000	Company 2001 £'000	Group 2000 £'000	Company 2000 £'000
Fixed interest rates	167,312	167,312	199,320	199,320
Other loans	-	-	10,000	10,000
	167,312	167,312	209,320	209,320

b) Details of the amount included in creditors and due under a finance lease are given in notes 29 and 30.

c) Terms and conditions
Of the £167.3 million loan, £166.5 million is 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 £166,500,000 loan exists under a debenture deed that 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 1.0% to 1.5%.

29. Creditors

	Group 2001 £'000	Company 2001 £'000	Group 2000 £'000	Company 2000 £'000
Amounts due to Group undertakings	-	14,407	-	229,341
Finance Lease	848	-	1,641	-
Other creditors (including taxation and social security)	19,287	5,405	26,054	25,571
	20,135	19,812	27,695	254,912

30. Creditors due after one year

a) Analysis by category

	Group 2001 £'000	Company 2001 £'000	Group 2000 £'000	Company 2000 £'000
Bank loans and overdrafts	135,000	135,000	166,500	166,500
Loan Notes	17	17	51	51
Other loans	-	-	-	-
Finance lease	-	-	848	-
	135,017	135,017	167,399	166,551

b) Analysis of total borrowings by due date (continued):

	Group 2001 £'000	Company 2001 £'000	Group 2000 £'000	Company 2000 £'000
More than 1 year less than 2 years -				
- bank loan	31,500	31,500	31,500	31,500
- finance lease	-	-	848	-
- loan notes	17	17	51	51
More than 2 years less than 5 years -				
- bank loans and overdrafts	103,500	103,500	135,000	135,000
Total due between 1 to 5 years	135,017	135,017	167,399	166,551
Total due in more than 1 year	135,017	135,017	167,399	166,551
Total due in less than 1 year -				
- bank loans and overdrafts	32,295	32,295	42,769	42,769
- finance lease	848	-	793	-
Total due within 1 year	33,143	32,295	43,562	42,769
Total loans and overdrafts	168,160	167,312	210,961	209,320

31. Operating lease commitments

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

	Land and Buildings 2001 £'000	Other 2001 £'000	Land and Buildings 2000 £'000	Other 2000 £'000
Operating leases which expire:				
- within one year	22	67	98	-
- between one and five years	545	1,279	489	667
- after five years	1,204	-	1,928	-
	1,771	1,346	2,515	667

NOTES TO THE ACCOUNTS (continued)

32. Financial and capital commitment

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

	2001 £'000	2000 £'000
Authorised and contracted	nil	nil
Authorised but not contracted	nil	nil

33. Deposits received from reinsurers

	2001 £'000	2000 £'000
Financing reassurance (note 26b)	9,192	19,953

34. Reconciliation of Movement in Shareholders' Funds

	Group 2001 £'000	Company 2001 £'000
(Loss) for the financial year	(191,307)	(11,196)
New capital subscribed (net of costs)	36,127	36,127
Release of reserve for issue of new shares	(36,127)	(36,127)
Unrealised gain on disposal of subsidiary undertaking	86,125	76,125
	(105,182)	64,929
Opening shareholders' funds	439,800	731,076
Closing Shareholders' Funds	334,618	796,005
Made up of:		
Equity interests	261,733	723,120
Non-equity interests	72,885	72,885
Total Shareholders' Funds	334,618	796,005

35. Notes to the Shareholders' cash flow statement

a) Reconciliation of operating profit to net cashflow

	2001 £'000	2000 £'000
Operating (loss)/profit before tax after interest	(195,128)	88,851
Add back policyholder amounts:		
Loss/(profit) on long-term business (gross)	168,774	(96,341)
Investment income charged to operating profit	77,748	29,740
Adjustments for non-cash items:		
(Increase) / Decrease in debtors and prepayments	(33,629)	(25,800)
Increase / (Decrease) in creditors and other provisions	(43,439)	(4,805)
Fixed asset depreciation	7	1,152
Revaluation of land and buildings	1,566	-
Realised/unrealised losses	16,275	(21)
Net cashflow from operating activities	(7,826)	(7,224)

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

	Share holders' funds 2001 £'000	Long-term business funds 2001 £'000	Total 2001 £'000
Cash and deposits	9,652	8,768	18,420
Other financial investments	130,519	995,380	1,125,899
Total	140,171	1,004,148	1,144,319

c) Movement in opening and closing shareholder portfolio investments

	At 1 January 2001 £'000	Cash Flow £'000	Non-Cash Flow* £'000	Gains/ (losses) £'000	At 31 December 2001 £'000
Cash and deposits	6,750	2,902	-	-	9,652
Other financial investments	4,683	66,239	76,125	(16,528)	130,519
Total	11,433	69,141	76,125	(16,528)	140,171

* Non-cash flow items represent investments received during the year (see note 5).

36. Related party transactions

The Company is ultimately influenced by New York Life (a mutual Company, registered in the State of New York, USA, and St James's Place Capital plc (a public limited Company in which HBOS plc have a 60% controlling interest) who together hold a 46% interest in the Group.

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) £2million 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 2001 the balance outstanding was £13,865 (2000 - £550)
b) the Group's pension scheme partly invested in the Windsor Life Managed Fund throughout the year. At 31 December 2001 this was valued at £15,345,003 (2000 - £20,415,677).
c) The Head Office occupied by the Group is owned by the General Fund in the Life Company.
d) The Company has received £36,127,000 (2000: £16,677,000) during the year from the indemnities provided by New York Life in respect of its former ownership of Windsor Life. Deferred shares were issued as a result.

37. Regulatory Matters

The Financial Services Authority is supervising an industry wide investigation into the selling of pension transfers, opt outs and free-standing additional voluntary contributions. In addition reviews are also being carried out on certain mortgage endowment contracts. In common with other companies the Group is investigating potential cases of mis-selling and offering compensation where this is found to be appropriate. The Group has made provisions in its reserves for the anticipated cost of making such compensation. Provision has also been made for the costs associated with the review. The anticipated costs have been calculated based on certain assumptions therefore there is some uncertainty with respect to the final compensation payable.

38. Contingent liabilities

Under the agreement for the sale of G Developments Limited the company has issued warranties as to the details and condition of the net assets sold. The warranties are capped at £2 million and subsist for a period of 2 years. In addition there is a warranty limited to £25 million for a maximum of 6 years in respect of the tax deed issued.