

2970583

LIFE ASSURANCE
HOLDING
CORPORATION
LIMITED

Report & Accounts

31 DECEMBER 1995



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LIFE ASSURANCE HOLDING CORPORATION LIMITED

Company No. 2970583

REPORT AND FINANCIAL STATEMENTS

FROM INCORPORATION ON
22 SEPTEMBER 1994
TO 31 DECEMBER 1995

LIFE ASSURANCE HOLDING CORPORATION LIMITED

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LIFE ASSURANCE HOLDING CORPORATION LIMITED

Directors and Company Information

Directors as at 31 December 1995:

Sir M A Weinberg - Chairman

J L Wybrew - Managing Director

N H Reid - Finance Director

C P Gibson

R M Kernan (USA)

A D Loehnis

J C C Meggs

W H Mowat (USA)

M C Ramsay

N M M Riddell

Secretary

N H Reid

Registered Office

Windsor House, Telford Centre, Shropshire, TF3 4NB

Solicitors

Herbert Smith, London

Wragge & Co, Birmingham

Bankers

Midland Bank plc

Auditors

Price Waterhouse

LIFE ASSURANCE HOLDING CORPORATION LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 1995

The Directors present their first report for the period from incorporation on 22 September 1994 to 31 December 1995.

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.

As noted below the Company acquired Windsor Life Assurance Company Limited on 22 December 1994 and Crown Financial Management Limited on 14 February 1995.

On 14 October 1995 the group's principal appointed representative company, Windsor Financial Services Limited, ceased operating. The group now sells a limited range of products through independent financial advisers and directly with policyholders.

With effect from 15 March 1996 the Irish courts approved the transfer of the UK branch business of Lifetime Assurance Company Limited. The business is life and pensions and the total liabilities are calculated at £66 million.

Formation, issue of shares and initial acquisition

On 22 September 1994 the Company was incorporated with an authorised and issued share capital of 1 ordinary £1 share amounting to £1.

On 22 December 1994 the authorised share capital of the Company was divided into 10,000 ordinary 1p shares and increased to 4,000,000 1p ordinary shares when the Company was established as the vehicle for a joint venture to acquire long term assurance businesses. The issue of shares and the subscriptions to this issue were as follows:

Shares issued:	Number of shares	Shares £'000	Premium £'000	Total £'000
Equity shares				
- Ordinary 1p	7,600,000	76	75,924	76,000
Non-equity shares				
- 1st series Convertible Redeemable 1p	4,375,000	44	-	44
- 2nd series Convertible Redeemable 1p	4,375,000	44	-	44
		—	—	—
Total		164	75,924	76,088
		====	=====	=====
Subscription for shares issued:				
Cash		90	2,498	2,588
Subscription in specie		74	73,426	73,500
		—	—	—
Total subscription		164	75,924	76,088
		====	=====	=====

The cash was applied in paying for the cost of the formation of the Company. The Company acquired the whole of the issued share capital of Windsor Life Assurance Company Limited and its subsidiary for £73,503,000. In addition it assumed £5,140,000 of property liabilities.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

DIRECTORS' REPORT (continued)

Formation, issue of shares and initial acquisition (continued)

On 31 May 1995 625,000 Convertible Redeemable Preference "E" shares of 1p each were issued and acquired by the Life Assurance Holding Corporation Employee Trust Limited.

Acquisition of further subsidiary undertaking

On 14 February 1995 the Company acquired the entire share capital of Crown Financial Management Limited and its subsidiaries. These companies carried on the business of long term insurance. On 31 December 1995, following High Court approval, Crown Life Assurance Company Limited and Crown Life Pensions Limited transferred their entire life and pensions business to Windsor Life Assurance Company Limited under Schedule 2C to the Insurance Companies Act 1982.

Results, dividends and transfers to reserves

The results for the period are set out on pages 9 and 10. The Directors do not propose a dividend. Any balance remaining on the profit and loss account will be retained as reserves.

Presentation of the financial statements

The financial statements have been prepared in accordance with Schedule 1, Part 1 of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 which amends section 255 and Schedule 9A to the Companies Act 1985 and came into effect for periods commencing on or after 23 December 1994. The Company has followed the recommendations of the Association of British Insurers' guidance on Accounting for Insurance Business issued on 19 December 1995.

The Regulations require groups containing insurance companies to follow detailed prescribed formats for the profit and loss account and balance sheet.

Fixed assets

Changes in fixed assets during the period are summarised in note 4 and 17 to the financial statements.

Future Prospects

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

Regulatory Matters

Following the Securities and Investments Board report on an industry-wide investigation into the selling of pension transfers and opt-outs the Company has investigated its own exposure in accordance with the directive of the Personal Investment Authority.

The Company has continued to rely on indemnities it received from the vendors of the businesses acquired in regard to these exposures and no provision has therefore been made in these accounts.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

DIRECTORS' REPORT (continued)

Directors

The following Directors served during the period:

Sir M A Weinberg - Chairman	(appointed 6 December 1994)
J L Wybrew - Managing Director*	(appointed 22 December 1994)
N H Reid - Finance Director*	(appointed 22 December 1994)
C P Gibson	(appointed 6 December 1994 - resigned 18 January 1996)
A D Loehnis	(appointed 21 December 1994)
W H Mowat (USA)	(appointed 22 December 1994)
J C C Meggs	(appointed 22 December 1994)
R M Kernan (USA)	(appointed 31 January 1995)
N M M Riddell	(appointed 31 January 1995)
M C Ramsay	(appointed 6 September 1995)
M Nocera (USA)	(appointed 12 February 1996)
DF Connon	(appointed 25 November 1994 - resigned 22 December 1994 - re-appointed 12 February 1996)
Hackwood Directors Limited	(on incorporation - resigned 25 November 1994)
DN Wood	(appointed 25 November 1994 - resigned 22 December 1994)
M Pisani (USA)	(appointed 22 December 1994 - resigned 31 January 1995)
WF Yelverton (USA)	(appointed 22 December 1994 - resigned 15 September 1995)
RE Bell	(appointed 6 December 1994 - resigned 22 December 1994)
JWP Johnston	(appointed 6 December 1994 - resigned 22 December 1994)

*Executive Directors

Directors' interests

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

Directors' and officers' liability insurance

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

Employees

Employee involvement

During the period 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.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

DIRECTORS' REPORT (continued)

Directors

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LIFE ASSURANCE HOLDING CORPORATION LIMITED

DIRECTORS' REPORT (continued)

Political and charitable donations

The group paid £6,000 to charitable organisations during the period.

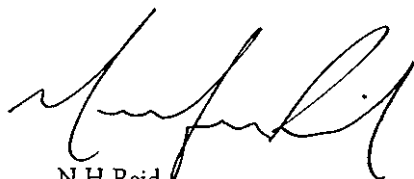
Post Balance Sheet Event

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

Auditors

Price Waterhouse were appointed as auditors on incorporation and have expressed their willingness to continue in office as auditors and accordingly a resolution to propose their re-appointment will be submitted at the annual general meeting.

On behalf of the Board of Directors

A handwritten signature in dark ink, appearing to read 'N H Reid', is written over the typed name.

N H Reid
Secretary
27 March 1996

LIFE ASSURANCE HOLDING CORPORATION LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the group and the Company and of the profit or loss of the group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 31 DECEMBER 1995

Technical Account - Long Term Business (all acquired in the period and continuing)

From incorporation on
22 September 1994 to
31 December 1995
£'000

	Notes	
Earned premiums, net of reinsurance:		
Gross premiums written	1	218,384
Outward reinsurance premiums		(4,660)
		<hr/> 213,724
Investment income	5	146,565
Unrealised gains on investments	5	137,085
Other technical income, net of reinsurance	21	12,632
Net income in period		<hr/> 510,006
Claims incurred, net of reinsurance :		
Claims paid :		
- gross amount		(162,304)
- reinsurers' share		28,924
Net claims paid		<hr/> (133,380)
Change in the provision for claims-		
- gross amount		(2,492)
- reinsurers' share		48
Net change in claims provision		<hr/> (2,444)
Net claims cost in period		<hr/> (135,824)
Change in other technical provisions, net of reinsurance:		
Long term business provision, net of reinsurance :		
- gross amount		(38,955)
- reinsurers' share		(22,850)
Other technical provisions, net of reinsurance :		
Technical provisions for linked liabilities		(214,049)
Net change in other technical provisions in period		<hr/> (275,854)
Bonuses net of reinsurance	23	(10,810)
Net operating expenses	6	(50,389)
Investment expenses and charges	5	(1,225)
Tax attributable to the long term business	14	(3,373)
Transfers from the fund for future appropriations	22	9,544
Transfer to non-technical account (page 10)		(29,649)
Balance on the technical account - long term business		<hr/> 12,426

The accounting policies and notes on pages 16 to 43 form an integral part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED
31 DECEMBER 1995

Non-Technical Account (all acquired in the period and continuing)

	Notes	From incorporation on 22 September 1994 to 31 December 1995
		£'000
Balance on the technical account - long term business (page 9)		12,426
Tax credit attributable to balance on the long term business technical account	14	6,120
Shareholders' pre-tax profit from long term business		18,546
Transfer from Technical account (page 9)		29,649
Investment income	5	1,741
Realised gains on investments	5	125
Other charges, including value adjustments		(11,534)
Profit on ordinary activities before taxation		38,527
Tax on profit on ordinary activities	14	(6,112)
Retained profit after taxation for the financial period	20	32,415

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

The Retained profit after taxation includes a loss before dividends of £4,390,000 which has been dealt with in the accounts of Life Assurance Holding Corporation Limited. The loss for the financial period includes all recognised gains and losses for the period.

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

The accounting policies and notes on pages 16 to 43 form an integral part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTE OF HISTORICAL COST PROFITS AND LOSSES
FOR THE PERIOD ENDED 31 DECEMBER 1995

	1995 £'000
Reported profit on ordinary activities before tax	38,527
Unrealised movement on the shareholders share of the long term business in force	(12,632)
	<hr/>
Historical cost profit on activities before tax	25,895
	=====
Historical cost profit for the period retained after tax	19,783
	=====

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

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 1995

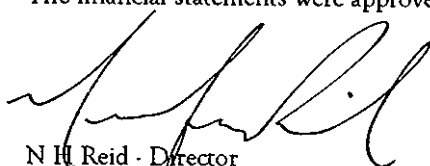
	Notes	1995 £'000
ASSETS		
Investments		
Land and buildings	15a	28,149
Other financial investments	15b	646,034
Deposits with ceding undertakings		28
		<hr/>
Total investments		674,211
Assets held to cover linked liabilities	16	1,077,039
Reinsurers' share of technical provisions		
Long term business provision	22	113,779
Technical provisions for unit-linked liabilities	22	476
		<hr/>
Total reinsurers' share		114,255
Debtors		
Debtors arising out of direct insurance operations - policyholders		713
Debtors arising out of reinsurance operations		1,418
Other debtors		25,831
		<hr/>
Total debtors		27,962
Other assets		
Tangible assets	17	1,214
Cash at bank and in hand		60,799
Own shares	4b	5
		<hr/>
Total other assets		62,018
Prepayments and accrued income		
Accrued interest and rent		11,799
Deferred acquisition costs		12,734
Shareholders' interest in the long term business in force	21	83,194
Other prepayments and accrued income		703
		<hr/>
Total prepayments and accrued income		108,430
		<hr/>
Total assets		<u><u>2,063,915</u></u>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 1995 (continued)

		1995 £'000
LIABILITIES		
Capital and reserves		
Called up share capital	18	170
Share premium	19	73,555
Capital reserves	19	536
Profit and loss account	20	32,415
<hr/>		
Shareholders' funds (including non-equity interests)	28	106,676
Fund for future appropriations	22	71,238
Technical provisions		
Long term business provision	22	644,331
Claims outstanding		845
Technical provisions for linked liabilities	22	1,059,405
Provisions for other risks and charges	24	24,660
Creditors		
Creditors arising out of direct insurance operations		9,636
Creditors arising out of reinsurance operations		1,946
Deposits from reinsurers	25b	91,519
Amounts owed to credit institutions	26	41,084
Other creditors including taxation and social security	25	12,575
<hr/>		
Total liabilities		2,063,915
<hr/>		

The financial statements were approved by the Board of Directors on 27 March 1996.


N H Reid - Director

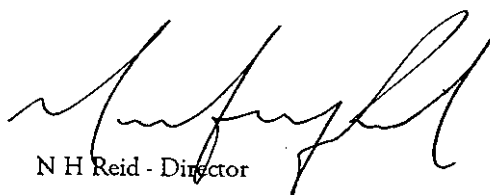
The notes on pages 16 to 43 form part of these financial statements

LIFE ASSURANCE HOLDING CORPORATION LIMITED

PARENT UNDERTAKING BALANCE SHEET AS AT 31 DECEMBER 1995

	Notes	1995 £'000
Fixed Assets:		
Investments	4	112,651
Current Assets		
Due from subsidiary undertakings		42,650
Due from related undertaking		709
Cash at bank and in hand		164
		<hr/> 43,523
Creditors:		
Amounts due within one year		
Amounts owed to credit institutions	26	(34,000)
Other creditors (including taxation and social security)	25	(1,987)
		<hr/>
Net current assets		7,536
		<hr/>
Total assets less current liabilities		120,187
Provision for liabilities and charges	24	(5,851)
		<hr/>
NET ASSETS		114,336
		=====
Financed by:		
Called up share capital	18	170
Share premium	19b	73,555
Profit and loss account	19b	40,611
		<hr/>
SHAREHOLDERS' FUNDS (including non equity interests)	28	114,336
		=====

The financial statements were approved by the Board of Directors on 27 March 1996.



N H Reid - Director

The notes on pages 16 to 43 form part of these financial statements

LIFE ASSURANCE HOLDING CORPORATION LIMITED

SHAREHOLDERS' CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 1995

		From incorporation on 22 September 1994 to 31 December 1995 £'000
	Notes	
Operating activities		
Net cash inflow from operating activities	30a	29703
Returns on investments and servicing of finance		
Interest received		1,136
Interest paid		(1,404)
Net cash outflow from returns on investments and servicing of finance		(268)
Taxation		
Corporation tax paid		
Investing activities		
Purchase of subsidiary undertakings	30e	(6,864)
Sale of investments		2,311
Purchase of fixed assets		(28)
Sale of fixed assets		15
Net cash outflow from investing activities		(4,566)
Net cash inflow before financing		24,869
Financing		
Issue of share capital (net of formation expenses)		225
New secured loan		33,000
Repayments of amount borrowed		(400)
Capital element of finance lease rental payments		(702)
Net cash inflow from financing	30f	32,123
Increase in cash and cash equivalents	30b	56,992

The accounting policies and notes on page 16 to 43 form an integral part of these financial statements.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

ACCOUNTING POLICIES

Basis of presentation

Except as detailed below, the financial statements have been prepared in accordance with the provisions of Section 255 and Schedule 9A to the Companies Act 1985, which cover the disclosures applicable to groups which include insurance companies. Following the implementation into UK law of the European Union Council Directive on the annual accounts of insurance undertakings, Schedule 9A to the Act has been substituted by Schedule 1 to the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. These financial statements have been prepared in accordance with the new Schedule 9A.

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

Profit recognition

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

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

Consolidated profit and loss details

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

Premiums

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

LIFE ASSURANCE HOLDING CORPORATION LIMITED

ACCOUNTING POLICIES - continued

Claims

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

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

Bonuses

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

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

Terminal bonuses are included in the cost of claims.

Investments

(i) Investment valuations

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

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

(ii) Investment income and expenses

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

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

LIFE ASSURANCE HOLDING CORPORATION LIMITED

ACCOUNTING POLICIES - continued

Investments (Continued)

(iii) Investment gains

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

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

Long term business provision

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

Allocation of surpluses and the fund for future appropriations

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

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

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

Deferred acquisition costs

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

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

LIFE ASSURANCE HOLDING CORPORATION LIMITED

ACCOUNTING POLICIES - continued

Tangible assets

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

Motor vehicles and computer equipment	33.33%
Fixtures, fittings and office equipment	20%

Taxation

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

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

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

Foreign currencies

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

Pension scheme

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

Operating leases

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

Goodwill

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

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

1 Segmental analysis

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

(a) Gross premiums written

Gross premium income is made up of:

	£'000
Direct assurance	140,601
Reassurance inwards	77,783
Gross premiums written	<u>218,384</u>

£63,459,000 of the 1995 reassurance inwards premiums relates to Lifetime UK business.

	<u>Gross direct premiums written</u>	
	Regular premiums 1995 £'000	Single premiums 1995 £'000
Non-participating:		
Life	6,051	.
Pensions	1,910	5,301
Annuity	.	16,230
Permanent Health	215	.
	<u>8,176</u>	<u>21,531</u>
Participating:		
Life	7,622	23,990
Pensions	1,313	.
	<u>8,935</u>	<u>23,990</u>
Linked:		
Life	29,687	949
Pensions	23,357	23,637
Permanent Health	339	.
	<u>53,383</u>	<u>24,586</u>
Total direct gross premiums	<u>70,494</u>	<u>70,107</u>
	=====	=====
Comprising:		
Individual business	66,548	66,447
Group contracts	3,946	3,660
	<u>70,494</u>	<u>70,107</u>
	=====	=====

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

1 Segmental analysis (Continued)

(b) Gross annualised new business premiums

	Regular premiums 1995 £'000	Single premiums 1995 £'000
Non-participating:		
Life	190	.
Pensions	15	5,301
Annuity	.	16,230
	<hr/> 205	<hr/> 21,531
Participating:		
Life	.	23,990
	<hr/>	<hr/>
Linked:		
Life	1,010	949
Pensions	1,406	23,637
Permanent Health	67	.
	<hr/> 2,483	<hr/> 24,586
	<hr/>	<hr/>
Total gross new business	2,688	70,107
	<hr/>	<hr/>
Comprising:		
Individual business	2,371	66,447
Group contracts	317	3,660
	<hr/> 2,688	<hr/> 70,107
	<hr/>	<hr/>

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

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

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

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

1 Segmental analysis (continued)

(c) Geographical analysis of gross inwards reinsurance premiums

	1995 £'000
UK	63,459
Europe (excluding UK)	1,104
USA	13,220
	<u>77,783</u>

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

(d) Assets attributable to the long term business fund

The total assets shown on page 12 includes £1,957,289,000 attributable to the long term business fund.

(e) Reinsurance balance

The reinsurance payable in respect of the long term business at 31 December 1995 was £24,434,000.

2 Acquisition of subsidiary undertakings

On 22 December 1994 the Company acquired the entire share capital of Windsor Life Assurance Company Limited and its subsidiary undertaking for a consideration of £78,643,000 (including costs). This consideration includes assumed property liabilities of £5,140,000.

On 14 February 1995 the Company acquired the entire share capital of Crown Financial Management Limited and its subsidiary undertakings for a consideration of £34,661,000 (including costs). This consideration includes the repayment of a loan of £15,000,000. The consideration includes a deferred amount of £1,500,000 to be repaid in equal annual instalments of which £1 million was outstanding at the end of the period.

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

	Book value at acquisition £'000	Revaluations £'000	Accounting Policies £'000	Fair value to the group £'000
Value of in-force policies	11,064	59,498	.	70,562
Investments	1,480,744	.	.	1,480,744
Debtors	214,741	.	.	214,741
Cash and deposits	26,202	.	.	26,202
Other assets	4,610	.	.	4,610
Policyholder liabilities	(1,519,849)	4,371	2,050	(1,513,428)
Creditors and accruals	(152,770)	426	.	(152,344)
Other provisions	(10,144)	(311)	(6,792)	(17,247)
NET ASSETS ACQUIRED	<u>54,598</u>	<u>63,984</u>	<u>(4,742)</u>	<u>113,840</u>
Consideration - borne by parent undertaking				(112,646)
- expenses borne by subsidiary undertaking				(658)
Amount transferred to Capital Reserve (note 19)				<u>536</u>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

2. Acquisition of subsidiary undertakings (continued)

b) In addition to the costs reported the group has charged £7,449,000 as the expected full costs of re-organisation and integration during the period since acquisition.

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

Windsor -

	1 January 1994 to 22 December 1994 £'000	1 January 1993 to 31 December 1993 £'000
Windsor Life Assurance Company Limited	790	120
Gresham Life Assurance Company Limited	-	-

Crown -

	1 January 1995 to 14 February 1995 £'000	1 January 1994 to 31 December 1994 £'000
Crown group	65	3,763

3. Summarised Profit and Loss accounts of the subsidiary undertakings acquired in the period to 31 December 1995.

The subsidiary undertakings results for the period from the start of their last financial period to the effective date of acquisition were:

Summarised profit and loss account -

	Windsor Companies (1 January 1994 to 22 December 1994)	Crown Group (1 January 1995 to 14 February 1995)
Non Technical account:		
Investment income	673	151
Expenses and charges	117	(77)
	<hr/>	<hr/>
Profit before taxation	790	74
Taxation	-	9
	<hr/>	<hr/>
Profit after taxation	790 =====	65 =====

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

4. Fixed asset investments

The Company's investments are made up of:

	Shares in subsidiary undertakings £'000	Loan to subsidiary undertaking £'000	Sub total £'000	Own Shares £'000	Total £'000
Acquired in period (at cost to the Company) -					
Windsor Life Assurance	78,643	-	78,643	-	78,643
Crown	19,003	15,000	34,003	-	34,003
Additions (net)	-	-	-	5	5
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 1995	97,646	15,000	112,646	5	112,651
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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

Subsidiary undertakings

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

<u>Company</u>	<u>Principal activity</u>
Windsor Life Assurance Company Limited*	Long term insurance
Gresham Life Assurance Society Limited	Long term insurance
Life Assurance Holding Corporation Employee Trust Limited*	Trustees to LAHC Employee Share Trust
Crown Financial Management Limited*	Intermediate holding Company
Crown Investment Management Services Limited	Dormant
Crown Financial Management Services Limited	Dormant
Crown Life Assurance Company Limited	Dormant
Crown Life Pensions Limited	Dormant
Crown Life Pension Trustees Limited	Dormant
Crown Computer Services Limited	Dormant
Homeview Data Services Limited	Dormant
Crown Financial Services Limited	Dormant
Crown Life Management Services Limited	Dormant
Crown Life Appointed Representatives Limited	Dormant

*directly held by the Company

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (Continued)

b) Own shares

	Total
	£'000
Cost	6
Depreciation	(1)
	<hr/>
Net book value at 31 December 1995	5
	=====

Life Assurance Holding Corporation Employee Trust Limited (LAHCET) was incorporated on 16 November 1994 to act as Trustee to the LAHC Employee Share Trust. On 31 May 1995 the Company issued 625,000 Convertible Redeemable 'E' Preference shares to LAHCET at par. The funds for this share purchase were provided by the Company. LAHCET is holding these shares on trust for those employees who participate in the Company's Employee Incentive Scheme.

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

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

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

5. Investment return summary

Long term insurance business

1995
£'000

Investment income:

Income from land and buildings	4,886
Income from other investments - listed	59,880
- other	9,393
Gains on the realisation of investments	72,406
	<hr/>
	146,565

Investment expenses and charges:

Investment management expenses, including interest	(1,225)
--	---------

Net unrealised gains on investments	137,085
	<hr/>

Net investment return included in the
long term business technical account

282,425
=====

Shareholders' interest

1995

£'000

Investment income:

Income from other investments - listed	215
- other	1,526
Gains on the realisation of investments	125
	<hr/>

Net investment return included in the non-technical account

1,866
=====

Total investment return

284,291
=====

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

6.	Net operating expenses	1995 £'000
	Acquisition costs	4,090
	Change in deferred acquisition costs	3,171
	Administrative expenses	34,551
	Reinsurance commissions and profit participation	8,577
		<hr/>
		50,389
		=====
7.	Auditors' remuneration	
	The remuneration and expenses (inclusive of VAT) of the auditors for the audit of the accounts amounted to £376,000. Their remuneration in respect of other work amounted to £287,000.	
8.	Commissions	
	Total commissions for direct insurance accounted for by the group during the period, excluding payments to employees, amounted to £6,513,000.	
9.	Interest payable	1995 £'000
	Interest payable on bank loans and overdrafts and other loans - repayable within 5 years, otherwise than by instalments	2,594
	Interest payable on finance lease - repayable within 5 years	3
		=====
10.	Operating lease rentals	1995 £'000
	Operating lease rental charges in the period were:	
	Plant and machinery	12
	Other leases	4,093
		<hr/>
		4,105
		=====

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

11. Staff costs

	1995 £'000
Wages and salaries	7,471
Social security costs	624
Other pension costs	475
	<hr/>
	8,570
	<hr/>

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

Administration	336
Investment	1
Integration and development	61
	<hr/>
	398
	<hr/>

12. Directors' emoluments

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

	1995 £'000
Fees	4
Emoluments	351
	<hr/>
	355
	<hr/>
Emoluments (excluding pension scheme contributions):	
Chairman	Nil
Highest paid Director	231
	<hr/>

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

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

£	1995 Number
Nil	14
1 - 5,000	1
95,001 - 100,000	1
230,001 - 235,000	1

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

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

13. Pension Costs

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

The total pension cost of the group in the period was £475,000.

The accounting of the two schemes has been merged. The prepayment is as follows:

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

The last actuarial valuation of the Windsor Group Pension and Life Assurance Scheme (1994) was an interim assessment by a qualified independent actuary as at 31 December 1994. At that date the market value of the assets of £23,868,000 were equivalent to the actuarial value of the liabilities on an attained age method. It was assumed that the annual investment return would be 9% and salary growth 7%.

The last actuarial valuation of the Crown Life Group Pension Scheme was an assessment by a qualified independent actuary as at 31 December 1994. At that date the market value of the assets of £14,603,000 were in excess of the actuarial value of the liabilities on a projected unit method. It was assumed that the annual investment return would be 10% and salary growth 7%.

An actuarial valuation as at 17 January 1996 is being carried out and is expected to reveal that the merged scheme is adequately funded. As a result, the prepayment will be amortised over the future service of the remaining employees.

No contributions were outstanding at 31 December 1995.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

14. Taxation

	1995 £'000
Long term business technical account:	
UK corporation tax at 33%	(5,354)
Movement in deferred tax	3,836
Tax on franked investment income	(2,821)
Prior year adjustment of acquired undertakings	1,101
Foreign tax	(135)
	<hr/>
	(3,373)
	<hr/>
Non-technical account:	
Notional tax credit attributable to shareholder balance on long term business at 33%	(6,120)
Prior year adjustment of acquired undertakings	8
	<hr/>
	(6,112)
	<hr/>

15. Investments

(a) Land and buildings

	Market value £'000	Cost £'000
Freehold land and buildings:		
At acquisition - Windsor	27,589	24,355
Additions	1,781	1,781
Disposals	(247)	(161)
Deficit on revaluation	(974)	
	<hr/>	<hr/>
At 31 December 1995	28,149	25,975
	<hr/>	<hr/>

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

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

15. Investments (continued)

b) Other financial investments

	Current value 1995 £'000	Cost 1995 £'000
Listed investments:		
Shares and other variable yield securities and units in unit trusts	281,305	209,834
Debt securities and other fixed income securities	325,829	309,324
	<hr/>	<hr/>
	607,134	519,158
	<hr/>	<hr/>
Unlisted investments:		
Loans secured by mortgages	10	10
Other loans	3,804	3,804
Deposits with credit institutions	35,086	35,086
	<hr/>	<hr/>
	38,900	38,900
	<hr/>	<hr/>
Total other financial investments	646,034	558,058
	<hr/>	<hr/>

16. Assets held to cover linked liabilities

	Current value 1995 £'000	Cost 1995 £'000
Assets held to cover linked liabilities	1,077,039	975,080
	<hr/>	<hr/>

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

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

17. Tangible assets

(a) Group

	Motor vehicles £'000	Computer equipment £'000	Fixtures, fittings and office equipment £'000	Leasehold improvements £'000	Total £'000
Cost:					
At acquisition - Windsor	551	5,582	689	67	6,889
- Crown	-	3,840	1,907	.	5,747
Additions	202	422	68	.	692
Disposals	(227)	(4,255)	(1,927)	.	(6,409)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1995	526	5,589	737	67	6,919
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation:					
At acquisition - Windsor	(155)	(3,687)	(636)	(8)	(4,486)
- Crown	-	(3,065)	(1,434)	.	(4,499)
Provided in the year	(114)	(1,301)	(530)	(1)	(1,946)
Disposals	93	3,206	1,927	.	5,226
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1995	(176)	(4,847)	(673)	(9)	(5,705)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value:					
At 31 December 1995	350	742	64	58	1,214
	=====	=====	=====	=====	=====

(b) Company

No tangible assets are owned by the Company.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

18. Share Capital

a) Authorised and issued share capital

	Authorised Number	£'000	Allotted, issued and fully paid Number	£'000
Equity share capital:				
Ordinary 1p				
A shares	2,375,000	24	2,375,000	24
B shares	2,375,000	24	2,375,000	24
C shares	2,090,000	20	2,090,000	20
D shares	760,000	8	760,000	8
	<hr/>	<hr/>	<hr/>	<hr/>
Total ordinary share capital	7,600,000	76	7,600,000	76
Un-designated 1p	23,025,000	230	.	.
	<hr/>	<hr/>	<hr/>	<hr/>
Total equity share capital	30,625,000	306	7,600,000	76
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Non-equity share capital:				
1st series convertible redeemable preference 1p				
A shares	2,000,000	20	2,000,000	20
B shares	2,000,000	20	2,000,000	20
J shares	375,000	4	375,000	4
	<hr/>	<hr/>	<hr/>	<hr/>
	4,375,000	44	4,375,000	44
	<hr/>	<hr/>	<hr/>	<hr/>
2nd series convertible redeemable preference 1p				
A shares	2,000,000	20	2,000,000	20
B shares	2,000,000	20	2,000,000	20
J shares	375,000	4	375,000	4
	<hr/>	<hr/>	<hr/>	<hr/>
	4,375,000	44	4,375,000	44
	<hr/>	<hr/>	<hr/>	<hr/>
Convertible redeemable 'E' preference 1p	625,000	6	625,000	6
	<hr/>	<hr/>	<hr/>	<hr/>
Total Non-equity share capital	9,375,000	94	9,375,000	94
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total share capital	40,000,000	400	16,975,000	170
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

18. Share capital (continued)

a) Authorised and issued share capital (continued)

All shares were issued during the period as follows:

Date of Issue	Number issued	Type	Reason for issue
22 December 1994	7,600,000	Ordinary 1p	Consideration for Windsor acquisition
	4,375,000	1st series	
		Conv Red Pref	
	4,375,000	2nd series	
		Conv Red Pref	
31 May 1995	625,000	Conv Red "E" Pref	Acquired by employee trust

b) Principal rights of the non equity shares

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

Redemption is at the option of the Company, at par.

Conversion to ordinary shares will be made on the occurrence of a First Series Conversion Event or the giving of a Second Series Conversion Notice as appropriate. A First Series Conversion Event means either a listing or an agreement for the sale of the whole of the ordinary share capital of the Company. A Second Series Conversion Notice can be given after the second anniversary of listing but not later than 31 December 2001.

c) Rights attributable to all non equity 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.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

19. Reserves

a) Group

	Share Premium account £'000	Capital reserve £'000	Total reserves £'000
Premium on issue of shares	75,924	-	75,924
Formation expenses	(2,369)	-	(2,369)
Arising on acquisition of Windsor		2,116	2,116
Arising on acquisition of Crown	-	(1,580)	(1,580)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 1995	73,555	536	74,091
	=====	=====	=====

b) Company

	Share Premium account £'000	Profit & loss account £'000
Premium on issue of shares	75,924	-
Formation expenses	(2,369)	-
Retained profit for the period	-	40,611
	<hr/>	<hr/>
Balance at 31 December 1995	73,555	40,611
	=====	=====

20. Profit and loss account

	Non distributable reserve £'000	Profit & loss account £'000	1995 Total £'000
Retained profit for the period	(206)	32,621	32,415
Transfer from profit and loss account	12,632	(12,632)	-
	<hr/>	<hr/>	<hr/>
Balance at 31 December 1995	12,426	19,989	32,415
	=====	=====	=====

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

21. Shareholders' interest in the long term business in force

	1995 £'000	1995 £'000
Balance at acquisition		
- Windsor		59,498
- Crown		11,064
Increase during the period		
Grossed up for taxation	18,854	
Taxation	(6,222)	
Net of taxation		12,632
Balance at 31 December		83,194
		=====

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

General assumptions:

Inflation	- RPI	4.25%
	- expense	5.25%
Discount rate		12%
Tax rates (average)	- shareholders	29%
	- policyholders	21%

Specific assumptions:

	Life assurance business	Pensions business
Mortality	80% A67/70 Sel + R6A aids	80% A67/70 Ultimate
Yield on non-linked fund (before tax and investment management expenses)		
- non-profit	7.75%	7.75%
- with profit	9.4%	9.4%
Growth in unit values (before tax and management charges)	9.4%	9.4%
Lapse rate		
- year 1	17.5	20 }
- year 2	12	20 } 75% PUP; 25% lapse
- thereafter	7.5	15 }
Renewal expenses	30.6	45.9

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

22. Policyholder liabilities and fund for future appropriations

	Long term business provision £'000	Unreported Claims provision £'000	Technical provision for linked liabilities £'000	Fund for future appropriations £'000
Windsor provisions at acquisition	374,680	627	373,154	79,783
Crown provisions at acquisition	83,257	.	471,726	999
Movement in technical provisions for the period	61,805	218	214,049	.
Charge for bonuses	10,810	.	.	.
Transfer to the Technical account	.	.	.	(9,544)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 1995	530,552	845	1,058,929	71,238
	=====	=====	=====	=====
Made up of:				
Gross provision liability	644,331	845	1,059,405	71,238
Recoverable from reinsurers	(113,779)	-	(476)	.
	<hr/>	<hr/>	<hr/>	<hr/>
Net total	530,552	845	1,058,929	71,238
	=====	=====	=====	=====

23. Long term business provision

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

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

Class of business	Mortality	Interest rates
		1995
Life		
- participating	A67/70(2) Ultimate	2.75%
- non-participating	A67/70(2) Ultimate	4.5%
Pensions		
- participating	A67/70(2) Ultimate	3.5%
- non-participating	A67/70(2) Ultimate	6.0%
- annuities in payment	IM80/IF80 c=2010	6.5%

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

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

Where appropriate, allowance for AIDS mortality is included using projection R6A (amended so as not to reduce after the peak addition) of the Institute of Actuaries Working Party Bulletin No. 5.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

23. 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.

(iii) Amount charged for bonuses

The amount charged for bonuses in the long term business technical account relates entirely to reversionary bonuses paid and payable for the period, £10,810,000 provision for which has been included in the long term business provision.

24. Provisions for other risks and charges

	Group 1995 £'000	Company 1995 £'000
Provision for taxation		
- deferred tax on Deferred Acquisition Costs	2,754	-
Other provisions	21,906	5,851
	<u>24,660</u>	<u>5,851</u>
	=====	=====

The movement in the provisions is as follows:

	Other	Property leases	Deferred tax	<u>Group</u> Total 1995 £'000	<u>Company</u> Property leases 1995 £'000
	£'000	£'000	£'000	£'000	£'000
Provision acquired on acquisition					
- Windsor	-	9,190	3,269	12,459	5,140
- Crown	4,311	1,420	4,197	9,928	-
Established in period	-	9,436	-	9,436	2,180
Utilised in period	-	(2,451)	(4,712)	(7,163)	(1,469)
	<u>4,311</u>	<u>17,595</u>	<u>2,754</u>	<u>24,660</u>	<u>5,851</u>
	=====	=====	=====	=====	=====
As at 31 December 1995	4,311	17,595	2,754	24,660	5,851

Other provisions includes amounts for legal cases. The total provisions of £17,247,000 existing after acquisition were increased by the £5,140,000 assumed by the Company as part of the cost of acquiring Windsor Life Assurance Company Limited.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

25. Creditors

- (a) All creditors are payable within a period of five years
- (b) Included in creditors arising out of reinsurance operations is £91,519,000 which is due to a deposit back agreement with the reinsurer on the five year Guaranteed Income Bonds where the reinsurance is held as a deposit by the Company over the term of the contract.
- (c) Other creditors including taxation and social security:

	Group 1995 £'000	Company 1995 £'000
Other creditors	12,575	1,987
	=====	=====

26. Amounts owed to credit institutions

	Group 1995 £'000	Company 1995 £'000
Bank borrowings (secured)	800	.
Bank overdrafts	6,284	-
Debenture loan (secured)	34,000	34,000
	-----	-----
	41,084	34,000
	=====	=====

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

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

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

27. Operating lease commitments

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

	<u>Group</u>	
	Land and Buildings	Other
	1995	1995
	£'000	£'000
Operating leases which expire:		
- within one year	20	49
- between one and five years	737	-
- after five years	5,526	-
	<hr/>	<hr/>
	6,283	49
	<hr/>	<hr/>

28. Reconciliation of Movement in Shareholders' Funds

	<u>Group</u>	<u>Company</u>
	1995	1995
	£'000	£'000
Profit for the financial period	32,415	40,611
Capital reserve arising on acquisition	2,116	-
Goodwill written off	(1,580)	-
New capital subscribed (net of formation costs)	73,725	73,725
	<hr/>	<hr/>
Closing Shareholders' Funds	106,676	114,336
	<hr/>	<hr/>
Made up of:		
Equity interests	106,582	114,242
Non-equity interests	94	94
	<hr/>	<hr/>
Total Shareholders' Funds	106,676	114,336
	<hr/>	<hr/>

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

29. Restrictive Covenant

Under the terms of the sale of the business of Aetna Unit Trusts Limited to Thornton Unit Managers Limited the Company is prevented for 3 years from selling or redeeming any units in the Trusts sold which were held at the completion date (5 October 1993). At 31 December 1995 the investments so held amounted to £51,738,000.

30. Notes to the Shareholders' cash flow statement

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

	1995 £'000
Balance on the long term business Technical Account	12,426
Transfer from Technical Account	29,649
Operating income/expenses in the Non-Technical Account	
- investment income	605
- expenses and charges	(8,908)
Increase in Shareholders' interest in long term business in force	(12,632)
Depreciation	1,359
Profit on disposal of fixed assets	(15)
Decrease in other debtors and prepayments and accrued income	960
Increase in other creditors and provisions	6,259
	<hr/>
Net cash inflow from operating activities	29,703
	=====

b) Analysis of balances of cash and cash equivalents

	Change in period £'000
Cash and deposits less than 3 months maturity	57,319
Amounts owed to credit institutions less than 3 months maturity	(327)
	<hr/>
Total cash and cash equivalents	56,992
	=====

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

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

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

	Shareholders funds less than 3 months maturity 1995 £m	Shareholders funds greater than 3 months maturity 1995 £m	Long term business funds 1995 £m	Total 1995 £m
Cash and deposits	57,319	.	3,480	60,799
Bank overdrafts	(327)	-	(5,957)	(6,284)
	<hr/>	<hr/>	<hr/>	<hr/>
	56,992	.	(2,477)	54,515
	<hr/>	<hr/>	<hr/>	<hr/>

d) Acquisition of subsidiary undertakings

	£'000
Net assets acquired:	
Value of in-force policies	70,562
Investments	1,480,744
Debtors	214,741
Cash and deposits	26,202
Other assets	4,610
Technical provisions	(1,513,428)
Creditors and accruals	(152,344)
Other provisions	(17,247)
	<hr/>
Capital reserve	113,840
	(536)
	<hr/>
Consideration	113,304
	<hr/>
Satisfied by:	
Shares allotted	73,500
Deferred consideration	1,500
Assumed liabilities	5,140
Cash	33,164
	<hr/>
	113,304
	<hr/>

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

LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (Continued)

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

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

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

f) Analysis of changes in financing during the period

	Share capital (including premium)	Loans and finance lease obligations
	£'000	£'000
Cash inflows from financing	225	31,898
Shares issued for non-cash consideration	73,500	
Loans and finance lease obligations of subsidiary undertakings acquired during the year	-	1,927
Loan interest rolled up into the principal	-	1,000
	<hr/>	<hr/>
Balance at 31 December 1995	73,725	34,825
	<hr/>	<hr/>

31. Regulatory Matters

The Securities and Investment Board ("SIB") has requested an industry-wide investigation into the conduct of business where pensions have been transferred between schemes. This has been taken into account in determining the actuarial reserves.

The Company has continued to rely on indemnities it received from the vendors of the businesses acquired in regard to these exposures and no provision has therefore been made in these accounts.

32. Contingent Liabilities

On the transfer of the group life and health insurance business to UNUM, the Company provided certain guarantees to UNUM in the event that the claims experience on that business turned out to be worse than anticipated and a contingent liability exists in that regard. However it is anticipated that the current level of provisions will prove adequate.

LIFE ASSURANCE HOLDING CORPORATION LIMITED

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

We have audited the financial statements on pages 9 to 43 which have been prepared under the accounting policies set out on pages 16 to 19.

Respective responsibilities of directors and auditors

As described on page 8 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the group as at 31 December 1995 and of the profit and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse
Cornwall Court
19 Cornwall Street
Birmingham
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27 March 1996