

Life Assurance Holding Corporation Limited

Company No. 2970583

## Annual Report & Accounts

# 2002



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## LIFE ASSURANCE HOLDING CORPORATION LIMITED

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LIFE ASSURANCE HOLDING CORPORATION LIMITED

DIRECTORS AND OFFICERS

Names of the Directors

Sir Mark Weinberg - Chairman  
John L Wybrew - Managing Director  
Andrew Crossley  
David W Davies (appointed 6 June 2002)  
Jonathan C C Meggs  
Derek ND Netherton  
Mike C Ramsay  
Norman H Reid  
Norman M M Riddell  
Frederick J Sievert (appointed 6 June 2002)  
Michael Sproule

Secretary

Norman H Reid

Registered Office

Windsor House,  
Telford Centre,  
Shropshire,  
TF3 4NB

Auditors

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

Consulting Actuaries

Tillinghast-Towers Perrin  
71 High Holborn  
London  
WC1V 6TH

# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2002

The Directors present their report and the audited financial statements for the year to 31 December 2002.

### Principal activity and review of the business

The principal activity of the Company is to act as the parent undertaking of a Group conducting ordinary long-term insurance business in the United Kingdom, namely life assurance, pensions, permanent health and annuities.

### Results, dividends and transfers in reserves

The results for the year are set out on pages 8 and 9. The Directors do not propose the payment of a dividend after the declaration of the bonuses. The loss for the year was £95,335,000 (2001 - £25,463,000 loss). The Company has adopted the new accounting standard FRS 19 on deferred tax and has changed its accounting policy for the recognition of profits from its life and pensions business from the Achieved Profits basis to the Modified Statutory Solvency basis. Details are given in the accounting policy note. The prior year results have been restated following this change (see note 19).

### Purchase of own shares

On 8 January 2002 the Company completed the buy 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 £2,993,000 of which £1,110,000 has been charged to the Profit and Loss account as a salary expense in 2002 (2001: £1,883,000).

### Future Prospects

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

### Post -Balance Sheets event

With effect from 31 January 2003 the Group will have made redundant the majority of positions engaged in the Review of Pensions mis-selling as the work is substantially complete. This will result in approximately 150 staff leaving the Group's employment. The cost of the redundancy programme has already been provided for in the 2002 results.

### 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. In respect of regulatory matters, no amounts remain under indemnities.

### Directors' interests

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

### Directors

The directors of the Company are shown on page 3.

### 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 2002 was 39 days (2001: 37 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.



LIFE ASSURANCE HOLDING CORPORATION LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2002 (continued)

Economic Monetary Union

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.

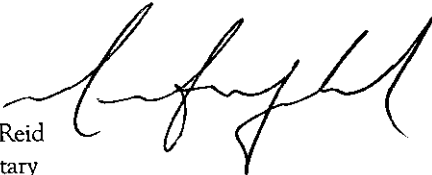
Political and charitable donations

The Group paid £19,920 (2001: £23,058) to charitable organisations during the year.

Auditors

PricewaterhouseCoopers are now practicing as a limited liability partnership trading as PricewaterhouseCoopers LLP. Following this change PricewaterhouseCoopers resigned and the directors appointed the new firm, PricewaterhouseCoopers LLP as auditors. They have expressed their willingness to continue in office and accordingly a resolution to propose their re-appointment will be submitted at the annual general meeting.

On behalf of the Board of Directors

  
N H Reid  
Secretary

22 April 2003





## LIFE ASSURANCE HOLDING CORPORATION LIMITED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement should be read in conjunction with the Independent Auditor's Report set out on page 7 with a view to distinguishing for shareholders the respective responsibilities of the Directors and auditors in relation to the financial statements.

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

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

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

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

#### Website Posting

These financial statements are published on the Group's website [www.windsor-life.com](http://www.windsor-life.com), the maintenance and integrity for which is the responsibility of the Company. A printed version of the Annual report and accounts is available from the Companies Head Office. The work carried out by the auditors does not involve consideration of the maintenance and integrity of the website, and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website.

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



LIFE ASSURANCE HOLDING CORPORATION LIMITED

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

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

**Respective responsibilities of directors and auditors**

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

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

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

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

**Basis of audit opinion**

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

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2002 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 LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London

22 April 2003



**LIFE ASSURANCE HOLDING CORPORATION LIMITED**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2002**

**Technical Account - Long-term Business**

	Notes	2002 £'000	2001 £'000 Re-stated
<b>Earned premiums, net of reinsurance:</b>			
Gross premiums written	1	412,557	353,351
Outward reinsurance premiums		(13,700)	(18,332)
		<u>398,857</u>	<u>335,019</u>
Investment income	3a	186,526	942,984
Other technical income	4	-	128,253
		<u>585,383</u>	<u>1,406,256</u>
<b>Net income in year</b>			
<b>Claims incurred, net of reinsurance:</b>			
Claims paid -			
- gross amount		(494,787)	(466,124)
- reinsurers' share		20,183	7,581
		<u>(474,604)</u>	<u>(458,543)</u>
Net claims paid			
Change in the provision for claims			
- gross amount		(8,629)	(300)
- reinsurers' share		(254)	(2,205)
		<u>(8,883)</u>	<u>(2,505)</u>
Net change in claims provision	21		
		<u>(483,487)</u>	<u>(461,048)</u>
<b>Net claims cost</b>			
<b>Change of other technical provisions, net of reinsurance:</b>			
Long-term business provision, net of reinsurance			
- gross amount		137,770	69,123
- reinsurers' share		(1,061)	(30,574)
		<u>136,709</u>	<u>38,549</u>
Other technical provisions, net of reinsurance -	21		
Technical provisions for linked liabilities	21	714,763	495,237
		<u>851,472</u>	<u>533,786</u>
<b>Net change in other technical provisions in year</b>			
Net operating expenses	6a	(50,211)	(66,844)
Unrealised losses on investments	3a	(767,142)	(1,397,775)
Investment expenses and charges	3a	(188,923)	(8,227)
Tax attributable to the long-term business	12	497	29,036
Transfers from the fund for future appropriations	21	12,345	28,942
Other technical charges	4	(8,152)	(68,210)
		<u>(48,218)</u>	<u>(4,084)</u>
<b>Balance on the technical account - long term business</b>			
		<u>(48,218)</u>	<u>(4,084)</u>

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

The accounting policies and notes on pages 19 to 48 form part of these financial statements.



LIFE ASSURANCE HOLDING CORPORATION LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2002**

**Non-technical Account**

	Notes	2002 £'000	2001 £'000 Re-stated
Balance on the technical account - long-term business			
Shareholders' pre-tax profit/(loss) from long-term business		(48,218)	(4,084)
Investment income	3b	32,431	11,730
Investment expenses and charges	3b	(52,274)	(18,565)
Unrealised losses on investments	3b	(29,086)	(16,528)
Other non-technical income		(1)	-
Other charges	6b	(7,188)	(2,993)
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(104,336)	(30,440)
Tax on loss/profit from ordinary activities	12	9,001	4,977
		<hr/>	<hr/>
Retained loss for the financial year	19, 32a	(95,335)	(25,463)
		<hr/> <hr/>	<hr/> <hr/>

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

As permitted by Section 230 of Companies Act 1985, the profit and loss account of the Company has not been disclosed in these financial statements. The Company's loss after taxation for the year is £116,033,000 (2001 - loss £28,253,000).

The accounting policies and notes on pages 19 to 48 form an integral part of these financial statements.





LIFE ASSURANCE HOLDING CORPORATION LIMITED

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	Group 2002 £'000	Group 2001 £'000 Re-stated
Loss for the year (page 20)		(95,335)	(25,463)
Unrealised gain on disposal of subsidiary undertaking	24 (a) (iii)	-	86,125
Total recognised losses and gains relating to the year		<hr/> (95,335)	<hr/> 60,662
Prior year adjustment (as explained in note 32)		(24,839)	
Total gains and losses recognised since last annual report		<hr/> (120,174) <hr/>	



**LIFE ASSURANCE HOLDING CORPORATION LIMITED**

**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2002**

	Notes	2002 £'000	2001 £'000 Re-stated
<b>ASSETS</b>			
<b>Investments</b>			
Land and buildings	14a	52,889	51,171
Other financial investments	14b	854,254	1,125,899
Total investments		<u>907,143</u>	<u>1,177,070</u>
Assets held to cover linked liabilities	15	3,656,688	4,381,436
<b>Reinsurers' share of technical provisions</b>			
Long term business provision	21	7,957	9,018
Claims outstanding	21	1,088	1,343
Total reinsurers' share		<u>9,045</u>	<u>10,361</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations			
- policyholders		414	2,288
Debtors arising out of reinsurance operations		15,689	359
Deferred tax asset	26b	35,547	12,159
Other debtors	26a	25,670	39,916
Total debtors		<u>77,320</u>	<u>54,722</u>
<b>Other assets</b>			
Purchased interest in long-term business	20	272,986	281,138
Tangible assets	16	4,896	5,699
Cash at bank and in hand		13,061	18,422
Total other assets		<u>290,943</u>	<u>305,259</u>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		15,964	14,116
Deferred acquisition costs		2,046	2,580
Other prepayments and accrued income	26e	4	-
Total prepayments and accrued income		<u>18,014</u>	<u>16,696</u>
Total assets		<u>4,959,153</u>	<u>5,945,544</u>

The accounting policies and notes on pages 19 to 48 form an integral part of these financial statements.



**LIFE ASSURANCE HOLDING CORPORATION LIMITED**

**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2002 (continued)**

	Notes	2002 £'000	2001 £'000 Re-stated
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	17	73,051	73,052
Share premium	18a	83,911	83,911
Capital redemption reserve	18a	1	-
Other reserves	18a	762	762
Profit and loss account	19	56,719	152,054
<hr/>			
Shareholders' funds	32	214,444	309,779
<hr/>			
Equity shareholders' funds		141,559	236,894
Non-equity shareholders' funds		72,885	72,885
<hr/>			
Fund for future appropriations	21	42,265	54,610
<b>Technical provisions</b>			
Long-term business provision	21	832,144	969,914
Claims outstanding	21	29,852	21,224
<hr/>			
Technical provisions for linked liabilities	21	3,651,788	4,366,551
<hr/>			
<b>Provisions for other risks and charges</b>			
Provisions for pension and similar obligations	11	1,342	1,445
Other provisions	27a	13,420	15,457
<hr/>			
Deposits received from reinsurers	34	15,309	9,192
<hr/>			
<b>Creditors</b>			
Creditors arising out of direct insurance operations		1,975	7,614
Creditors arising out of reinsurance operations		4,850	4,312
Amounts owed to credit institutions	28	135,166	165,311
Other creditors			
(including taxation and social security)	29	16,598	20,135
<hr/>			
Total liabilities		4,959,153	5,945,544
<hr/>			

The financial statements were approved by the Board of Directors on 22 April 2003.

N H Reid - Director

The accounting policies and notes on pages 19 to 48 form an integral part of these financial statements.



**LIFE ASSURANCE HOLDING CORPORATION LIMITED**

**PARENT UNDERTAKING BALANCE SHEET AS AT 31 DECEMBER 2002**

	Notes	2002 £'000	2001 £'000 Re-stated
<b>Fixed Assets</b>			
Investments			
Shares in and loans to subsidiary undertakings	24	5,404	58,437
Contingent subordinated loan to group undertaking	25	498,157	509,005
Other investments other than loans	14c	-	59,850
<b>Current Assets</b>			
Investments	14c	-	38,951
Debtors -			
Amounts owed by Group undertakings		2,069	2,808
Other debtors	26a	13,678	5,200
Prepayments and accrued income	26e	4	-
Cash at bank and in hand		-	6,780
		<u>15,752</u>	<u>53,739</u>
<b>Creditors - Amounts falling due within one year</b>			
Bank loans and overdrafts	30b	(32,399)	(31,664)
Other creditors (including taxation and social security)	29	(1,718)	(19,812)
		<u>(18,365)</u>	<u>2,263</u>
<b>Net current (liabilities)/assets</b>			
		<u>485,196</u>	<u>629,555</u>
<b>Total assets less current liabilities</b>			
Provisions for other risks and charges	27b	(6,294)	(3,740)
Creditors - amounts falling due after more than one year	30b	(102,767)	(133,647)
		<u>376,135</u>	<u>492,168</u>
<b>NET ASSETS</b>			
<b>Capital and reserves -</b>			
Called up share capital	17	73,051	73,052
Share premium account	18b	83,911	83,911
Capital redemption reserve	18b	1	-
Other reserves	18b	762	762
Profit and loss account	19	218,410	334,443
		<u>376,135</u>	<u>492,168</u>
<b>SHAREHOLDERS' FUNDS</b> (including non-equity interests)	32b	<u>376,135</u>	<u>492,168</u>
<hr/>			
Equity shareholders' funds		303,250	419,283
Non-equity shareholders' funds		72,885	72,885
		<u>376,135</u>	<u>492,168</u>

The financial statements were approved by the Board of Directors on 22 April 2003.

N H Reid - Director

The accounting policies and notes on pages 19 to 48 form part of these financial statements.





LIFE ASSURANCE HOLDING CORPORATION LIMITED

CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 £'000	2001 £'000
Net Cash Outflow from Operating Activities	35a	(12,389)	(7,826)
Net Returns on Investments and Servicing of Finance			
Interest received		9,089	19,220
Interest paid		(12,769)	(15,727)
Repayment of loan made to the long term fund		10,848	10,847
		<hr/> 7,168	<hr/> 14,340
Net Capital Expenditure			
Transfer to the long term fund		(10,000)	-
Refunds in respect of undertakings acquired		-	68,000
Receipts in respect of sale of fixed assets		(7,554)	-
		<hr/> (17,554)	<hr/> 68,000
Financing			
Issue of share capital		-	36,127
Repayments of Borrowings		(31,500)	(41,500)
		<hr/> (31,500)	<hr/> (5,373)
Net Cash (Outflow) / Inflow	35c	<hr/> (54,275)	<hr/> 69,141
<u>Portfolio Investments</u>			
The net cash inflows/(outflows) were applied/divested as follows:			
(Decrease) / increase in cash holdings		(7,107)	2,902
		<hr/> (7,107)	<hr/> 2,902
Sale of Portfolio investments (variable rate):			
- Government securities		(65,648)	-
- Other securities		(8,923)	66,239
Acquisition of Portfolio investments:			
- Government securities		9,253	-
- Other securities		18,150	-
		<hr/> (54,275)	<hr/> 69,141
Net Cash (Outflow) / Inflow		<hr/> (54,275)	<hr/> 69,141

The accounting policies and notes on pages 19 to 48 form part of these financial statements.



## LIFE ASSURANCE HOLDING CORPORATION LIMITED

### ACCOUNTING POLICIES

#### Basis of presentation

The consolidated financial statements have been prepared in accordance with:

- the provisions of section 255A of, and the special provisions relating to insurance companies of Schedule 9A to, the Companies Act 1985;
- the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP") dated December 1998;
- applicable accounting standards; and
- the historical cost convention modified to include the revaluation of investments,

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

#### Going concern

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

In considering the appropriateness of the going concern basis, the directors have considered the Group's ability to service the syndicated bank loan of £135m set out in note 28(c). The loan is subject to semi annual repayments of principal with a final instalment of £72m due in March 2005.

Life Assurance Holding Corporation Limited is reliant on the continuing emergence of surplus from its main operating subsidiary, Windsor Life Assurance Co Ltd, and the ability of Windsor Life to pay dividends, in order to make repayments of principal and interest. Based upon current projections prepared by management, and in the absence of adverse developments (the most significant of which are outside the control of the Group), the Directors believe that the Group will have sufficient funds available to make such payments as they fall due during 2003 and 2004, the next of which is due in May 2003. However the margin of available funds over relevant regulatory requirements is small and will continue to be so and inherently there cannot be certainty in relation to these matters. Should such an adverse development occur which reduces the surplus emerging from Windsor Life it could affect its ability to make dividend payments. In such an event management would enter into discussions with the lending banks with a view to agreeing a rescheduling of debt payments due.

In addition, current projections indicate that there will be insufficient funds to enable the Company to make the final loan repayment in March 2005 in full. In the event that the 2005 repayment cannot be met in full, the remainder of the loan will need to be refinanced for a further period of time. The Directors see no reason why this portion of the loan could not be refinanced.

#### Changes in Accounting Policies

In previous years, the group has reported profits arising from its long-term insurance business under the Achieved Profits method, which recognises the embedded value of long-term life and pensions contracts in-force at the balance sheet date. Under this method reported amounts for the shareholders' share of the long-term business in-force asset included an element relating to internally generated value. In 2002, the group has changed its accounting policy by adopting the Modified Statutory Solvency basis of reporting (MSS) which is the practice adopted by most UK life and pensions companies in the primary statutory accounts. Under the MSS basis, the fair value of the in-force long-term contracts acquired is recognised at acquisition and is subsequently amortised over the expected remaining duration of the contracts. The impact of this change on the profit and loss account is set out in note 2, and the balance sheet impact is set out in note 19.

FRS19 "Deferred Tax" has been adopted in the current year. The comparative figures for last year have been restated to reflect the new treatment. The impact of this change is set out in notes 2 and 19.

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.



## LIFE ASSURANCE HOLDING CORPORATION LIMITED

### ACCOUNTING POLICIES – continued

#### Other prior year adjustments

During the year the Directors undertook a review of the Company's carrying value of the investment in subsidiary undertakings. This has resulted in a writedown which has impacted the prior period investment in subsidiary balance and is set out in note 24(a). This does not effect the consolidated results.

#### Profit recognition

On acquisition of a portfolio of long-term insurance contracts the net present value of the shareholders' interest in the expected after tax cashflows of the in-force business (the purchased interest in long term business asset) is capitalised on the basis of the assumptions made at the date of acquisition. That part of the shareholders' interest which will be recognised as profit over the lifetime of the in-force policies is amortised and the discount unwound on a systematic basis over the anticipated lives of the related contracts, which in the case of the acquisition of GAN, the directors have determined to be 37 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 reinsurance premiums are accounted for when due for payment, except for unit linked payments, which are accounted for when units are created.

#### Claims

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

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

#### Bonuses

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

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

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.



## LIFE ASSURANCE HOLDING CORPORATION LIMITED

### ACCOUNTING POLICIES - continued

#### Investments (continued)

##### (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) Investments in subsidiary undertakings are included in the Company balance sheet at cost less any provision for diminution in value.

#### 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 and provision for linked liabilities

The long-term business provision is determined by the Reporting Actuary following his annual investigation of the long-term business and is calculated initially on a statutory solvency basis of Windsor Life Assurance Company Limited to comply with the reporting requirements under the Interim Prudential Sourcebook for Insurers. For conventional with-profit business the calculation 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 subsequent financial years, are deferred to the extent that they are recoverable out of future revenue margins. Such costs are disclosed as an asset in the balance sheet and are determined explicitly. Deferred acquisition costs in respect of linked business are determined explicitly.

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

#### 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.





## LIFE ASSURANCE HOLDING CORPORATION LIMITED

### ACCOUNTING POLICIES – continued

#### Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax is not recognised on permanent differences.

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.

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

#### 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. Share capital denominated in US dollars is translated at historic rates applicable when the capital was issued.

#### 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 engaged 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. The Group has adopted the required transitional disclosure provisions.

#### Finance leases

Assets financed by leasing arrangements which give rights equivalent to ownership ("finance leases") are treated as if they had been purchased at the fair value at the inception of the lease 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.

#### Long-term reinsurance contracts and similar arrangements

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

- has entered into a contingent loan or long-term reinsurance arrangement, the repayments of which are contingent upon the emergence of margins generated by the contracts which are subject to the arrangement; and
  - the arrangement has transferred an element of the risk associated with the long-term contracts,
- the liability to a reinsurer is recognised under the balance sheet heading "Deposits received from re-insurers". Where the liability is to another party, the liability has been recognised under the balance sheet heading "Creditors", in the appropriate sub-heading.



# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 1. Segmental analysis

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

#### (a) Gross premiums written

Gross premium income is made up of:

	2002 £'000	2001 £'000
Direct assurance	412,024	350,230
Reassurance inwards	533	3,121
Gross premiums written	<u>412,557</u>	<u>353,351</u>

#### Gross direct premiums written

	Regular premiums		Single premiums	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
<b>Non-participating:</b>				
Annuity	-	-	11,772	1,915
Life	4,400	4,954	-	-
Pensions	1,562	1,773	30,231	27,390
Permanent Health	886	994	-	-
	<u>6,848</u>	<u>7,721</u>	<u>42,003</u>	<u>29,305</u>
<b>Participating:</b>				
Annuity	-	-	9,323	19,819
Life	6,370	6,971	975	1,386
Pensions	710	815	-	-
	<u>7,080</u>	<u>7,786</u>	<u>10,298</u>	<u>21,205</u>
<b>Linked:</b>				
Life	67,957	78,610	57	58
Pensions	66,758	78,415	206,531	122,562
Permanent Health	4,492	4,568	-	-
	<u>139,207</u>	<u>161,593</u>	<u>206,588</u>	<u>122,620</u>
<b>Total direct gross premiums (all individual business)</b>	<u>153,135</u>	<u>177,100</u>	<u>258,889</u>	<u>173,130</u>



LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

1. Segmental analysis (continued)

(b) Gross annualised new business premiums

	2002 £'000	2001 £'000
Direct assurance	259,157	173,167
Reassurance inwards	-	-
	<u>259,157</u>	<u>173,167</u>

	<u>New Business (Direct)</u>			
	Regular premiums		Single premiums	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Non-participating:				
Annuity	-	-	11,772	1,915
Pensions	-	-	30,231	27,390
Life	-	-	-	-
	<u>-</u>	<u>-</u>	<u>42,003</u>	<u>29,305</u>
Participating:				
Annuity	-	-	9,323	19,819
Life	59	12	975	1,386
	<u>59</u>	<u>12</u>	<u>10,298</u>	<u>21,205</u>
Linked:				
Life	10	1	57	58
Pensions	199	21	206,531	122,562
Permanent Health	-	3	-	-
	<u>209</u>	<u>25</u>	<u>206,588</u>	<u>122,620</u>
Total gross new business (all individual business)	<u>268</u>	<u>37</u>	<u>258,889</u>	<u>173,130</u>

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

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

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



# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 1. Segmental analysis (continued)

#### (c) Geographical analysis of gross inwards reinsurance premiums

	2002	2001
	£'000	£'000
Europe (excluding UK)	82	259
USA	451	2,862
	<u>533</u>	<u>3,121</u>

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

#### (d) Assets attributable to the long-term business fund

The total assets shown on page 11 includes £4,627,300,000 (2001 - £5,515,980,000) 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 2002 was £5,168,000 debit, (2001 - £43,530,000 debit) to the long-term business technical account.

### 2. Impact of change in accounting policies

#### (a) Modified Statutory Solvency basis

The Group has changed its accounting policy for the recognition of profits arising from its life assurance activities to the MSS basis from the Achieved Profits (Embedded Value) method. Any internally generated value to the in-force policies is now excluded from the statutory reporting. Details of the impact of this change on the reported position at 31 December 2001 are given in notes 19 and 32. The comparative results for 2001 have been re-stated on the new MSS basis. The effect on profit is shown below.

#### (b) FRS 19 Deferred tax

The Group has applied the requirements of the new accounting standard on Deferred tax - FRS 19. This means that the company now reflects the value of any unutilised losses and timing differences on a discounted basis. The details of the impact of this are given in notes 12, 19, 26 and 27.

#### (c) Impact of changes in accounting policies on reported results

	2002	2001
	£'000	£'000
Loss after tax under former accounting policies	(110,950)	(191,311)
Application of new policies under MSS basis (note 19)	(7,773)	159,027
Application of FRS 19 Deferred tax	23,388	6,821
Restated loss for year	<u>(95,335)</u>	<u>(25,463)</u>

### 3. Investment return summary

#### (a) Long-term insurance business

##### Investment income:

	2002	2001
	£'000	£'000
Income from land and buildings	11,073	11,200
Income from other investments	175,453	181,466
Gains on the realisation of investments	-	750,318
	<u>186,526</u>	<u>942,984</u>

##### Investment expenses and charges:

	2002	2001
	£'000	£'000
Losses on the realisation of investments	(181,068)	-
Investment management expenses, including interest	(7,855)	(8,227)
	<u>(188,923)</u>	<u>(8,227)</u>

##### Net unrealised losses on investments

2002	2001
£'000	£'000
(767,142)	(1,397,775)

Net investment return less interest expenses included in the long-term business technical account

2002	2001
£'000	£'000
<u>(769,539)</u>	<u>(463,018)</u>





# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 3. Investment return summary (continued)

#### (b) Shareholders' interest

	2002 £'000	2001 £'000
Investment income:		
Income from investments	32,431	11,730
Investment expenses and charges:		
Investment management expenses, including interest	(31,422)	(18,565)
Loss on the realisation of investments	(20,852)	-
	<u>(52,274)</u>	<u>(18,565)</u>
Net unrealised (losses)/gains on investments	(29,086)	(16,528)
	<u>(48,929)</u>	<u>(23,363)</u>
(c) Total investment return		
Net investment return	<u>(818,468)</u>	<u>(486,381)</u>

### 4. Other Technical Income/Charges

	2002 £'000	2001 £'000
Other technical income/(charges) comprises:		
Amounts due from indemnifiers	-	64,029
Release of goodwill	-	64,224
	<u>-</u>	<u>128,253</u>
Movement on shareholders' interest in long-term business in force (note 20):	(8,152)	(68,210)
Total net technical income/(charges)	<u>(8,152)</u>	<u>60,043</u>

During 2001 the group recovered accounts receivable in respect of pensions-mis-selling indemnities resulting in receipt of £64.0m from the indemnifiers.

Also in 2001, the group re-negotiated the purchase consideration of certain previously acquired subsidiary undertakings. This resulted in a refund of consideration which in turn led to the release to profit of goodwill amounting to £64.2m.

### 5. Transfer of investments between undertakings

During the year LAHC transferred its entire shareholding in Aberdeen Asset Management Ltd (AAM) in specie to the Windsor Life shareholders fund, at market value as a capital contribution. The investment comprised Ordinary shares of £29,100,000 (original cost £76,125,000) and the Rights Issue shares acquired in January 2002 of £3,555,750 (original cost £5,172,000). The devaluation occurring up to the date of transfer has been recorded in the LAHC parent company profit and loss account, and following transfer in the Windsor Life shareholders' profit and loss account. The transfer was treated as an adjustment to the Investment in Subsidiary undertaking in the parent company (note 24a), and a capital contribution in the subsidiary undertaking. On consolidation there is no impact as the shares remain within shareholder funds. In addition AAM loan notes of £10,000,000 were transferred at par for full value.



# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

6. Net operating expenses				
(a) Technical account			2002	2001
			£'000	£'000
Acquisition costs			2,665	3,011
Change in deferred acquisition costs			534	512
Administrative expenses			47,108	62,062
Reinsurance commissions and profit participation			(96)	1,259
			<u>50,211</u>	<u>66,844</u>
(b) Non-technical account - other charges			2002	2001
			£'000	£'000
Administrative expenses			(7,188)	4,977
(c) Net administrative expenses are after charging:				
			2002	2001
Technical account:			£'000	£'000
Commissions			(1,276)	2,740
(d) Auditors' remuneration and expenses (inclusive of VAT)				
			2002	2001
	Technical	Non-technical	£'000	£'000
Audit work	377	100	477	436
Non-audit work	888	242	1,130	584
	<u>1,265</u>	<u>342</u>	<u>1,607</u>	<u>1,020</u>

The Non-technical values include the audit fee for the Company of £100,000 (2001: £85,775)

7. Interest payable			2002	2001
			£'000	£'000
Included in Technical account investment management expenses and charges (note 3a):				
Interest payable on capitalised finance leases			16	69
Loan interest payable			7,671	7,724
Other finance costs			37	57
Included in Non-technical account investment management expenses and charges (note 3b):				
Interest payable on bank loans and overdrafts			12,769	15,031
Other finance costs			465	605
8. Lease charges			2002	2001
			£'000	£'000
Operating lease rental charges - Other			1,244	982
Finance lease charges - Other			16	69

In addition operating lease rentals of £1,902,000 (2001 - £3,781,000) have been charged directly against the property leases provision during the year.



# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 9. Staff costs

	2002 £'000	2001 £'000
Wages and salaries	18,968	18,164
Social security costs	1,390	1,140
Regular pensions charges	1,946	1,976
Other pensions costs	50	43
	<u>22,354</u>	<u>21,323</u>

In addition £3,529,000 (2001 - £(2,404,000) credit) of long term incentives before national insurance has been charged/(credited) in the non-technical account.

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

	2002 No.	2001 No.
Administration and operation of the business	<u>837</u>	<u>754</u>

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

### 10. Directors' emoluments

The aggregate emoluments of the 11 (2001: 12) Directors during the year (including pension scheme contributions) were as follows:

	2002 £'000	2001 £'000
Emoluments	676	587
Payments under long-term incentive scheme	2,927	1,736
Pension contributions	120	81

Retirement benefits are accruing to 2 Directors (2001 - 2) under defined benefit schemes. In addition 1 of the Directors (2001 - 1) also had contributions paid into a Funded Unapproved Retirement Benefit Scheme ("FURBS").

	2002 £'000	2001 £'000
Highest paid Director:		
Emoluments	422	369
Payments under long-term incentive scheme	1,952	1,158
Pension scheme contributions	97	62

Accrued pension for the highest paid Director at 31 December 2002 is £16,605 (2001 - £14,708) and accrued lump sum at 31 December 2002 is £37,361 (2001 - £33,092) based on his latest service with the group.

### 11. Pension Provisions

#### (a) Group Reporting - SSAP 24

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

	2002 £'000	2001 £'000
The movement in the provision for pension obligations is as follows:		
At 1 January	1,445	1,555
Net amortisation in period	(103)	(110)
At 31 December	<u>1,342</u>	<u>1,445</u>



# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 11. Pension Provisions (continued)

#### (a) Group Reporting - SSAP 24 (continued)

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 was 102.4% funded. The valuation assumed that the annual investment return would be 6.5% and annual salary growth 5%. The defined benefit scheme pension cost charge for the year was £1,850,000 (2001 - £1,923,000). Contributions of £nil were outstanding as at 31 December 2002 (£nil at 31 December 2001).

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 £95,028 (2001 - £52,243). At 31 December 2002 £14,230 (2001: £13,865) contributions were outstanding and due for collection on or after 1 January 2003.

#### (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 2002. Scheme assets are stated at their market value on 31 December 2002.

The major assumptions used by the actuary were:

Valuation method	At 31 December 2002 Projected unit method	At 1 January 2002 Projected unit method
Discount rate	5.50%	5.75%
Inflation rate	2.00%	2.50%
Rate of increase in salaries	4.00%	4.50%
Rate of increase in pensions	2.00%	2.50%
Rate of increase in deferred benefits during deferment	3.00%	3.00%

Under the projected unit method because the Group Scheme is closed the age profile will increase, hence the current service cost is expected to rise. Recognition has been taken of the impact of the departure of staff following redundancies declared and provided for in these financial statements. 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		Value at	
	31 December 2002 %	31 December 2001 %	31 December 2002 £'000	31 December 2001 £'000
Equities	7.00%	7.50%	27,945	20,581
Bonds	4.50% - 4.75%	5% - 5.25%	13,995	22,337
Other	4% - 6.75%	4% - 7.25%	11,447	16,306
Total market value of assets			53,387	59,224
Present value of Scheme liabilities			(73,497)	(70,525)
Deficit in the Scheme			(20,110)	(11,301)
Related deferred tax asset (30%)			6,033	3,390
Net pension liability			(14,077)	(7,911)

# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 11. Pension Provisions (continued)

#### (b) FRS 17 (continued)

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

	31 December 2002 £'000
Operating profit:	
Current service cost	1,327
Past service cost	-
Gains/losses on any settlements or curtailments	(107)
Total charge to operating profit	1,220
Finance costs / (income):	
Interest cost	4,033
Expected return on assets in the scheme	(3,856)
Net charge to finance costs	177
Loss before taxation	1,397
Statement of Total Recognised Gains and Losses:	
Difference between the expected and actual return on assets	(9,456)
Experience gains and losses arising on Scheme liabilities	359
Effects of changes in demographic and financial assumptions	(165)
Actuarial loss recognised in the Statement of Total Recognised Gains and Losses	(9,262)

	31 December 2002 £'000	31 December 2002 %
Difference between expected and annual return on scheme assets (expressed as a percentage of the scheme assets)	(9,456)	-18%
Experience gains and losses arising on the scheme liabilities	359	0%
Total actuarial loss recognised in the Statement of Total Recognised Gains and Losses (expressed as a percentage of the present value of the scheme liabilities)	(9,097)	-18%

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

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000 (restated)	Company 2001 £'000 (restated)
Net Assets at 31 December				
Net assets excluding SSAP 24 pension liability	213,102	376,135	308,334	492,168
Pension liability under FRS 17 (net of deferred tax)	(14,077)	(14,077)	(7,911)	(7,911)
Revised net assets	199,025	362,058	300,423	484,257
Reserves at 31 December				
Profit and loss reserve excluding SSAP 24 pension liability	55,377	218,410	150,609	334,443
Pension liability under FRS 17 (net of deferred tax)	(14,077)	(14,077)	(7,911)	(7,911)
	41,300	204,333	142,698	326,532





# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 11. Pension Provisions (continued) (b) FRS 17 (continued)

Analysis of movements during the year:	2002 £'000
Opening deficit at 1 January	(7,911)
Experience gains and losses	359
Changes in assumptions	(165)
Returns on assets	(9,456)
Movement in deferred tax	2,643
Charges and contributions	453
Closing deficit at 31 December	<u>(14,077)</u>

### 12. Taxation

(a) Tax charges / (recoveries)	2002 £'000	2001 £'000
Long-term business technical account:		Re-stated
UK corporation tax	4,835	190
Adjustments in respect of prior year	9,055	(4,016)
Group relief received from non-technical account	-	717
	<u>13,890</u>	<u>(3,109)</u>
Tax charge / (recovery)	13,890	(3,109)
Deferred tax (see note 13)	(14,387)	(25,927)
	<u>(497)</u>	<u>(29,036)</u>
	<u>(497)</u>	<u>(29,036)</u>
Non-technical account:	2002 £'000	2001 £'000
Adjustments in respect of prior year	-	(3,104)
Group relief	-	(717)
	<u>-</u>	<u>(3,821)</u>
Tax charge / (recovery)	-	(3,821)
Deferred tax (see note 13)	(9,001)	(1,156)
	<u>(9,001)</u>	<u>(4,977)</u>
Tax charge as re-stated	<u>(9,001)</u>	<u>(4,977)</u>

# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 12. Taxation (continued)

#### (b) Factors affecting tax charge for the period.

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

	2002 £'000	2001 £'000
Loss on ordinary activities before tax only reported in the non-technical account	(56,118)	(26,356)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	(16,835)	(7,907)
Effects of:		
Expenses permanently disallowed for tax purposes	36	-
Capital losses carried forward	5,611	-
Utilisation of tax losses	(650)	-
Losses carried forward	2,837	2,930
Current non-technical corporation tax charge for year	(9,001)	(4,977)

### 13. Deferred tax charge

	2002 £'000	2001 £'000 Re-stated
Origination and reversal of timing differences	(3,728)	(28,643)
Increase in discount	(10,659)	2,716
Deferred tax charge for year - Technical account	(14,387)	(25,927)
Origination and reversal of timing differences	(10,504)	(1,354)
Increase in discount	1,503	198
Deferred tax charge for year - Non-technical account	(9,001)	(1,156)
Total deferred tax movement for year (note 26b)	(23,388)	(27,083)

### 14. Investments

#### (a) Land and buildings

	Market Value £'000	Cost £'000
Freehold land and buildings		
At 1 January 2002	51,171	53,800
Additions	8,347	8,347
Disposals	(6,866)	(6,118)
Net surplus on revaluation	237	-
At 31 December 2002	52,889	56,029

Included in the investment properties above is the Company's head office building, Windsor House, and the current carrying value of the property of £7.6 million is included above. Land and buildings were valued at 31 December 2002 on an open market existing use basis (and at market value based possession for owner occupied properties) by Insignia Richard Ellis, a firm of independent Chartered Surveyors.

On 20 December 2002 Windsor House, the Group's head office, was transferred from the long-term business fund to the life company's shareholder fund. The property is subject to a finance lease with a value outstanding of £812,000 (2001: £847,962) the repayment commitments under which are set out in note 29.



# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 14. Investments (continued)

#### (b) Other financial investments - Group

	Current Value 2002 £'000	Current Value 2001 £'000	Cost 2002 £'000	Cost 2001 £'000
Listed investments:				
Shares and other variable yield securities and units in unit trusts	0	305,518	0	298,097
Debt securities and other fixed income securities	0	804,435	0	773,327
	<u>0</u>	<u>1,109,953</u>	<u>0</u>	<u>1,071,424</u>
Unlisted investments:				
Loans secured by mortgages	839,078	56	819,212	56
Loan notes	0	10,000	0	10,000
Other loans (secured on policies)	0	5,890	0	5,890
	<u>839,078</u>	<u>15,946</u>	<u>819,212</u>	<u>15,946</u>
Total other financial investments	<u>839,078</u>	<u>1,125,899</u>	<u>819,212</u>	<u>1,087,370</u>

#### (c) Other financial investments - Company

	Current Value 2002 £'000	Current Value 2001 £'000	Cost 2002 £'000	Cost 2001 £'000
Listed investments:				
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	<u>-</u>	<u>98,801</u>	<u>-</u>	<u>115,316</u>



# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 15. Assets held to cover linked liabilities

	Current value 2002 £'000	Current value 2001 £'000	Cost 2002 £'000	Cost 2001 £'000
Assets held to cover linked liabilities	3,656,688	4,381,436	4,752,103	4,615,256

### 16. Tangible assets

#### Group

	Motor vehicles £'000	Computer equipment £'000	Fixtures, fittings and office equipment £'000	Leasehold land and buildings £'000	Freehold land and buildings £'000	Total £'000
Cost or valuation:						
At 1 January 2002	869	10,711	1,927	67	2,759	16,333
Additions	360	406	1	-	-	766
Disposals	(325)	(6,876)	(35)	-	-	(7,237)
At 31 December 2002	903	4,241	1,892	67	2,759	9,862
Depreciation:						
At 1 January 2002	(316)	(9,074)	(1,171)	(16)	(57)	(10,634)
Charged in the year	(191)	(1,043)	(204)	(1)	(5)	(1,444)
Disposals	195	6,917	-	-	-	7,112
At 31 December 2002	(312)	(3,200)	(1,375)	(17)	(62)	(4,966)
Net book value:						
At 31 December 2002	591	1,041	517	50	2,697	4,896
At 31 December 2001	553	1,637	756	51	2,702	5,699

The charge for depreciation for the year ended 31 December 2001 was £1,813. 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.

Provision has been made for deferred tax recoverable on the loss arising on revaluing the tangible asset - land and buildings to its market value. Such tax loss would only be available if the property sale completes. At 31 December 2001 the deferred tax asset included for the above was £2,610,000.





# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 17. Share Capital

#### (a) Authorised share capital

	2002		2001	
	Number	£'000	Number	£'000
<b>Equity share capital:</b>				
Ordinary 1p				
A shares	3,800,000	38	3,800,000	38
B shares	3,800,000	38	3,800,000	38
C shares	9,750,000	98	9,750,000	98
E shares *	230,031	2	230,031	2
	<hr/>	<hr/>	<hr/>	<hr/>
Total ordinary share capital	17,580,031	176	17,580,031	176
Undesignated 1p	13,275,000	132	13,275,000	132
	<hr/>	<hr/>	<hr/>	<hr/>
Total equity share capital	30,855,031	308	30,855,031	308
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Non-equity share capital:</b>				
1st series convertible redeemable preference 1p				
A shares	2,000,000	20	2,000,000	20
B shares	2,000,000	20	2,000,000	20
J shares	375,000	4	375,000	4
	<hr/>	<hr/>	<hr/>	<hr/>
	4,375,000	44	4,375,000	44
	<hr/>	<hr/>	<hr/>	<hr/>
2nd series convertible redeemable preference 1p				
A shares	2,000,000	20	2,000,000	20
B shares	2,000,000	20	2,000,000	20
J shares	375,000	4	375,000	4
	<hr/>	<hr/>	<hr/>	<hr/>
	4,375,000	44	4,375,000	44
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred shares 1p *	7,660,394,969	76,604	7,660,394,969	76,604
	<hr/>	<hr/>	<hr/>	<hr/>
Total Non-equity share capital	7,669,144,969	76,691	7,669,144,969	76,691
	<hr/>	<hr/>	<hr/>	<hr/>
Total share capital	7,700,000,000	77,000	7,700,000,000	77,000
	<hr/>	<hr/>	<hr/>	<hr/>

\* See note 17 (c) (i)



**LIFE ASSURANCE HOLDING CORPORATION LIMITED**

**NOTES TO THE ACCOUNTS (continued)**

**17. Share Capital (continued)**

**(b) Allotted, issued and fully paid share capital**

	2002		2001	
	Number	£'000	Number	£'000
<b>Equity share capital:</b>				
Ordinary 1p				
A shares	3,771,165	38	3,771,165	38
B shares	3,771,165	38	3,771,165	38
C shares	8,919,325	89	8,919,325	89
E shares *	119,538	1	230,031	2
	<hr/>	<hr/>	<hr/>	<hr/>
Total ordinary share capital	16,581,193	166	16,691,686	167
Undesignated 1p	0	0	0	0
	<hr/>	<hr/>	<hr/>	<hr/>
Total equity share capital	16,581,193	166	16,691,686	167
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Non-equity share capital:</b>				
1st series convertible redeemable preference 1p				
A shares	2,000,000	20	2,000,000	20
B shares	2,000,000	20	2,000,000	20
J shares	375,000	4	375,000	4
	<hr/>	<hr/>	<hr/>	<hr/>
	4,375,000	44	4,375,000	44
	<hr/>	<hr/>	<hr/>	<hr/>
2nd series convertible redeemable preference 1p				
A shares	2,000,000	20	2,000,000	20
B shares	2,000,000	20	2,000,000	20
J shares	375,000	4	375,000	4
	<hr/>	<hr/>	<hr/>	<hr/>
	4,375,000	44	4,375,000	44
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred shares 1p:				
- Warranty guarantee	7,279,343,261	72,793	7,279,343,261	72,793
- Converted 'E' shares	394,969	4	394,969	4
	<hr/>	<hr/>	<hr/>	<hr/>
	7,279,738,230	72,797	7,279,738,230	72,797
	<hr/>	<hr/>	<hr/>	<hr/>
Total Non-equity share capital	7,288,488,230	72,885	7,288,488,230	72,885
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total share capital	7,305,069,423	73,051	7,305,179,916	73,052
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>



# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 17. Share Capital (continued)

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

	2002		2001	
	Authorised £'000	Issued £'000	Authorised £'000	Issued £'000
Balance brought forward	77,000	73,052	77,000	36,925
Issued in year				
- Warranty deferred shares	-	-	-	36,127
Redeemed in year				
- E Ordinary shares	-	(1)	-	-
	<u>77,000</u>	<u>73,051</u>	<u>77,000</u>	<u>73,052</u>

i) On 8 January 2002, at the request of the Directors holding the shares, the Company completed the redemption of the 110,493 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 total consideration for the share redemption was £2,993,000 of which £1,110,000 was charged to the Profit and Loss account in 2002 (2001: £1,883,000).

ii) In 2002 no new deferred 1p shares were issued under the warranty guarantee clause at par for cash.

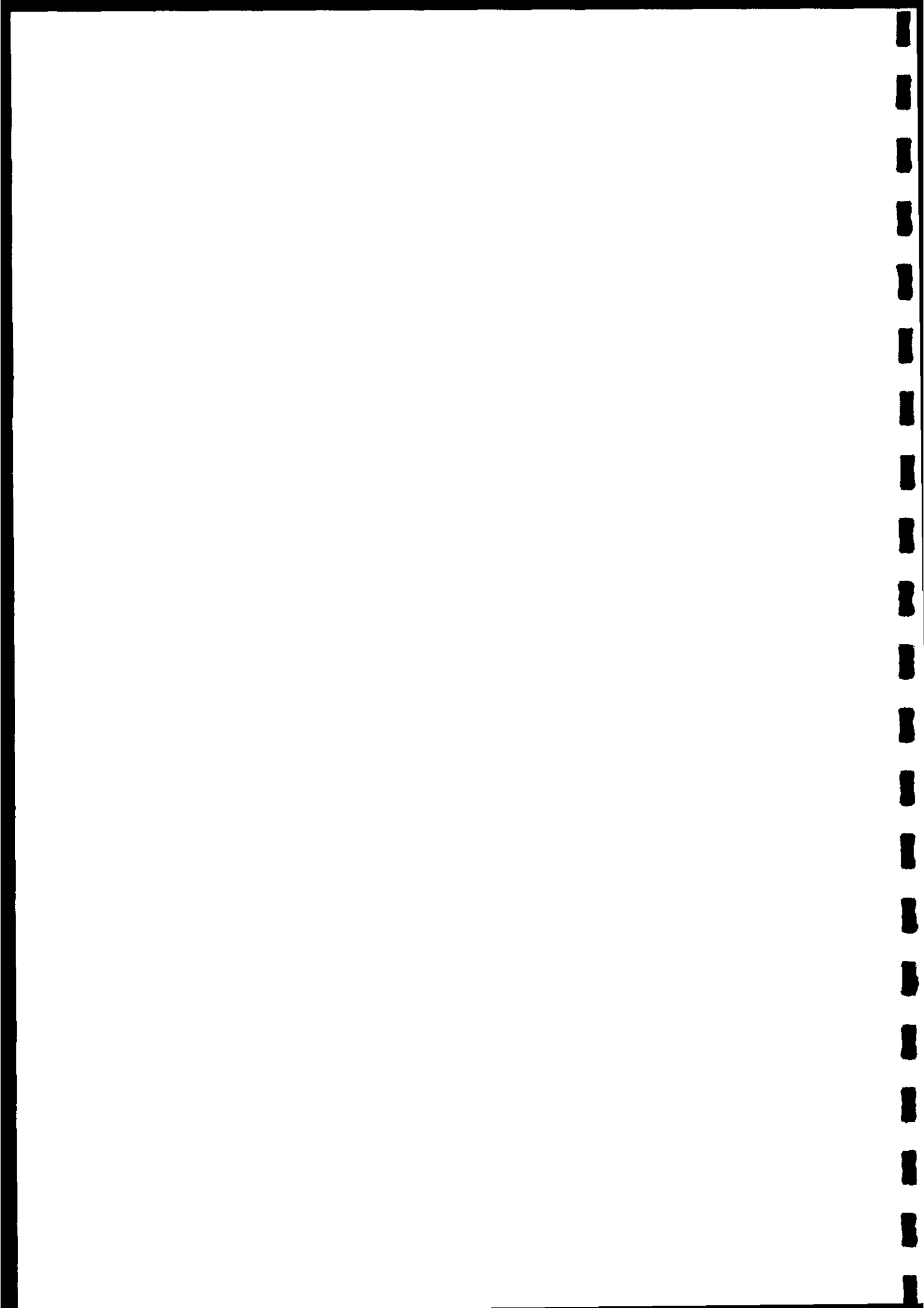
#### (d) Principal rights of the non-equity Convertible Redeemable shares

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

#### (e) Principal rights of the non-equity Deferred shares

		<u>Deferred shares arising from:</u>		
		Warranty recovery	Conversion	Warranty guarantee
Redemption	Earliest date	30 days after recovery from 3rd party	At any time	31 May 2002
	Latest date	None	None	None
	Premium payable on redemption	Nil	Nil	Nil

Deferred shares issued under the warranty recovery clause of the Windsor Life acquisition agreement are issued at the request of New York Life (UK) Limited as bonus Deferred shares and are redeemable at par immediately. Redemption in all other cases is at the option of the Company. This will be at par, other than for the Deferred shares issued under the warranty guarantee which will be redeemable for £1 in total.



LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

17. Share Capital (continued)

(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 Senior Executive Long-term Incentive Scheme, Mr Reid has waived his rights to require the Company to purchase the allocation of shares which took place as at 31 December 2000. Mr Wybrew will cease to be a member of the Senior Executive Long Term Incentive Scheme should he decide to exercise his rights to require the Company to purchase his allocation of shares.





# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 18. Reserves

(a) The reserves of the Group are:

	Share Premium account £'000	Other reserves £'000	Capital redemption £'000	Total reserves £'000
At 1 January 2002	83,911	762	-	84,673
Redemption of E shares (note 17c)	-	-	1	1
At 31 December 2002	<u>83,911</u>	<u>762</u>	<u>1</u>	<u>84,674</u>

(b) The reserves of the Company are:

	Share Premium account £'000	Other reserves £'000	Capital redemption £'000	Total reserves £'000
At 1 January 2002	83,911	762	-	84,673
Redemption of E shares (note 17c)	-	-	1	1
At 31 December 2002	<u>83,911</u>	<u>762</u>	<u>1</u>	<u>84,674</u>

### 19. Profit and loss account

	Group 2002 £'000	Company 2002 £'000
At 31 December 2001 - as previously reported	176,893	638,280
Prior year adjustments:		
Application of new policies:		
- effect on 2001 result - FRS19	6,821	1,156
- effect on periods prior to 2001 - FRS19	37,985	2,890
- effect on 2001 result - MSS	159,027	-
- effect on periods prior to 2001 - MSS	(228,672)	-
Adjustment to carrying value of investment in subsidiary undertaking		
- effect on 2001 result	-	(18,213)
- effect on periods prior to 2001	-	(289,670)
	<u>(24,839)</u>	<u>(303,837)</u>
At 1 January 2002 - as re-stated	152,054	334,443
Retained loss for the year	(95,335)	(116,033)
At 31 December 2002	<u>56,719</u>	<u>218,410</u>



# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 19. Profit and loss account (continued)

The re-statement arising from the adoption of the MSS basis had the impact of reversing the ABI adjustments originally reported in 2001 and applying the MSS re-statement adjustments in 2000 and prior years as follows:

	£'000
Effect on 2001 results:	
Reversal of Embedded Value (EV) movement	13,812
Reversal of alignment of EV to ABI guidelines	213,425
	<hr/>
Technical charge reported in 2001	227,237
Amortisation of PVIF in 2001	(68,210)
	<hr/>
	159,027
	<hr/>
Effect on 2000 and prior results:	
Adjustment to move from EV value of shareholders interest in value of in-force to the original cost of the PVIF	(169,188)
Amortisation of PVIF up to 2000	(59,484)
	<hr/>
	(228,672)
	<hr/>
Net prior year re-statement for adoption of MSSB	(69,645)
	<hr/>

The impact of the change in accounting policy on the 2002 results of the group is to increase the loss by £7.5m in respect of the adoption of FRS 19 and reduce the loss by £23.6m in respect of adoption of the MSS basis.

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

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

	2002 £'000	2001 £'000 (re-stated)
Restated at 1 January	281,138	349,348
Amortisation for year	(8,152)	(68,210)
Purchased interest in long-term business at 31 December	<hr/> 272,986 <hr/>	<hr/> 281,138 <hr/>

In 2002 the Group changed its accounting policy for the recognition of profits from life assurance subsidiary undertakings to the Modified Statutory Solvency basis from the Achieved Profits method and prior period figures have been restated. The impact of the change is disclosed in note 19.



**LIFE ASSURANCE HOLDING CORPORATION LIMITED**

**NOTES TO THE ACCOUNTS (continued)**

**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 31 December 2001				
- as previously reported	990,316	2,919	4,366,551	54,439
FRS 19 - Change of accounting policy	(32,339)	-	-	171
Transfer of outstanding claims	2,919	(2,919)	-	-
Transfer from other creditors	-	19,881	-	-
At 1 January 2002 - as restated	960,896	19,881	4,366,551	54,610
Movement for the year	(136,709)	8,883	(714,763)	(12,345)
At 31 December 2002	824,187	28,764	3,651,788	42,265
Made up of:				
Gross provision liability	832,144	29,852	3,651,788	42,265
Recoverable from reinsurers	(7,957)	(1,088)	-	-
At 31 December 2002	824,187	28,764	3,651,788	42,265
Gross provision liability	969,914	21,224	4,366,551	54,610
Recoverable from reinsurers	(9,018)	(1,343)	-	-
At 31 December 2001 - as restated	960,896	19,881	4,366,551	54,610

The movement in 2002 on the long-term business provision is analysed as follows:

	Gross £'000	Reinsured £'000	Total £'000
At 1 January 2002 - as restated	969,914	(9,018)	960,896
Charged to profit and loss account	(137,770)	1,061	(136,709)
At 31 December 2002	832,144	(7,957)	824,187

The incurred but not reported (IBNR) claims provision has been combined with the long-term business provision during 2002.



# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 22. Long-term business provision

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

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

Class of business	Mortality	Interest rates per annum		Expenses per policy	
		2002	2001	2002	2001
Life					
- conventional WP	100% AM92/AF92	3.00%	2.75%	*	*
- conventional NP	100% AM92/AF92	3.20%	3.40%	£31.29	£30.09
- unitised WP	70% A67/70	3.20%	3.40%	£52.15	£50.15
Pensions					
- conventional WP	100% AM92/AF92	3.75%	3.25%	*	*
- conventional NP	100% AM92/AF92	4.00%	4.25%	£39.81	£38.28
- unitised WP	70% A67/70	4.00%	4.25%	£66.31	£63.80
- annuities in payment	80% PMA92/ 100% PFA92 With CMI 17 improvement rates	4.75%	5.25%	£33.07	£31.80

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

The mortality assumption used for life and pension annuities has been strengthened to reflect greater than expected improvements in mortality. The basis for Structured Settlement mortality has been weakened to reflect current anticipated development for this business. The aggregate impact on the reported balance on the technical account is not material.

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	2002	2001
Regular premium pension	£66.31	£63.80
Single premium pension	£25.24	£24.30
Regular premium life	£52.15	£50.15
Single premium life	£20.61	£19.85
Expense inflation	4.0%	4.0%
Mortality (linked business)	70% A67/70	70% A67/70

### 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 £22,403,000 (2001 - £30,980,000). This includes terminal bonuses reported as part of claims incurred and reversionary bonuses included as part of the changes in the long-term business provision.





# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 24. Fixed asset investments

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

	Shares in subsidiary undertakings £'000	Loan to subsidiary undertakings £'000	Total £'000
At 1 January 2002 - as previously reported	311,244	55,075	366,319
Provision for diminution in value (see note ii)	(252,807)	(55,075)	(307,882)
At 1 January 2002 - as restated	58,437	-	58,437
Capital contribution (see note i)	32,656	-	32,656
Provision for diminution in value (see note ii)	(85,689)	-	(85,689)
At 31 December 2002	5,404	-	5,404

(i) During the year the Company transferred its interest in Aberdeen Asset Management Limited in specie to its principal subsidiary undertaking at market value as a capital contribution.

(ii) During the year the Company undertook a review of the aggregate carrying value of its investment in, and loans to, subsidiary undertakings (including the value of the contingent loan to Windsor Life Assurance Co Limited as set out in note 25). Having undertaken this review, the directors consider that the carrying value of the shares in subsidiary undertakings and loan to subsidiary undertakings should be provided against in the amount of £393.5m at 31 December 2002. A number of factors influenced the impairment, some of which arose in prior years. As a result, £85.7m has been charged in 2002 and the remainder has been accounted for as a prior year adjustment against profits which were not previously considered distributable. This has no impact on the consolidated results.

(iii) 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 £76.125m and £10m of loan stock. The terms and conditions of the transaction stipulated that the shares can be sold after determined dates, 25% within 12 months, a further 25% within 18 months and the remaining holding within 2 years. The loan stock terms and conditions of the transaction are that interest will be paid on the stock at the rate of 1% above LIBOR and the Company will redeem all Stock outstanding on 20 June 2006 at par. The gain on disposal of £86.125m is unrealised (non-cash consideration) and as such was reported in the Statement of Total Recognised Gains and Losses.

### (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: (\* directly held by the Company)

<u>Company</u>	<u>Principal activity</u>
Windsor Life Assurance Company Limited *	Long-term insurance
Gresham Life Assurance Society Limited	Long-term insurance
LAHC Employee Trust Limited *	Trustees to LAHC Employee Share Trust
C Financial Management Limited *	Intermediate Holding Company
C 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



# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 24. Fixed asset investments (continued)

#### (b) Subsidiary undertakings (continued)

<u>Company</u>	<u>Principal activity</u>
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

### 25. Long-term loan to group undertaking

	<u>Company</u> 2002 £'000	<u>Company</u> 2001 £'000
Contingent subordinated long-term loan	498,157	509,005

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

### 26. Debtors, prepayments and accrued income

#### (a) Other debtors

	<u>Group</u> 2002 £'000	<u>Company</u> 2002 £'000	<u>Group</u> 2001 £'000 (re-stated)	<u>Company</u> 2001 £'000 (re-stated)
Due from indemnifiers	250	250	1,100	1,100
Other debtors	25,420	253	38,816	54
	<u>25,670</u>	<u>503</u>	<u>39,916</u>	<u>1,154</u>
Deferred tax asset	35,547	13,175	12,159	4,046
	<u>61,217</u>	<u>13,678</u>	<u>52,075</u>	<u>5,200</u>

#### (b) Deferred tax asset - Group

	<u>Accum</u> <u>losses</u> £'000	<u>Timing</u> <u>differences</u> £'000	<u>Deferred</u> <u>tax</u> <u>liability</u> £'000	<u>Discounting</u> £'000	<u>Net Asset</u> £'000
At 1 January 2002					
- as previously reported		(476)	(476)	-	(476)
- FRS 19 adjustment	56,725	(32,182)	24,543	(11,908)	12,635
	<u>56,725</u>	<u>(32,658)</u>	<u>24,067</u>	<u>(11,908)</u>	<u>12,159</u>
At 1 January 2002					
- as restated	56,725	(32,658)	24,067	(11,908)	12,159
Amount charged/(credited) to the profit & loss account	(3,002)	17,229	14,227	9,161	23,388
	<u>53,723</u>	<u>(15,429)</u>	<u>38,294</u>	<u>(2,747)</u>	<u>35,547</u>



# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 26. Debtors, prepayments and accrued income (continued) (c) Deferred tax asset - Company

	Accum losses £'000	Timing differences £'000	Deferred tax liability £'000	Discounting £'000	Net Asset £'000
At 1 January 2002					
- as previously reported	-	-	-	-	-
- FRS 19 adjustment	1,800	2,597	4,397	(351)	4,046
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2002					
- as restated	1,800	2,597	4,397	(351)	4,046
Amount charged/(credited) to the profit and loss account	10,978	(480)	10,498	(1,368)	9,130
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	<hr/> <hr/> 12,778	<hr/> <hr/> 2,117	<hr/> <hr/> 14,895	<hr/> <hr/> (1,719)	<hr/> <hr/> 13,175

Deferred tax assets are recognised only when projections indicate that it is more likely than not that timing differences will reverse or losses will be relieved within the group. The deferred tax asset is recognised because there is expected to be adequate taxable income in the future within the Group for the reported deferred assets to be recoverable in the foreseeable future.

Although the Group has suffered a loss for this and the previous reporting period the individual group companies are able to utilise the tax assets reported against the profits arising within the Company and available through a group relief election.

#### (d) Financing reinsurance treaties

The net amount of the financing outstanding in relation to the Cologne Re Contract of £15,309,000 is included within "Deposits received from reinsurers". The corresponding asset to recognise that part of the future margins arising on the reassured block of policies out of which the liability will be repaid is included in "Other debtors". As the treaty was put in place at the year end no repayments on this treaty were made in the year.

The Company completed repayments on, or provided in full for repayments outstanding on, the financing reinsurance treaty in respect of Munich Re. The repayments in the year of £9,578,000 (2001 - £12,000,000) are reflected in "Outward reinsurance premiums" in the technical account. The final instalment due on the treaty of £2,500,594 is shown under "other creditors".

#### (e) Other prepayments and accrued income:

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Current assets	<hr/> <hr/> 4	<hr/> <hr/> 4	<hr/> <hr/> -	<hr/> <hr/> -



# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 27. Provisions for other risks and charges

The movement in the provision is as follows:

(a) Group		Legal and Other £'000	Property leases £'000	Deferred tax liability £'000	Total £'000
At 1 January 2002	- as reported	1,644	13,813	476	15,933
FRS 19 adjustment		-	-	(476)	(476)
At 1 January 2002	- as restated	1,644	13,813	-	15,457
Additional provision		-	1,146	-	1,146
Utilised in year		(48)	(1,900)	-	(1,948)
Provision released		(971)	(765)	-	(1,736)
Discount unwind		-	501	-	501
At 31 December 2002		625	12,795	-	13,420

### (b) The Company

Property leases	£'000
At 1 January 2002	3,740
Additional provision	3,204
Utilised in year	(382)
Provision released unused	(469)
Discount unwind	201
At 31 December 2002	6,294

### (c) Explanation of provisions

- "Deferred tax" relates to the tax on Deferred Acquisition Costs. This has been offset against the Deferred Tax asset (see Note 26) as part of the restatement of 2001.
- "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 4.22% (2001: 4.75%).
- "Other" provisions include legal cases. Legal provisions are estimates established on the likely outcome of each case based upon the amount and timing of the settlement and associated costs.

### 28. Amounts owed to credit institutions

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Loan notes	16	16	17	17
Bank loan (secured)	134,276	134,276	165,294	165,294
Bank overdrafts	874	874	-	-
	135,166	135,166	165,311	165,311

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

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Fixed interest rates	134,292	134,292	165,311	165,311
Overdraft repayable on demand	874	874	-	-
	135,166	135,166	165,311	165,311





# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 28. Amounts owed to credit institutions (continued)

#### (b) Finance Leases

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

#### (c) Terms and conditions

The £135,000,000 loan is secured as a first charge on all the net shareholder assets of the Company by means of fixed and floating charges. Interest is payable quarterly at LIBOR plus 1.0% to 1.5% and a fixed 0.0625% p.a. for the Mandatory Liquid Asset (MLA) cover.

The £135 million loan is covered by an interest rate swaps contract for £138 million which is intended to fix the LIBOR rate of interest at 6.81% per annum. Each contract lasts 6 months and is renewed under prevailing terms. The facility is available until final maturity on 31 March 2005.

### 29. Creditors

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Amounts due to Group undertakings	-	671	-	14,407
Finance Lease	48	-	848	-
Other creditors (including taxation and social security)	16,550	1,047	19,287	5,405
	<u>16,598</u>	<u>1,718</u>	<u>20,135</u>	<u>19,812</u>

### 30. Creditors due after one year

#### (a) Analysis by category

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Bank loans and overdrafts	102,751	102,751	135,000	135,000
Loan Notes	16	16	17	17
Finance lease	764	-	-	-
	<u>103,531</u>	<u>102,767</u>	<u>135,017</u>	<u>135,017</u>



# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

30. Creditors due after one year  
(b) Analysis of total borrowings by due date

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
More than 1 year less than 2 years -				
- bank loan	30,873	30,873	30,873	30,873
- finance lease	48	-	-	-
- loan notes	16	16	17	17
More than 2 years less than 5 years -				
- bank loans and overdrafts	71,878	71,878	102,757	102,757
- finance lease	272	-	-	-
Total due between 1 to 5 years	<u>103,087</u>	<u>102,767</u>	<u>133,647</u>	<u>133,647</u>
More than 5 years -				
- finance lease	444	-	-	-
Total due in more than 1 year	<u>103,531</u>	<u>102,767</u>	<u>133,647</u>	<u>133,647</u>
Total due in less than 1 year -				
- bank loans and overdrafts	32,399	32,399	31,664	31,664
- finance lease	48	-	848	-
Total due within 1 year	<u>32,447</u>	<u>32,399</u>	<u>32,512</u>	<u>31,664</u>
Total loans and overdrafts	<u>135,978</u>	<u>135,166</u>	<u>166,159</u>	<u>165,311</u>

31. Operating lease commitments  
Annual commitments in respect of non-cancellable leases of the Group are as follows:

	Land and Buildings 2002 £'000	Other 2002 £'000	Land and Buildings 2001 £'000	Other 2001 £'000
Operating leases which expire:				
- within one year	50	1	32	67
- between one and five years	1,394	28	1,656	1,279
- after five years	3,026	1,110	3,381	-
	<u>4,470</u>	<u>1,139</u>	<u>5,069</u>	<u>1,346</u>

Against the liabilities for land and buildings there are sub-leases for which there are contracted rents receivable of £3,873,000 (2001: £2,391,00)



LIFE ASSURANCE HOLDING CORPORATION LIMITED

NOTES TO THE ACCOUNTS (continued)

32. Reconciliation of Movement in Shareholders' Funds

(a) Group

	2002 £'000	2001 £'000
Opening shareholders' funds at 1 January - as previously reported	334,618	439,800
Impact of change in accounting policies on 2001 comparatives:		
- Application of new policies under MSS basis (note 19)	159,027	-
- Application of FRS 19 Deferred tax	6,821	-
	<hr/> 165,848	<hr/> -
Cumulative affect on prior years of changes in accounting policies:		
- Application of new policies under MSS basis	(228,672)	(228,668)
- Application of FRS 19 Deferred tax	37,985	37,985
	<hr/> (190,687)	<hr/> (190,683)
Total re-statement adjustment (see note 19)	<hr/> (24,839)	<hr/> (190,683)
Opening shareholders' funds at 1 January - as restated	309,779	249,117
Loss for the financial year	(95,335)	(25,463)
New capital subscribed (net of costs)	-	36,127
Release of reserve for issue of new shares	-	(36,127)
Unrealised gain on disposal of subsidiary undertaking	-	86,125
Closing shareholders' funds at 31 December	<hr/> <hr/> 214,444	<hr/> <hr/> 309,779



# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 32. Reconciliation of Movement in Shareholders' Funds (continued)

#### (b) Company

	2002 £'000	2001 £'000
Opening shareholders' funds at 1 January - as previously reported	796,005	731,076
Impact of change in accounting policies on 2001 comparatives:		
- Application of FRS 19 Deferred tax	1,156	-
Restatement of carrying value of investment in subsidiary undertaking	(18,213)	-
	(17,057)	-
Cumulative affect on prior years of changes in accounting policies:		
- Application of FRS 19 Deferred tax	2,890	2,890
Restatement of carrying value of investment in subsidiary undertaking	(289,670)	(288,582)
	(286,780)	(285,692)
Total re-statement adjustment (see note 19)	(303,837)	(285,692)
Opening shareholders' funds at 1 January - as restated	492,168	445,384
Loss for the financial year	(116,033)	(28,253)
New capital subscribed (net of costs)	-	36,127
Release of reserve for issue of new shares	-	(36,127)
Unrealised gain on disposal of subsidiary undertaking	-	76,125
Closing shareholders' funds at 31 December	376,135	493,256

### 33. Financial and capital commitment

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

	2002 £'000	2001 £'000
Authorised and contracted	nil	nil
Authorised but not contracted	nil	nil

### 34. Deposits received from reinsurers

	2002 £'000	2001 £'000
Financing reinsurance (note 26b)	15,309	9,192





# LIFE ASSURANCE HOLDING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS (continued)

### 35. Notes to the Shareholders' cash flow statement

#### (a) Reconciliation of operating profit to net cashflow

	2002 £'000	2001 £'000
Operating loss before tax after interest	(104,336)	(30,440)
Add back policyholder amounts:		
Loss on long-term business (gross)	50,779	183,290
Investment return charged / (credited) to operating profit	11,968	(81,279)
Adjustments for non-cash items:		
(Increase) / Decrease in deferred tax asset	(9,130)	(1,156)
(Increase) / Decrease in debtors and prepayments	16	(52,930)
Increase / (Decrease) in creditors and other provisions	(12,629)	(43,159)
Fixed asset depreciation	6	7
Revaluation of land and buildings	-	1,566
Realised/unrealised losses	50,938	16,275
	<u>(12,389)</u>	<u>(7,826)</u>

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

	Shareholders' funds 2002 £'000	Long-term business funds 2002 £'000	Total 2002 £'000
Cash and deposits	2,545	10,516	13,061
Other financial investments	32,413	821,841	854,254
	<u>34,958</u>	<u>832,357</u>	<u>867,315</u>

#### (c) Movement in opening and closing shareholder portfolio investments

	At 1 January 2002 £'000	Cashflow £'000	Gains/ (losses) £'000	At 31 December 2002 £'000
Cash and deposits	9,652	(7,107)	-	2,545
Other financial investments	130,519	(47,168)	(50,938)	32,413
	<u>140,171</u>	<u>(54,275)</u>	<u>(50,938)</u>	<u>34,958</u>

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



## LIFE ASSURANCE HOLDING CORPORATION LIMITED

### NOTES TO THE ACCOUNTS (continued)

#### 36. Related party transactions

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

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

- (a) £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 2002 the balance outstanding was £nil (2001 - £13,865)
- (b) The Group's pension scheme partly invested in the Windsor Life Managed Fund throughout the year. At 31 December 2002 this holding was valued at £10,339,157 (2001 - £15,345,003).
- (c) The Head Office occupied by the Group is owned by the Shareholders Fund in the Life Company.

#### 37. Contingent Liabilities

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.

Liabilities may arise in respect of claims that the contingent on factors such as the interpretation of contracts, regulatory action or ombudsman rulings and it is not possible to predict with certainty the incidence, timing or resultant financial impact of these events. However where it is reasonable to do so the Company makes suitable provision for all current regulatory issues it is aware of.

Under the agreement for the sale of G Developments Limited in 2001 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.

## FOR INFORMATION ONLY

LIFE ASSURANCE HOLDING CORPORATION LIMITEDPROFIT AND LOSS ACCOUNTFOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 £'000	2001 £'000 re-stated
Management recharges		(244)	-
Provision against investment in subsidiary Expenses		-	(18,213)
		(89,908)	(3,762)
Operating profit/(loss) - continuing operations		(90,152)	(21,975)
Other interest receivable		9,089	19,220
Realised losses		(32,962)	-
Other income		1,594	(329)
Unrealised (loss)/gain on investments		240	(16,275)
Interest payable (net of discount unwind)		(12,971)	(14,372)
Loss on ordinary activities before taxation		(125,163)	(33,731)
Taxation recovered		9,130	5,279
		(116,033)	(28,452)
Dividends received from subsidiary undertakings		0	199
Retained profit/(loss) pre-dividends		(116,033)	(28,253)
Dividends proposed to shareholders		-	-
Net profit/(loss) retained for the period	19	(116,033)	(28,253)

All transactions arise from continuing operations.

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

This statement is not presented as part of the annual report of LAHC. The pre-dividend total is however reported on the non-technical account - page 9.