

WINTERTHUR LIFE UK LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2004



WINTERTHUR LIFE UK LIMITED

DIRECTORS AND OFFICERS

DIRECTORS

W N Hood CBE (Chairman)
M J Kellard (Chief Executive Officer)
S J Basaran
I Brimecome
D K Broek
N J Cattle
N J Elphick
J M B Hare
K M Isherwood
C Schnor
A J Sherry
D M Thompson
M H Winkler

ACTUARY

A Chamberlain

COMPANY SECRETARY

S J Basaran

REGISTERED OFFICE

Winterthur Way
Basingstoke
Hampshire
RG21 6SZ

COMPANY REGISTRATION NUMBER

3116645

WINTERTHUR LIFE UK LIMITED
STATEMENT FROM THE CHIEF EXECUTIVE

While it was a tough market in 2004, with uncertainty over the impact of new A-Day rules and the future prospects of the equity markets, signs of a recovery in consumer confidence are growing and clarity around pension simplification in April 2006 is emerging. Having reported strong new business sales growth for 2004 I believe this positive backdrop will be a strong platform for Winterthur Life UK's business in 2005.

In 2004, UK gross written premiums topped £1.215 billion with a further £249 million in single premium SIPP sales, and assets under management exceeded £6.7 billion.

Winterthur Life UK generated total new insured single premium business in 2004 of £850 million, up 15% on 2003, making it another growth year for Winterthur Life UK. This follows growth of 17% in 2003 and 255% over the last five years.

Winterthur Life UK new business sales for its Group business was equally strong in 2004. Annual Premium Equivalent (APE) increased 23% to £68.7 million from £55.7 million in 2003 and new policies increased to 14,000, up 7.7% on 2003. New business sales have grown 69% over the last three years.

As a result of this performance I am optimistic about Winterthur Life UK's future prospects, as it secures its strong position as the provider of choice for top end pensions advisers supporting the financial needs of high net worth individuals and corporate clients.

These figures demonstrate that through the major strategic changes announced last year, including increasing business in its chosen markets by expanding its sales team and improving the support services it offers to its clients, Winterthur Life UK has enjoyed good market support. They also demonstrate that the company is being successful in positioning the business, which it believes will contribute to the profitability of Winterthur Group.

The excellent results were built on a wealth of expertise and professionalism developed through experience and having a focused approach.

Winterthur Life UK is not mass market but exclusive. It has announced that, post depolarisation, it is to remain strongly committed to independent and whole of market advisers who serve mass affluent, high net worth and corporate clients.

Winterthur Life UK is ideally placed to support the 'independent' sector with a track record of excellent service to IFAs, its Professional Edge IFA support services, a culture and product offering strongly aligned to meet the needs of top end IFAs and corporate clients.

To leverage its strong proposition further Winterthur Life UK will also seek to establish additional complementary partnerships that have a strategic fit and add value to the business.

By having a highly focused distribution philosophy, Winterthur Life UK has been able to generate not only strong new business growth but win industry accolades, notably the Financial Adviser awards for top 5 Star life and pensions company and best sales team awards in 2004.

I would like to give credit to all of our staff for their hard work and commitment during 2004 and to the excellent IFAs and employee benefit consultants who value our offering and who work so well with us on behalf of their clients. Together, I am very confident of a positive future for the company and its customers.

WINTERTHUR LIFE UK LIMITED

DIRECTORS' REPORT

The directors present their annual report together with the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITY

The principal activity of the company is the transaction of long-term insurance business and associated investment activities in the United Kingdom. Unit linked pensions business sold is reinsured with Winterthur Pension Funds UK Limited, a subsidiary company.

REVIEW OF THE BUSINESS

The company is one of the UK's top ten providers of single premium personal pensions, trustee investment plans and corporate pensions via independent financial advisers and employee broker consultants and is a leading provider of self-investment retirement plans like Self Invested Personal Pensions.

A key feature of the Winterthur Life approach to pensions is the use of external fund managers – with a choice of over 75 carefully selected funds from 25 award winning fund managers. These include the innovative Elite Funds, which draw on a combination of different funds to offer four risk-rated managed funds to cater for different attitudes to risk and five sector funds that can form the core of a client's portfolios. The Winterthur Elite Funds, available to pension and Investment Bond investors, combine the skills of leading investment managers within a fund of funds structure.

RESULTS AND DIVIDENDS

The results of the company for the year ended 31 December 2004 are shown in the Profit and Loss Account on pages 6 and 7. The company made a profit in the year of £2,341,000 (2003: loss of £23,243,000) which has been taken to reserves.

The directors do not recommend the payment of a dividend (2003: £Nil).

DIRECTORS AND DIRECTORS' INTERESTS

The directors of the company as at 31 December 2004 are shown on page 1. Messrs N J Elphick, A J Sherry and D M Thompson were appointed directors of the company on 23 June 2004. The other directors held office throughout the year. Post year-end, on 22 March 2005, Mr K C Bounds was appointed as a director of the company.

Under the provisions of the Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985, the directors of the company are exempt from disclosing any interests in the shares of the ultimate parent company as the company is a wholly owned subsidiary of a body corporate incorporated outside Great Britain.

WINTERTHUR LIFE UK LIMITED
DIRECTORS' REPORT (Continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 company and of the profit or loss of the company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

ELECTIVE RESOLUTIONS

Under the provisions of the Companies Act 1985, the company has elected:

- a) to dispense with the laying of report and accounts before the company in general meeting, in accordance with Section 252;
- b) to dispense with the holding of Annual General Meetings in accordance with Section 366(A); and
- c) to dispense with the obligation to appoint auditors annually in accordance with Section 386.

By order of the Board



S J Basaran
Secretary
30 March 2005

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF WINTERTHUR LIFE UK LIMITED

We have audited the financial statements on pages 6 to 28.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 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 with the company is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

31 March 2005

WINTERTHUR LIFE UK LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

Technical Account – Long-term Business

		2004	2003
	Note	£'000	£'000
Earned premiums, net of reinsurance			
Gross premiums written	3	1,215,332	1,087,602
Outward reinsurance premiums		<u>(934,989)</u>	<u>(800,280)</u>
		280,343	287,322
Investment income	4	218,066	185,289
Other technical income, net of reinsurance		<u>3</u>	<u>7</u>
		<u>498,412</u>	<u>472,618</u>
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(819,608)	(715,879)
Reinsurers' share		<u>429,601</u>	<u>276,082</u>
		<u>(390,007)</u>	<u>(439,797)</u>
Change in the provision for claims:			
Gross amount		(20,398)	18,803
Reinsurers' share		<u>1,414</u>	<u>(2,837)</u>
		<u>(18,984)</u>	<u>15,966</u>
		<u>(408,991)</u>	<u>(423,831)</u>
Change in other technical provisions, net of reinsurance			
Long-term business provision, net of reinsurance:			
Gross amount		9,488	139,352
Reinsurers' share		<u>11,054</u>	<u>(3,730)</u>
		20,542	135,622
Other technical provisions, net of reinsurance			
Technical provisions for linked liabilities		<u>(63,153)</u>	<u>(75,162)</u>
		<u>(42,611)</u>	<u>60,460</u>
Net operating expenses	6	(57,755)	(85,949)
Investment expenses and charges	7	(78,417)	(163,113)
Unrealised gains on investments		105,145	186,131
Tax attributable to the long-term business	13	3,656	3,878
Transfers to the fund for future appropriations	23	<u>(22,334)</u>	<u>(74,800)</u>
Balance on the long-term business technical account		<u>(2,895)</u>	<u>(24,606)</u>

The notes on pages 10 to 28 form part of these financial statements.

WINTERTHUR LIFE UK LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

Non-Technical Account

		2004	2003
	Note	£'000	£'000
Balance on the long-term business technical account		(2,895)	(24,606)
Taxation charge attributable to balance on the long-term business technical account	13	<u>(765)</u>	<u>(10,545)</u>
Shareholders' pre-tax loss from long-term business		(3,660)	(35,151)
Investment income	4	3,841	2,086
Investment expenses and charges	7	(116)	(1)
Interest payable		-	(19)
Realised gains on investments		1,324	134
Unrealised gains/(losses) on investments		1,975	(188)
Other charges, including value adjustments	8	<u>-</u>	<u>(99)</u>
Profit/(loss) on ordinary activities before taxation		3,364	(33,238)
Tax on profit/(loss) on ordinary activities	13	<u>(1,023)</u>	<u>9,995</u>
Profit/(loss) on ordinary activities after taxation		2,341	(23,243)
Dividends		<u>-</u>	<u>-</u>
Retained profit/(loss) for the financial year	22	<u>2,341</u>	<u>(23,243)</u>

The company has no recognised gains or losses other than those included in the profit and loss account.

All results arise from continuing activities.

The notes on pages 10 to 28 form part of these financial statements.

WINTERTHUR LIFE UK LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2004

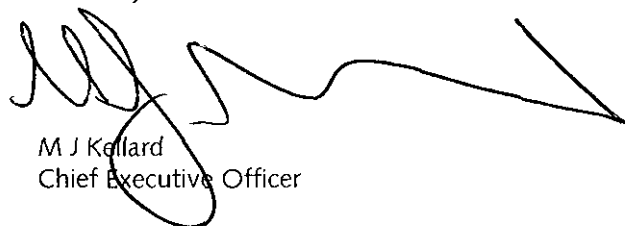
	Note	2004 £'000	2003 £'000
ASSETS			
Investments			
Land and buildings	14	15,130	14,320
Investments in group undertakings	15	2,500	6,675
Other financial investments	16	2,487,041	2,458,638
		<u>2,504,671</u>	<u>2,479,633</u>
Assets held to cover linked liabilities	17	<u>575,567</u>	<u>518,026</u>
Reinsurers' share of technical provisions			
Long-term business provision		18,060	7,005
Claims outstanding		2,463	6,555
Technical provision for unit-linked liabilities		4,414,209	3,504,333
		<u>4,434,732</u>	<u>3,517,893</u>
Debtors			
Debtors arising out of direct insurance operations	18	6,482	5,871
Debtors arising out of reinsurance operations		7,551	2,543
Other debtors	19	32,954	32,136
		<u>46,987</u>	<u>40,550</u>
Other assets			
Cash at bank and in hand		<u>2,066</u>	<u>35,756</u>
Prepayments and accrued income			
Accrued interest and rent		23,380	23,599
Deferred acquisition costs		46,114	38,927
Other prepayments and accrued income		1,248	-
		<u>70,742</u>	<u>62,526</u>
Total assets		<u><u>7,634,765</u></u>	<u><u>6,654,384</u></u>

The notes on pages 10 to 28 form part of these financial statements.

WINTERTHUR LIFE UK LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2004

		2004	2003
	Note	£'000	£'000
LIABILITIES			
Capital and reserves			
Called up share capital	20	27,400	27,400
Capital contribution	21	78,000	78,000
Profit and loss account	21	59,669	57,328
Total shareholders' funds	22	<u>165,069</u>	<u>162,728</u>
Fund for future appropriations	23	<u>116,604</u>	<u>94,270</u>
Technical provisions			
Long-term business provision	24	2,290,678	2,300,165
Claims outstanding		<u>37,478</u>	<u>33,163</u>
		<u>2,328,156</u>	<u>2,333,328</u>
Technical provision for linked liabilities		<u>4,985,938</u>	<u>4,012,909</u>
Provisions for other risks and charges	25	<u>14,808</u>	<u>21,282</u>
Creditors			
Creditors arising out of direct insurance operations		8,985	9,947
Other creditors including taxation and social security	27	15,205	17,749
		<u>24,190</u>	<u>27,696</u>
Accruals and deferred income		<u>-</u>	<u>2,171</u>
Total liabilities		<u>7,634,765</u>	<u>6,654,384</u>

The financial statements were approved by the board of directors on 30 March 2005 and were signed on its behalf by:


M J Kellard
Chief Executive Officer

The notes on pages 10 to 28 form part of these financial statements.

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the provisions of Section 255A of, and Schedule 9A to, the Companies Act 1985 and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business dated November 2003.

The financial statements have been prepared in accordance with applicable Accounting Standards and under the historical cost accounting rules, modified to include the revaluation of investments.

As a wholly owned subsidiary of another company incorporated in Great Britain, the company is exempt from preparing group accounts under Section 228 of the Companies Act 1985.

2. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the company's financial statements.

a) Basis of accounting for long-term insurance business

The company has adopted the modified statutory solvency basis for determining long-term business profits.

b) Premiums

Premiums are accounted for on a receivable basis excluding any taxes or duties levied with premiums. Premiums on unit linked policies are accounted for when the liability is established. Outward reinsurance premiums are accounted for on a payable basis.

c) Claims

Death claims and surrenders represent those notified to the company up to the balance sheet date. Maturity claims and annuities are recognised as they fall due for payment.

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

d) Bonuses

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

- New reversionary bonuses declared (which are guaranteed once credited) in respect of that year which are provided within the calculation of the long-term business provision; and
- Terminal bonuses (which are not guaranteed) paid out to policyholders on maturity, death or surrender and are included within claims paid.

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

2. ACCOUNTING POLICIES (Continued)

e) Acquisition costs and deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Those acquisition costs which are incurred during a financial year, but which are expected to be recoverable out of future revenue margins, are deferred. For both linked and non-linked business, an explicit deferred acquisition cost asset, gross of tax, has been established in the balance sheet.

The deferred acquisition cost asset is amortised over the period in which the costs net of the related deferred tax provision are expected to be recoverable out of the margins in matching revenues from the related policies. Deferral of costs has been limited to the extent that there are available margins. Costs have not been deferred after appropriate margins have been materially received.

f) Long-term business provision

The long-term business provision is calculated initially on a statutory solvency basis to comply with the reporting requirements under the Integrated Prudential Sourcebook. The calculation uses the net premium valuation for participating non-linked policies whilst a gross premium valuation method has been used for non-participating non-linked policies. The provisions for linked contracts are based on the market value of the related assets. Within the long-term business provision an explicit provision is made for vested bonuses, including those vesting following the current valuation. No provision is made for future reversionary or terminal bonuses. The valuation is then adjusted for certain items, including the adding back of deferred acquisition costs implicit within the valuation method for certain contracts and the removal of the resilience capital requirement that has been implicitly added into the liabilities by using lower valuation interest rates. Certain contingency and other reserves are also removed. This adjusted basis is referred to as the modified statutory solvency basis. The long-term business provision includes the non-unit liabilities in respect of linked business.

The principal assumptions underlying the calculation of the long-term business provision are detailed in note 24.

g) Fund for future appropriations

The fund for future appropriations (FFA) represents the excess of assets over policyholder liabilities for the company's with-profits fund.

The annual excess of income or shortfall of income over expenditure of the with-profits fund, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to or from the FFA each year through a charge or credit to the profit and loss account. The balance retained in the FFA represents cumulative retained earnings arising on the with-profits business that has not been allocated to policyholders or shareholders.

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

2. ACCOUNTING POLICIES (Continued)

h) Investment return, expenses and charges

Investment return comprises income received from investments, realised investment gains and losses and changes in unrealised gains and losses.

Investment income is accounted for on a receivable basis. Dividends are recognised on the date that the shares become quoted ex-dividend. Income from fixed interest securities, interest, rents and expenses are included on an accruals basis.

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

Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price or, if they have previously been 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.*

Unrealised gains and losses on investments which are attributed to the long-term fund or held to cover linked liabilities are included in the long-term business technical account. Unrealised gains and losses on other investments are included in the non-technical account.

Investment income, expenses and charges are included in the long-term business technical account to the extent that they relate to the long-term business fund. Other investment income, investment expenses and charges are included in the non-technical account.

i) Long-term reinsurance contracts

Long-term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses. Such contracts are accounted for as reinsurance contracts.

Contracts which do not significantly transfer all of the above risks are not accounted for as reinsurance contracts in accordance with FRS 5.

In 1996 the company entered into a financial reinsurance treaty as detailed in note 9. In accordance with the ABI SORP (Revised 2003) future margins are not recognised and this arrangement is accounted for as a loan.

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

2. ACCOUNTING POLICIES (Continued)

j) Investments

Investments in subsidiary undertakings are included in the company balance sheet at cost unless their value has been impaired, in which case they are valued at their realisable value or value in use as appropriate.

All other investments, including those classified as assets held to cover linked liabilities, are stated at their current values at the balance sheet date, calculated as follows:

- Listed and other quoted investments are stated at middle market value with the exception of those held to cover linked liabilities which are stated at market prices consistent with the valuation basis within those funds.
- Unlisted investments, for which a market exists, are valued at the average price on the day at which they were last traded. Other unlisted investments are valued by the directors on a prudent basis having regard to their likely realisable values.
- Land and buildings, other than those occupied by the group, are valued at open market value as determined by independent professional advisers at least every three years. In the intervening years, these valuations are reviewed and updated by the directors with the assistance of independent professional advice as necessary. *Land and buildings occupied by the group are stated at market value based on vacant possession.*
- 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 of properties, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified.
- Loans to policyholders are carried at unpaid principal balances and are fully secured by the surrender value of policies.
- Deposits are carried at fair value.

k) Derivatives

The tactical use of derivative financial instruments is permitted with the agreement of the investment committee. *During the year the company invested in options as a means of protecting itself against possible falls in the market.* Derivative assets held at the year end have been valued at market value. Changes in market value are included in the investment result for the year.

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

2. ACCOUNTING POLICIES (Continued)

l) Taxation

Corporation tax is calculated based upon the taxable profits or losses for the year. Different tax rules apply under UK law dependent on whether the business is life business or pension business. Tax on pension business is based upon the shareholders' profits attributable to that business. Tax on life business is based on investment returns less expenses attributable to that business. The shareholders' portion of the long-term business is taxed at the shareholders' rate with the remaining portion taxed at the rates applicable to policyholders.

The balance of the long-term business technical account is net of the total tax attributable to the long-term business. In order to present the profit on the long-term insurance activities in the non-technical account on a pre-tax basis, a tax credit attributable to the shareholders' portion of the tax provision for long-term business, calculated at the effective tax rate of the underlying business, is added. The shareholder tax add-back is then included in the tax expense on the profit on ordinary activities within the non-technical account.

Provision is made for deferred tax, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. Deferred tax in respect of unrealised gains on assets held to cover linked liabilities are included within provisions for other risks and charges. Deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered and in accordance with FRS 19. The company has chosen not to apply the option available under FRS 19 of recognising such assets and liabilities on a discounted basis to reflect the time value of money.

m) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling using the rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling using the rate of exchange ruling at the date of the transaction and any exchange differences are included in that part of the profit and loss account in which the underlying transaction is reported.

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. GROSS PREMIUMS WRITTEN

a) Gross premium income:

	2004 £'000	2003 £'000
Direct insurance	1,218,724	1,088,691
Reinsurance inwards	(3,392)	(1,089)
	<u>1,215,332</u>	<u>1,087,602</u>

	Gross direct premiums written			
	Regular premiums		Single premiums	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Non participating:				
Life	9,963	11,730	10	(861)
Pensions	767	2,890	36,902	38,892
Permanent health	3,672	738	-	-
	<u>14,402</u>	<u>15,358</u>	<u>36,912</u>	<u>38,031</u>
Participating:				
Life	40,524	47,741	53	(855)
Pensions	1,718	6,629	(668)	2,312
Permanent health	240	282	-	-
	<u>42,482</u>	<u>54,652</u>	<u>(615)</u>	<u>1,457</u>
Linked:				
Life	68,190	78,462	43,595	27,919
Pensions	193,705	160,820	820,053	711,992
	<u>261,895</u>	<u>239,282</u>	<u>863,648</u>	<u>739,911</u>
	<u>318,779</u>	<u>309,292</u>	<u>899,945</u>	<u>779,399</u>
Comprising:				
Individual business	125,572	303,046	348,947	479,556
Group contracts	193,207	6,246	550,998	299,843
	<u>318,779</u>	<u>309,292</u>	<u>899,945</u>	<u>779,399</u>

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. GROSS PREMIUMS WRITTEN (Continued)

b) Gross new business premium income:

	2004 £'000	2003 £'000
Direct insurance	955,198	832,857
Reinsurance inwards	(3,392)	(1,089)
	<u>951,806</u>	<u>831,768</u>

	Gross direct premiums written			
	Regular premiums		Single premiums	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Non participating:				
Life	-	46	10	(861)
Pensions	-	-	36,902	38,892
	-	46	36,912	38,031
Participating:				
Life	-	-	53	(855)
Pensions	-	2	(668)	2,312
	-	2	(615)	1,457
Linked:				
Life	-	2	43,595	27,919
Pensions	55,253	53,408	820,053	711,992
	55,253	53,410	863,648	739,911
	55,253	53,458	899,945	779,399
Comprising:				
Individual business	55,253	53,456	348,947	479,556
Group contracts	-	2	550,998	299,843
	55,253	53,458	899,945	779,399

In classifying new business premiums, the following bases of recognition have been adopted:

- Recurrent single premium contracts, including rebates from the Department of Social Security, are classified as periodic where they are deemed likely to renew at or above the amount of initial premium.
- Incremental increases on existing policies are classified as new business premiums.
- Funds at retirement under individual pension contracts left with the company and transfers from group to individual contracts are classified as new business single premiums and, for accounting purposes, are included in both claims incurred and as single premiums within gross premiums written.
- Where periodic premiums are received other than annually, the reported regular new business premiums are on an annualised basis.

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

3. GROSS PREMIUMS WRITTEN (Continued)

c) Geographical analysis of gross premiums written

	2004 £'000	2003 £'000
United Kingdom	1,218,724	1,088,691
Ireland	(3,392)	(1,089)
	<u>1,215,332</u>	<u>1,087,602</u>

Of the gross premiums written in the United Kingdom, £1,218,724,000 (2003: £1,088,647,000) related to direct insurance.

d) The reinsurance balance for the year amounted to a charge to the long-term business technical account of £503,974,000 (2003: £528,182,000).

4. INVESTMENT INCOME

	Long-term business technical account		Non-technical account	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Income from land and buildings	435	485	-	-
Income from other investments	142,371	137,490	3,841	2,086
Gains on the realisation of investments	<u>75,260</u>	<u>47,314</u>	<u>-</u>	<u>-</u>
	<u>218,066</u>	<u>185,289</u>	<u>3,841</u>	<u>2,086</u>

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

5. BONUSES

The following amounts have been included in the long-term business technical account in respect of policyholder bonuses:

	2004 £'000	2003 £'000
Participating contracts:		
Terminal bonuses included within claims paid	22,814	43,824
Reversionary and other bonus included in the movement in the long-term business provision	-	-
	<u>22,814</u>	<u>43,824</u>
Linked contracts:		
Terminal bonuses included within claims paid	128	3
Bonus added to with-profit unit values	568	486
	<u>696</u>	<u>489</u>
	<u>23,510</u>	<u>44,313</u>

6. NET OPERATING EXPENSES

	2004 £'000	2003 £'000
Acquisition costs	24,864	24,750
Change in deferred acquisition costs	(7,187)	(6,096)
Administrative expenses	40,078	67,295
	<u>57,755</u>	<u>85,949</u>

Net operating expenses include total commissions for direct insurance, excluding payments to employees, amounting to £11,004,000 (2003: £15,010,000).

7. INVESTMENT EXPENSES AND CHARGES

	Long-term business technical account		Non-technical account	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Interest on bank loans	23	-	-	-
Investment management expenses	5,354	6,138	116	1
Losses on the realisation of investments	73,040	156,975	-	-
	<u>78,417</u>	<u>163,113</u>	<u>116</u>	<u>1</u>

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

8. OTHER CHARGES, INCLUDING VALUE ADJUSTMENTS

	2004 £'000	2003 £'000
Change in provision against fee income debtor	-	(90)
Recharge of internal audit costs	-	196
Audit and taxation advice	-	24
Write-back of provision for guarantees in respect of property rental payments by formerly tied estate agencies	-	(31)
	<u>-</u>	<u>99</u>

9. FINANCIAL REINSURANCE TREATY

The remaining liability under financial reinsurance contracts relates to the recovery of certain deferred tax amounts. As the liability only crystallises on the recovery of the tax amounts a linked presentation has been adopted to reflect the economic reality.

The repayment of the financial reinsurance is dependent upon sufficient funds being generated in respect of future tax relief. Only to the extent that there is sufficient tax relief is the company obliged to make repayments in respect of the financial reinsurance balance payable.

The company is not obliged to support any losses in respect of financial reinsurance, nor does it intend to do so.

The amounts included in the balance sheet are:

	2004 £'000	2003 £'000
Amounts payable in respect of financial reinsurance contracts	4,959	7,843
Less: deferred tax in respect of financial reinsurance contracts	<u>(4,959)</u>	<u>(7,843)</u>
Net amounts payable in respect of financial reinsurance contracts	<u>-</u>	<u>-</u>

10. AUDITORS' REMUNERATION

Audit and non-audit fees incurred in the current and prior year are borne by another group company and recharged to Winterthur Life UK Limited as part of an overall expense recharge. The audit and non-audit fees in relation to the Winterthur UK Financial Services Group Limited group of companies are disclosed in the financial statements of Winterthur Financial Services UK Limited.

11. EMPLOYEE NUMBERS AND COSTS

The company does not directly employ any staff. All staff are employed by other group undertakings.

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

12. DIRECTORS' EMOLUMENTS

The directors did not receive any emoluments from the company in the current or prior year.

13. TAXATION

	Long-term business technical account		Non-technical account	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
UK corporation tax:				
Current year	7,293	2,267	1,728	574
Group relief receivable	-	(5,760)	-	-
Adjustment in respect of prior years	(7,590)	-	60	(24)
Double tax relief	(363)	(184)	-	-
Other tax	2	2	-	-
Tax attributable to balance on long-term business technical account	-	-	(765)	(10,545)
	(658)	(3,675)	1,023	(9,995)
Deferred tax	(2,998)	(203)	-	-
	(3,656)	(3,878)	1,023	(9,995)

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2003: lower) than the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below.

	2004	2003
	£'000	£'000
<i>Current tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	3,364	(33,238)
Current tax charge/(credit) at 30% (2003: 30%)	1,009	(9,971)
<i>Effects of:</i>		
UK tax basis of insurance profits	(630)	-
Shareholders' deferred tax	4,942	-
Expenses not deductible for tax purposes	27	-
Capital gain on disposal of subsidiary not taxable	(406)	-
Adjustments to tax charge in respect of previous periods	(3,919)	(24)
Total current tax charge/(credit) (see above)	1,023	(9,995)

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

14. LAND AND BUILDINGS

	Investment properties £'000	Properties for own use £'000	Total £'000
As at 1 January 2004	5,820	8,500	14,320
Revaluations	<u>460</u>	<u>350</u>	<u>810</u>
As at 31 December 2004	<u>6,280</u>	<u>8,850</u>	<u>15,130</u>

The cost of investment properties and properties for own use was £5,511,000 (2003: £5,511,000) and £16,033,000 (2003: £16,033,000) respectively.

All land and buildings were held as freehold and were valued on an open market basis at 1 December 2004 by Atis Real Weatheralls Limited, a firm of independent Chartered Surveyors.

15. INVESTMENTS IN GROUP UNDERTAKINGS

	Shares in subsidiary undertakings £'000
Cost	
As at 1 January 2004	6,675
Disposals	<u>(4,175)</u>
As at 31 December 2004	<u>2,500</u>
Net book value	
As at 31 December 2004	<u>2,500</u>
As at 31 December 2003	<u>6,675</u>

On 1 July 2004, the company disposed of the whole of the issued share capital of Personal Pension Management Limited for a realised gain of £1,370,000.

As at 31 December 2004 the company owned the whole of the issued ordinary share capital of the following group undertakings, all of which are incorporated in Great Britain and registered in England and Wales:

Name	Nature of business
Dextra Court Properties Limited	Property holding
Salisbury Castle Properties Limited	Property holding
Winterthur Pension Funds UK Limited	Unit linked pensions
Winterthur Pension Trustees UK Limited	Pension trustee

No consolidated financial statements have been prepared on the basis that the company is a wholly owned subsidiary of Winterthur (UK) Holdings Limited, a company registered in England and Wales. The company's accounts are consolidated in the financial statements of Winterthur (UK) Holdings Limited.

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

16. OTHER FINANCIAL INVESTMENTS

	Current value		Cost	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Shares and other variable-yield securities and units in unit trusts	600,070	574,834	533,524	539,537
Debt securities and other fixed-income securities	1,741,408	1,730,799	1,689,836	1,727,151
Derivatives	20,205	6,586	23,395	11,092
Loans secured by insurance policies	7,961	6,944	7,961	6,944
Other secured loan to another group undertaking	10,000	10,000	10,000	10,000
Deposits with credit institutions	107,397	129,475	107,397	129,475
	<u>2,487,041</u>	<u>2,458,638</u>	<u>2,372,113</u>	<u>2,424,199</u>

Included in the current values above are amounts in respect of listed investments as follows:

	2004 £'000	2003 £'000
Shares and other variable-yield securities and units in unit trusts	567,472	572,599
Debt securities and other fixed-income securities	<u>1,741,408</u>	<u>1,730,799</u>
	<u>2,308,880</u>	<u>2,303,398</u>

17. ASSETS HELD TO COVER LINKED LIABILITIES

	Current value		Cost	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Assets held to cover linked liabilities	<u>575,567</u>	<u>518,026</u>	<u>534,419</u>	<u>497,693</u>

Assets held to cover linked liabilities are shown net of any associated linked creditor balances.

18. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2004 £'000	2003 £'000
Amounts due from policyholders	6,482	5,867
Amounts due from intermediaries	<u>-</u>	<u>4</u>
	<u>6,482</u>	<u>5,871</u>

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

19. OTHER DEBTORS

	2004 £'000	2003 £'000
Amounts owed by group undertakings	9,799	9,820
Taxation recoverable	-	5,509
Deferred tax (Note 26)	11,221	5,340
Other debtors	11,934	11,467
	<u>32,954</u>	<u>32,136</u>

20. CALLED UP SHARE CAPITAL

	2004 £'000	2003 £'000
Authorised:		
30,000,000 (2003: 30,000,000) ordinary shares of £1 each	<u>30,000</u>	<u>30,000</u>
Allotted and fully paid:		
27,400,000 (2003: 27,400,000) ordinary shares of £1 each	<u>27,400</u>	<u>27,400</u>

21. RESERVES

	Capital contribution £'000	Profit and loss account £'000	Total £'000
Balance as at 1 January 2004	78,000	57,328	135,328
Retained profit for the year	-	2,341	2,341
Balance as at 31 December 2004	<u>78,000</u>	<u>59,669</u>	<u>137,669</u>

22. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2004 £'000	2003 £'000
Shareholders' funds as originally stated as at 1 January	162,728	152,441
Adjustment in respect of prior year	-	(19,470)
Shareholders' funds restated as at 1 January	162,728	132,971
Capital contribution	-	53,000
Retained profit/(loss) for the year	2,341	(23,243)
Shareholders' funds as at 31 December	<u>165,069</u>	<u>162,728</u>

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

23. FUND FOR FUTURE APPROPRIATIONS

	2004	2003
	£'000	£'000
Balance as at 1 January	94,270	19,470
Transfer from technical account – long-term business	22,334	74,800
Balance as at 31 December	116,604	94,270

24. LONG-TERM BUSINESS PROVISION

The principal assumptions underlying the calculation of the long-term business provision are as follows:

Rates of interest:	2004	2003
With profit fund - life	3.62%	3.91%
- pensions	4.80%	5.30%
Non profit fund - life	3.24%	3.38%
- pensions	4.53%	4.76%

Mortality tables:

Life policies, pension policies	Males 100% AM (92) Females 100% AF (92)	Males 100% AM (92) Females 100% AF (92)
Immediate annuities	95% Males IML92 (MC) U=2005 and PML92 (MC) U=2005 95% Females IFL92 (SC) U=2005 and PFL92 (SC) U=2005	100% Males IML92 (MC) U=2004 and PML92 (MC) U=2004 100% Females IFL92 (1992 Projection) U=2004 and PFL92 (1992 Projection) U=2004

The assumptions to which the long-term business provision is particularly sensitive are the interest rate used to discount the provision and the assumed future mortality experience of policyholders.

In common with other life offices in the United Kingdom, the company has written pension transfer and opt out business. A provision of £7,130,000 (2003: £9,632,500) has been made in respect of rectification costs for pension transfers and opt-outs from occupational schemes, and this is included in the long-term business provision. The provision has been determined with due consideration to the guidelines issued by the Securities and Investments Board in October 1994, and subsequently by the FSA. The principal assumptions and estimates made in determining the provision relate to the number of cases which on investigation give rise to a loss to the policyholder, and the average costs of making good the loss.

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

25. PROVISIONS FOR OTHER RISKS AND CHARGES

	Litigation £'000	Pensions transfer & opt-out review £'000	Guarantees £'000	Endowment complaints £'000	SIPP administration £'000
Balance as at 1 January 2004	7,310	1,337	1,812	10,823	-
Charged / (released) in the year	(3,982)	-	(100)	1,114	3,280
Utilised in the year	(104)	(631)	(908)	(5,143)	-
Balance as at 31 December 2004	<u>3,224</u>	<u>706</u>	<u>804</u>	<u>6,794</u>	<u>3,280</u>
					Total £'000
Balance as at 1 January 2004					21,282
Charged in the year					312
Utilised in the year					(6,786)
Balance as at 31 December 2004					<u>14,808</u>

The pensions transfer and opt-out review provision relates to administrative expenses likely to be incurred by the company in carrying out this review.

The provision for guarantees relates to guarantees provided by the company to third parties in relation to financial transactions entered into by formerly tied estate agencies. The balance as at 31 December 2004 relates to guaranteed property lease payments.

The endowment complaints provision relates to the compensation costs likely to be incurred in respect of complaints relating to missold policies.

The SIPP administration provision includes costs relating to the sale of Personal Pension Management Limited, a subsidiary sold during the year, plus administration fees for regulatory improvement for self-invested personal pension policies under the service level agreement with Capita Personal Pension Management Limited.

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

26. DEFERRED TAXATION

The elements of deferred taxation are as follows:

	Technical account		Non-technical account	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Unrealised losses on investments	9,452	977	-	-
Deferred acquisition costs	(10,065)	(7,601)	-	-
Short-term timing differences	6,009	8,433	-	-
Losses carried forward	10,784	11,374	-	-
Total asset	16,180	13,183	-	-

A net deferred tax asset has been recognised in the financial statements and is included in other debtors £11,221,000 (2003: £5,340,000) (Note 19) and net amounts payable in respect of financial reinsurance contracts £4,959,000 (2003: £7,843,000) (Note 9).

In addition to the above, there is a provision for deferred tax in respect of linked business of £2,397,000 (2003: £977,000) included in technical provisions for linked liabilities.

Unrecognised deferred tax assets arising from equity losses totalled £14,000,000 (2003: £31,500,000) and from pension business losses carried forward totalled £Nil (2003: £5,400,000).

27. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2004	2003
	£'000	£'000
Amounts owed to group undertakings	6,272	5,992
Taxation	4,914	-
Other creditors	4,019	11,757
	15,205	17,749

All creditors are payable within a period of one year.

28. ASSETS REPRESENTING THE LONG-TERM BUSINESS FUND

The total assets shown on page 8 include £7,548,478,000 (2003: £6,567,001,000) attributable to the long-term business fund of the company.

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

29. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

a) As part of certain arrangements with a number of tied and formerly tied estate agencies, the company has undertaken to guarantee the rental payments which fall due in respect of 85 property leases. The outstanding lease terms range from 1 to 11 years duration. The maximum possible liability as at 31 December, in the unlikely event that all such lease payments had to be met by the company for the full duration of their terms is £5,857,000 (2003: £7,065,000). £422,000 (2003: £482,000) of this potential liability has been provided for in these financial statements as part of provisions for other risks and charges.

	2004 £'000	2003 £'000
Maximum potential liabilities (before tax) under rent guarantees, net of amounts provided	<u>5,435</u>	<u>6,583</u>

b) The company had given an indemnity to Personal Pension Management Limited, a subsidiary sold during the year, in relation to any errors made by the company in the administration of the Self Invested Personal Pension plans in the period prior to the plans being transferred to Personal Pension Management Limited. The indemnity has now expired.

Payments totalling £123,000 (2003: £Nil) have been made under this indemnity during the year and a further provision of £Nil (2003: £72,000) has been included in these financial statements as at the end of the year.

c) The company has provided a £5,000,000 (2003: £5,000,000) guarantee to the Royal Bank of Scotland in respect of overdrafts on client accounts administered by Winterthur Pension Trustees UK Limited. To date, no payments have been made under this guarantee.

d) The company has outstanding policy and other litigation claims of £3,610,000 (2003: £2,273,000).

e) The company has a contingent liability for any levy in relation to independent financial advisors under the Financial Services Compensation Scheme. There is no basis at the present time for assessing the likely level of any such levy.

30. CASH FLOW STATEMENT

In accordance with Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned member of a group for which the holding company prepares consolidated financial statements, including a cash flow statement dealing with the cash flows of the group.

31. RELATED PARTY TRANSACTIONS

In accordance with Financial Reporting Standard 8, the company is exempt from the requirement to disclose information on related party transactions as it is a wholly owned subsidiary of a group for which the holding company prepares consolidated financial statements in which the company is included and which are publicly available.

WINTERTHUR LIFE UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

32. ULTIMATE PARENT COMPANY

The company's ultimate parent company is Credit Suisse Group, a company incorporated in Switzerland. The company is a wholly owned subsidiary of Winterthur Life UK Holdings Limited, a company registered in England and Wales.

The largest group in which the results of the company are consolidated is that headed by Credit Suisse Group. The smallest group in which they are consolidated is that headed by Winterthur (UK) Holdings Limited.

Copies of accounts for the above companies are available from Winterthur UK Financial Services Group Limited, Winterthur Way, Basingstoke, Hampshire, RG21 6SZ.