

RE-SCAN

WINTERTHUR LIFE UK LIMITED 1998
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 1998

Registered Number: 19772



104
3-6-99.

Winterthur Life Limited Directors' Report

Report for the year ended 31 December 1998

The directors present their annual report together with the audited financial statements for the one hundred and twenty first year of the company's business.

Principal activity

The principal activity of the company is the transaction of long term insurance business and associated investment activities in the United Kingdom.

The company has two wholly owned trading subsidiaries, Winterthur Pension Trustees UK Limited and Personal Pension Management Limited.

Business review

The company operates through two main business channels which deal respectively with the provision of personal pensions through professional advisers and the sale of life assurance products through its extensive network of tied estate agents.

During 1998, the company remained one of the UK market leaders in the provision of self invested personal pensions and as an innovative provider of flexible group products.

In the estate agency division the company recorded an increase in annualised new business premiums.

Details of the gross premiums written and of the annualised new business premiums can be found in note 3 to the financial statements.

The directors believe that the company is well placed to meet the challenges which will face the UK insurance industry in the coming years.

During the year, the company continued to progress its review of pension transfer and opt out business and has met all the agreed industry deadlines to date. Further details of the related provision are disclosed in note 34.

Tangible assets

The changes in tangible assets are set out in note 20 to the financial statements.

Dividends and transfers to reserves

The directors recommend the payment of a dividend of £4,501,000 (17.05 pence per share) for the year. After payment of the above dividend, £30,000 of the profit for the year will be transferred to reserves.

Directors and directors' interests

The directors who held office during the year were as follows:

JC Finan (Chairman and Chief Executive Officer)
WN Hood CBE
Baroness Hooper
RAF Ostime FIA
TE Popp
Dr SC Sarbach

Winterthur Life Limited Directors' Report

Report for the year ended 31 December 1998

According to the Register of Directors' Interests:

- a) none of the directors had any interest in the shares of the UK group companies at 31 December 1998 and
- b) no rights to subscribe for shares in the company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Employees

The directors recognise the importance of human resources. Throughout 1998, the company continued its policy of employee involvement by providing information on matters of concern to them as employees, by meeting their trade union representatives and by encouraging employees to be aware of the financial and economic factors affecting the company's performance. Practices to promote good communication and relations with employees include the use of briefing groups, company newsletters and the annual publication of financial reports to all employees.

It is the company's policy to give full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities; to continue, as appropriate, the employment of staff who have become disabled and to provide equal opportunities for the training and career development of disabled employees.

Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amounted to £8,000.

Year 2000 compliance

The company has undertaken a comprehensive review to identify all issues that could potentially affect the security and integrity of business systems and processes. This has covered software, including internally developed systems, hardware for the company's business and facilities systems, and supplier issues.

The resulting project is continuing to undertake a programme of work to secure all systems and ensure that service levels with clients and other business partners are not disrupted. This work includes contacting key suppliers and assessing their year 2000 compliance plans. Good progress is being made and the management team is being kept informed on a regular basis. Contingency plans are also in place to deal with any unexpected failures.

Many of the costs of the work have been mitigated by the company's continuing programmes for upgrading systems and hardware. Expenditure incurred exclusively on year 2000 issues during 1998 totalled £262,000 and the overall cost of the project to the company is estimated at £941,000.

Winterthur Life UK Limited Directors' Report

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 for the period. In preparing those financial statements, the directors are required to:

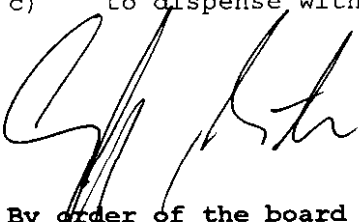
- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- d) prepare 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 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 holding of Annual General Meetings;
- b) to dispense with the laying of report and accounts before the company in general meeting; and
- c) to dispense with the obligation to appoint auditors annually.



By order of the board
GJ Boutle
Secretary

Basingstoke RG21 6SZ
24 May 1999

Winterthur Life UK Limited Report of the Auditors

Report of the auditors to the members of Winterthur Life UK Limited

We have audited the financial statements on pages 5 to 30.

Respective responsibility of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we consider 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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

London
24 May 1999

Winterthur Life UK Limited Profit and Loss Account

For the year ended 31 December 1998

Technical Account - Long Term Business

	Note	1998	1997
		£000	£000
Earned premiums, net of reinsurance			
Gross premiums written	3	327,685	346,949
Outward reinsurance premiums		<u>(30,023)</u>	<u>(22,837)</u>
		297,662	324,112
Investment income	4	91,263	81,870
Unrealised gains on investments		<u>91,213</u>	<u>125,223</u>
		182,476	207,093
		<u>480,138</u>	<u>531,205</u>
Other technical income, net of reinsurance		<u>4,243</u>	<u>2,487</u>
		<u>484,381</u>	<u>533,692</u>
Claims incurred, net of reinsurance:			
Claims paid:			
Gross amount		(143,430)	(108,798)
Reinsurers' share		<u>28,227</u>	<u>34,721</u>
		(115,203)	(74,077)
Change in the provision for claims:			
Gross amount		(3,004)	(1,451)
Reinsurers' share		<u>1,610</u>	<u>(120)</u>
		(1,394)	(1,571)
		<u>(116,597)</u>	<u>(75,648)</u>

Winterthur Life UK Limited Profit and Loss Account

For the year ended 31 December 1998

Technical Account (continued)

	Note	1998	1997
		£000	£000
Change in other technical Provisions, net of reinsurance:			
Long term business provision, net of reinsurance:			
Gross amount		(55,097)	(28,272)
Reinsurers' share		894	330
		<u>(54,203)</u>	<u>(27,942)</u>
Other technical provisions, net of reinsurance		<u>(274,697)</u>	<u>(333,983)</u>
		<u>(328,900)</u>	<u>(361,925)</u>
		<u>(445,497)</u>	<u>(437,573)</u>
Net operating expenses	6	(50,452)	(47,951)
Investment expenses and charges	7	(10,013)	(9,210)
Tax attributable to the long term business	11	(3,853)	(2,823)
Transfers to/ (from) the fund for future appropriations	26	<u>30,811</u>	<u>(34,732)</u>
		<u>(33,507)</u>	<u>(94,716)</u>
Sub-total (balance on the technical account-long term business)		<u>5,377</u>	<u>1,403</u>

Winterthur Life UK Limited Profit and Loss Account

For the year ended 31 December 1998

Non-technical account

	Note	1998 £000	1997 £000
Balance on the long term business technical account		5,377	1,403
Tax credit attributable to shareholders' profit on long term business	11	-	-
Profit arising on long term Business		5,377	1,403
Investment income	4	1,990	3,548
Unrealised gains on investments		1,807	741
Investment expenses and charges	7	(1,380)	-
Other income		1,301	736
		<u>3,718</u>	<u>5,025</u>
Operating profit on continuing operations		9,095	6,428
Other charges, including value adjustments		(4,820)	(1,012)
Profit on ordinary activities before tax	8	4,275	5,416
Tax on profit on ordinary activities	11	256	(83)
Profit for the financial year after tax		4,531	5,333
Dividends	12	(4,501)	(2,754)
Retained profit for the financial year transferred to reserves	23	30	2,579

There are no recognised gains or losses other than those included in the profit and loss account.

Winterthur Life UK Limited

Statement of Historical Cost Profits & Losses

For the year ended 31 December 1998

There is no material difference between the results for the current year and the previous year as described in the profit and loss account and the results on an unmodified historical cost basis. Accordingly, a note of the historical cost profits and losses for the year is not given.

Reconciliation of movements in Shareholders' Funds

For the year ended 31 December 1998

	Note	1998 £000	1997 £000
Profit for the financial year		4,531	5,333
Dividends	12	(4,501)	(2,754)
Retained profit for the financial year		30	2,579
Opening shareholders' funds		60,326	57,747
Closing shareholders' funds		60,356	60,326

Winterthur Life UK Limited Balance Sheet

As at 31 December 1998

	Note	1998 £000	1997 £000
Assets			
Intangible assets:			
Development costs	13	<u>6,760</u>	<u>5,363</u>
Investments:			
Land and buildings	14	17,294	17,490
Investments in group undertakings and participating interests	15	-	3,750
Other financial investments	16	<u>528,848</u>	<u>495,763</u>
		546,142	517,003
Assets held to cover linked liabilities	17	<u>1,397,561</u>	<u>1,120,613</u>
		1,950,463	1,642,979
Reinsurers' share of technical provisions:			
Long term business provision	27	2,595	1,701
Claims outstanding	27	5,381	3,771
Technical provisions for unit- linked liabilities		<u>2,159</u>	<u>-</u>
		10,135	5,472
Debtors:			
Debtors arising out of direct insurance operations			
	18	2,862	1,961
Other debtors	19	<u>12,909</u>	<u>21,507</u>
		15,771	23,468
Other assets:			
Tangible assets	20	7,127	2,235
Cash at bank and in hand		5,112	9,130
Other	22	<u>12,000</u>	<u>15,000</u>
		24,239	26,365
Prepayments and accrued income:			
Accrued interest and rent		5,950	6,188
Deferred acquisition costs	25	1,897	1,715
Other prepayments and accrued income		<u>4,196</u>	<u>1,926</u>
		12,043	9,829
Total assets		<u>2,012,651</u>	<u>1,708,113</u>

Winterthur Life UK Limited Balance Sheet

As at 31 December 1998

	Note	1998 £000	1997 £000
Liabilities			
Capital and reserves:			
Called up share capital	21	26,400	26,400
Capital contribution	23	25,000	25,000
Profit and loss account	23	8,956	8,926
Shareholders' funds attributable to equity interests		60,356	60,326
Fund for future appropriations	26	77,853	108,664
Technical provisions:			
Long term business provision	27	388,481	333,384
Claims outstanding	27	9,096	6,092
		397,577	339,476
Technical provisions for linked liabilities		1,369,420	1,092,564
		1,766,997	1,432,040
Deposits received from reinsurers	25	27,440	22,283
Future margins	25	(27,440)	(22,283)
		-	-
Creditors:			
Creditors arising out of direct Insurance operations			
Amount owed to credit institutions	29	4,407	5,776
Other creditors including taxation and social security	29	83,676	75,754
		12,040	15,205
		100,123	96,735
Accruals and deferred income		7,322	10,348
Total liabilities		<u>2,012,651</u>	<u>1,708,113</u>

Included in capital and reserves are 1998: £26,055,000 (1997: £30,152,000) which are not distributable.

These financial statements were approved by the board of directors on 24 May 1999 and were signed on its behalf by:



JC Finan
Chairman & Chief Executive Officer

Winterthur Life UK Limited Notes to the Financial Statements

1 Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985 as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993.

The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments, and comply with the revised Statement of Recommended Practice issued by the Association of British Insurers (See also note 23).

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.

Basis of accounting for long term insurance business

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

Premiums

Premiums are accounted for on a receivable basis excluding any taxes or duties levied with premiums. Outward reinsurance premiums are accounted for on a payable basis.

Acquisition costs and deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts.

For both linked and non-linked business, an explicit deferred acquisition cost asset has been established in the balance sheet. The basis of amortisation of the deferred acquisition costs is proportional to margins in respect of 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.

Claims

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

Winterthur Life UK Limited Notes to the Financial Statements

2 Accounting policies (continued)

Long term business provision

The long term business provision has been computed having due regard to the principles laid down in Council Directive 92/96/EEC. In particular, a prospective net premium valuation method has been adopted for all major classes of business, with the exception of linked contracts where the provisions 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.

Fund for future appropriations

Surpluses arising from with-profits and other participating business, as a result of actuarial valuations of the long term business assets and liabilities, are appropriated by the directors for the purpose of preparing financial statements:

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

Any unappropriated surplus is carried forward in the fund for future appropriations.

Investment income, expenses and charges

Investment income is accounted for on a receivable basis including, where it is anticipated that this will be recoverable, the imputed tax credit. Dividends are recognised on the date on which the related investment goes ex-dividend. Interest is accrued up to the balance sheet date.

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

Realised gains and losses represent the difference between net sales proceeds and purchase price or, if the investments have been previously valued, their valuation at the last balance sheet date.

Unrealised gains and losses on investments

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. Unrealised gains and losses on other 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 all other investments are included in the non-technical account.

Winterthur Life UK Limited Notes to the Financial Statements

2 Accounting Policies (continued)

Investments

All investments, including those classified under assets held to cover linked liabilities, are stated at their current value.

Land and buildings, other than those occupied by the company for its own use, are treated as investment properties and valued at open market valuation by independent professionally qualified valuers every three years; in the intervening years, these valuations are reviewed by directors on the basis of independent professional advice as required, and any decrease in values accounted for as value adjustments in the profit and loss account. Land and buildings occupied by the company for its own activities are stated at market value, less accumulated depreciation.

Listed investments are stated at mid-market value. Unlisted investments, for which a market exists, are valued at the average price at which they were traded on the balance sheet date, or on the last trading day before that date. Other unlisted investments are valued by the directors on a prudent basis with regard to their likely realisable values.

Investments in group undertakings and participating interests are stated at current value, based on the most recently available information.

Policyholders' Protection Board Levy

Provision is made at the balance sheet date for levies declared by the Policyholders' Protection Board before completion of the financial statements.

Provision is also made if it is more likely than not that a levy will be raised based on premium income which has already been recognised in the financial statements.

Depreciation - tangible assets

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible assets by equal instalments over their estimated useful economic lives as follows:

Motor vehicles	3 years
Computer equipment	3 years
Fixtures, fittings and equipment	5 years
Buildings occupied by the company for its own purposes	50 years

No depreciation or amortisation is provided in respect of land, freehold investment properties and leasehold investment properties with over 20 years to run. This treatment, as regards the company's investment properties, is a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are held for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view.

Winterthur Life UK Limited Notes to the Financial Statements

2 Accounting policies (continued)

Amortisation - intangible assets

Development costs of clearly-defined new computer and business system projects are amortised over periods of between three and five years from the commercial introduction of the systems. The directors believe that this approach matches expenditure against the future revenue to which it relates and consequently does not reduce the company's distributable profits.

Foreign currencies

Transactions in foreign currencies are translated into sterling using the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the long term business technical account or the non-technical account as appropriate.

Pension costs

Pension contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

Taxation

The charge for taxation is based on the result of the application of the rules for the taxation of life assurance companies to the items included in the profit and loss account for the year. It also takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that a liability will crystallise.

The transfer from the long term business technical account to the non-technical account is grossed up, where appropriate, at the underlying rate of corporation tax applicable to the period.

Winterthur Life UK Limited Notes to the Financial Statements

3 Gross premiums written

Gross premiums, all of which relate to direct insurance, can be analysed as follows:

	Regular 1998 £000	Regular 1997 £000	Single 1998 £000	Single 1997 £000
Non participating:				
Life	5,390	5,072	-	-
Pensions	126	81	2,505	1,898
Permanent Health	3,449	2,783	-	-
	<u>8,965</u>	<u>7,936</u>	<u>2,505</u>	<u>1,898</u>
Participating:				
Life	6,038	6,687	-	-
Pensions	848	927	-	-
	<u>6,886</u>	<u>7,614</u>	<u>-</u>	<u>-</u>
Unit-linked:				
Life	81,535	70,990	428	159
Pensions	30,543	21,281	196,823	237,071
	<u>112,078</u>	<u>92,271</u>	<u>197,251</u>	<u>237,230</u>
Total	<u>127,929</u>	<u>107,821</u>	<u>199,756</u>	<u>239,128</u>
Comprising:				
Individual	126,385	106,420	199,756	239,128
Group	1,544	1,401	-	-
	<u>127,929</u>	<u>107,821</u>	<u>199,756</u>	<u>239,128</u>

All premiums are derived from contracts concluded in the United Kingdom.

Winterthur Life UK Limited Notes to the Financial Statements

3 Gross premiums written (continued)

Annualised new business premiums, all of which relate to individual insurances, can be analysed as follows:

	Regular 1998 £000	Regular 1997 £000	Single 1998 £000	Single 1997 £000
Non participating:				
Life	1,340	611	-	-
Pensions	-	-	2,505	1,898
Permanent Health	840	767	-	-
	<u>2,180</u>	<u>1,378</u>	<u>2,505</u>	<u>1,898</u>
Unit-linked:				
Life	16,621	14,397	428	159
Pensions	15,356	13,443	196,823	237,071
	<u>31,977</u>	<u>27,840</u>	<u>197,251</u>	<u>237,230</u>
Total	<u>34,157</u>	<u>29,218</u>	<u>199,756</u>	<u>239,128</u>

In classifying new business premiums, the basis of recognition adopted is as follows:

- New recurrent single premium contracts 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.
- Rebates from the Department of Social Security are classified as new single 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 regular new business premiums are on an annualised basis.

Winterthur Life UK Limited Notes to the Financial Statements

4 Investment income

	Technical account		Non-technical account	
	1998 £000	1997 £000	1998 £000	1997 £000
Income from investments:				
Land and buildings	4,289	4,252	-	-
Other investments	65,994	54,937	1,990	3,025
Gains on the realisation of investments	20,980	22,681	-	523
	<u>91,263</u>	<u>81,870</u>	<u>1,990</u>	<u>3,548</u>

5 Bonuses

Claims and the change in other technical provisions include bonuses paid and bonuses declared but not paid, respectively.

The charge incurred for bonuses in respect of the current year is as follows:

	1998 £000	1997 £000
Participating contracts:		
Terminal bonus paid	9,085	4,164
Reversionary and other bonus added to technical provisions	19,512	9,029
	<u>28,597</u>	<u>13,193</u>
Linked contracts:		
Bonus added to with-profit unit values	1,824	917
Interim bonus paid	834	257
	<u>2,658</u>	<u>1,174</u>
	<u>31,255</u>	<u>14,367</u>

6 Net operating expenses

	1998 £000	1997 £000
Acquisition costs	30,392	26,945
Change in deferred acquisition costs	(182)	5,750
	<u>30,210</u>	<u>32,695</u>
Administrative expenses	20,246	15,260
Reinsurance commissions and profit participation	(4)	(4)
	<u>50,452</u>	<u>47,951</u>

Winterthur Life UK Limited Notes to the Financial Statements

7 Investment expenses and charges

	Technical account		Non-technical account	
	1998 £000	1997 £000	1998 £000	1997 £000
Investment management expenses, including interest	8,656	8,213	788	-
Interest payable on bank loans repayable by instalments	1,357	997	-	-
Losses on the realisation of investments	-	-	592	-
	<u>10,013</u>	<u>9,210</u>	<u>1,380</u>	<u>-</u>

8 Profit on ordinary activities before tax

	1998 £000	1997 £000
Profit on ordinary activities before tax is stated after crediting:		
Income from listed investments	55,651	51,606
After charging:		
Depreciation of tangible assets	1,290	1,009
Amortisation of intangible assets	150	-
Amortisation of other assets	3,000	-
Auditors' remuneration:		
Audit	77	71
Other services	49	51

9 Remuneration of directors

	1998 £000	1997 £000
The emoluments paid to the directors of the company were as follows:		
Aggregate emoluments	329	309
Aggregate pension contributions	76	101
Excess retirement benefits of former directors	33	32
	<u>438</u>	<u>442</u>

One director was covered by defined benefits pension arrangements.

The emoluments, excluding pension contributions, of the highest paid director were £266,000 (1997: £253,000) and the amount of his accrued pension at the end of the year was £49,000pa (1997: £40,000pa).

Winterthur Life UK Limited Notes to the Financial Statements

10 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was as follows:

	1998	1997
Number of employees		
Administration	494	414
Sales	68	83
	<u>562</u>	<u>497</u>

The aggregate payroll costs of these persons were as follows:

	1998 £000	1997 £000
Wages and salaries	13,980	11,991
Social Security costs	1,152	969
Other pension costs	1,025	1,105
	<u>16,157</u>	<u>14,065</u>

11 Taxation

	Technical account		Non-technical account	
	1998 £000	1997 £000	1998 £000	1997 £000
UK corporation tax at 20.1% (1997: 20.3%)	6,282	-	(256)	83
Tax credit on franked investment Income	-	4,175	-	-
Tax attributable to shareholders' profit on long term business	-	-	-	-
	<u>6,282</u>	<u>4,175</u>	<u>(256)</u>	<u>83</u>
Deferred taxation (see note 28)	(2,429)	(1,352)	-	-
	<u>3,853</u>	<u>2,823</u>	<u>(256)</u>	<u>83</u>

Winterthur Life UK Limited Notes to the Financial Statements

12 Proposed dividend

The directors recommend a final dividend of 17.05 pence per ordinary share (1997: 10.43p).

This amounts to a total payment of £4,501,000 (1997: £2,754,000).

13 Intangible assets

	Development costs £000
Cost:	
At beginning of year	5,363
Additions	5,754
Disposals	(4,207)
At end of year	<u>6,910</u>
Amortisation:	
At beginning of year	-
Charge for the year	150
At end of year	<u>150</u>
Net book value:	
At 31 December 1998	<u>6,760</u>
At 31 December 1997	<u>5,363</u>

Development costs consist of capital expenditure in respect of major computer and business systems development projects.

Some of these costs have not been amortised as the relevant systems have not yet been commercially introduced.

Winterthur Life UK Limited Notes to the Financial Statements

14 Land and buildings

	Investment Properties £000	Properties For own use £000	Total £000
Cost or valuation:			
At beginning of year	12,327	6,000	18,327
Fund transfers (net)	(705)	-	(705)
Revaluations	449	200	649
At end of year	<u>12,071</u>	<u>6,200</u>	<u>18,271</u>
Depreciation:			
At beginning of year	-	837	837
Charge for year	-	140	140
At end of year	<u>-</u>	<u>977</u>	<u>977</u>
Net book value:			
At 31 December 1998	<u>12,071</u>	<u>5,223</u>	<u>17,294</u>
At 31 December 1997	<u>12,327</u>	<u>5,163</u>	<u>17,490</u>

Land and buildings on an historical cost basis can be analysed as follows:

	Investment properties		Properties for own use		Total	
	1998 £000	1997 £000	1998 £000	1997 £000	1998 £000	1997 £000
Cost	12,879	13,586	16,033	15,860	28,912	29,446
Depreciation based on cost	3,335	3,341	4,168	4,126	7,503	7,467
Total net book value	<u>9,544</u>	<u>10,245</u>	<u>11,865</u>	<u>11,734</u>	<u>21,409</u>	<u>21,979</u>

All land and buildings were held as freehold and were valued on an open market basis at 31 December 1998 by Weatherall, Green and Smith, Chartered Surveyors. Depreciation on investment properties which would otherwise have been charged amounted to £301,000 for the year (1997: £272,000).

Winterthur Life UK Limited Notes to the Financial Statements

15 Investments in group undertakings and participating interests

	Current value		Cost	
	1998 £000	1997 £000	1998 £000	1997 £000
Shares in group undertakings	-	3,750	-	248

Shares in group undertakings represents the company's investment in the ordinary share capital of its wholly owned subsidiary undertakings, Winterthur Pension Trustees UK Limited and Personal Pension Management Limited, and its 42% investment, consisting of 5 ordinary shares of £1 each, in Winterthur Properties Limited. The investment in Winterthur Properties Limited was disposed of during 1998 to a fellow subsidiary and realised a profit of £3,750,000 after tax. All of the above companies are registered in England and Wales. Winterthur Pension Trustees UK Limited and Personal Pension Management Limited undertake and discharge the office of trustee of pension schemes and carry out all the duties arising out of such trusteeships; Winterthur Properties Limited undertakes property investment and management.

Consolidated accounts have not been prepared because the company is a wholly owned subsidiary of Winterthur Life UK Holdings Limited, which is itself a wholly owned subsidiary of Winterthur (UK) Holdings Limited. The company's financial statements are consolidated in the financial statements of Winterthur (UK) Holdings Limited and Winterthur Life UK Holdings Limited, both companies being registered in England and Wales.

16 Other financial investments

	Market value		Cost	
	1998 £000	1997 £000	1998 £000	1997 £000
Shares and other variable-yield securities and units in unit Trusts	180,089	170,093	125,199	125,576
Debt securities and other fixed-income securities	283,944	255,536	252,542	233,241
Loans secured by mortgages	-	10,788	-	11,712
Loans secured by insurance Policies	208	255	208	255
Other secured loans	10,000	10,000	10,000	10,000
Other unsecured loans	5,328	13,546	5,328	23,667
Deposits with credit institutions	49,279	35,545	49,279	35,545
	<u>528,848</u>	<u>495,763</u>	<u>442,556</u>	<u>439,996</u>
Included in the above were investments:				
Listed on the UK Stock Exchange	267,428	368,387	307,601	303,160
Unlisted	1,296	2,034	319	902
	<u>268,724</u>	<u>370,421</u>	<u>307,920</u>	<u>304,062</u>

Winterthur Life UK Limited Notes to the Financial Statements

17 Assets held to cover linked liabilities

	1998 £000	1997 £000
Purchase price of investments included under assets held to cover linked liabilities	<u>1,190,906</u>	<u>965,574</u>

Included within this class of asset are freehold and leasehold properties that have been valued by independent professionally qualified valuers within the following years of account:

Year of account	Value properties valued during year of account £000
1992	855
1993	653
1994	1,369
1995	10,606
1996	8,195
1997	7,754
1998	8,976

Properties not re-valued during the current year have been valued by directors on the basis of current market conditions.

18 Debtors arising out of direct insurance operations

	1998 £000	1997 £000
Amounts owed by policyholders	512	223
Amounts owed by intermediaries	2,350	1,738
	<u>2,862</u>	<u>1,961</u>

19 Other debtors

	1998 £000	1997 £000
Investments sold for subsequent settlement	-	7,698
Owed by holding company	750	-
Owed by fellow subsidiaries	1,493	1,772
Owed by subsidiaries	4,511	3,924
Other debtors	2,543	595
Tax recoverable	3,612	7,518
	<u>12,909</u>	<u>21,507</u>

Winterthur Life UK Limited Notes to the Financial Statements

20 Tangible assets

	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Cost:			
At beginning of year	8,087	2,051	10,138
Additions	6,481	832	7,313
Disposals	(2,328)	(1,014)	(3,342)
At end of year	<u>12,240</u>	<u>1,869</u>	<u>14,109</u>
Depreciation:			
At beginning of year	7,050	853	7,903
Charge for year	722	428	1,150
On disposals	(1,391)	(680)	(2,071)
At end of year	<u>6,381</u>	<u>601</u>	<u>6,982</u>
Net book value:			
At 31 December 1998	<u>5,859</u>	<u>1,268</u>	<u>7,127</u>
At 31 December 1997	<u>1,037</u>	<u>1,198</u>	<u>2,235</u>

21 Called up equity share capital

	1998 £000	1997 £000
Authorised, allotted, called up and fully paid:		
1,400,000 ordinary shares of £1 each	1,400	1,400
25,000,000 ordinary shares of £1 each-non-voting	25,000	25,000
	<u>26,400</u>	<u>26,400</u>

Winterthur Life UK Limited Notes to the Financial Statements

22 Other assets - other

Included within other assets - other is an amount which represents the value attributed to the shareholders' interest in the long term fund arising from the internal transfer of business within the long term fund. This asset has been amortised over five years commencing in 1998 to reflect the recognition of the margins of the business transferred.

This amount can be analysed as follows:

	£000
Cost:	
At beginning of year	15,000
At end of year	<u>15,000</u>
Amortisation:	
At beginning of year	-
Charge for the year	3,000
At end of year	<u>3,000</u>
Net book value:	
At 31 December 1998	<u>12,000</u>
At 31 December 1997	<u>15,000</u>

23 Reserves

In order to comply for the first time with the revised Statement of Recommended Practice issued by the Association of British Insurers, it has been necessary to re-state the balances on the reserves as noted below:

	Capital contribution	Revaluation reserve	Profit and loss account	Total
	£000	£000	£000	£000
Balances as at 31 December 1996-as originally stated	25,000	1,006	5,341	31,347
Adjustment re. revaluation reserve		(1,006)	1,006	-
Balances as at 31 December 1996-as re-stated	<u>25,000</u>	<u>-</u>	<u>6,347</u>	<u>31,347</u>
Retained profit for 1997-as originally stated	-	-	1,169	1,169
Adjustments re. revaluation of assets (net)	-	-	1,410	1,410
Retained profit for 1997-as re-stated	<u>-</u>	<u>-</u>	<u>2,579</u>	<u>2,579</u>
Balances as at 31 December 1997-as re-stated	<u>25,000</u>	<u>-</u>	<u>8,926</u>	<u>33,926</u>
Retained profit for 1998	-	-	30	30
Balances as at 31 December 1998	<u>25,000</u>	<u>-</u>	<u>8,956</u>	<u>33,956</u>

Winterthur Life UK Limited Notes to the Financial Statements

24 Related party transactions

i) The directors and key management of Winterthur Life UK Limited and its parent undertakings paid premiums during the year of £9,580 (1997: £7,879) in respect of life assurance policies with the company. These contracts were established under the company's normal terms of business for such contracts.

ii) As explained in note 33, the company is a wholly owned subsidiary of the Credit Suisse Group. As the company's financial statements are consolidated in the financial statements of Credit Suisse Group, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 in respect of transactions with group companies, which are also related parties.

25 Financial reinsurance treaty

In 1996, the company entered into a financial reinsurance treaty with "Winterthur" Schweizerische Versicherungs-Gesellschaft AG, a fellow subsidiary of Credit Suisse Group. The economic substance of this treaty is to provide finance to the company, with repayment being made out of future loadings from policies. Under the agreement, the reinsurer will seek repayment of the finance, as to both interest and principal, only to the extent that sufficient funds are generated from the margins. The company has no obligation to make good any losses that might be sustained by the reinsurer under the treaty and does not intend to do so. The effect of this contract on the company's financial statements for the current year is as shown on the face of the balance sheet and will reduce the deferred acquisition costs asset as follows:

	1998 £000	1997 £000
Deferred acquisition cost gross of financial reinsurance	29,337	23,998
Deferred acquisition costs already recovered under financial reinsurance treaty	<u>(27,440)</u>	<u>(22,283)</u>
Deferred acquisition costs per balance sheet	<u>1,897</u>	<u>1,715</u>

The components of the above treaty which are included in the profit for the year are as follows:

	1998 £000	1997 £000
Reinsurance premiums payable	(24,929)	(20,338)
Reinsurance claims receivable	27,947	24,889
Increase in liabilities	<u>(5,157)</u>	<u>(6,099)</u>
Loss on financial reinsurance transactions	<u>(2,139)</u>	<u>(1,548)</u>

26 Fund for future appropriations

	1998 £000	1997 £000
At beginning of year	108,664	73,932
Transfer (to)/ from technical account - long term business	<u>(30,811)</u>	<u>34,732</u>
At end of year	<u>77,853</u>	<u>108,664</u>

Winterthur Life UK Limited Notes to the Financial Statement

27 Technical provisions

i) The principal assumptions underlying the calculation of the long term business provision are:

a) Rates of interest:

Life non-profit	3.00% net
Life with-profit	2.50% net
Pension non-profit	3.75%
Pension with-profit	3.25%
Immediate annuities	4.00%

b) Mortality tables

Life policies, pension policies and deferred

Annuities: Males AM (80)
Females AF (80)

Immediate Annuities: 80% Males IM (80) c2010 and PM (80) c2010
80% Females IF (80) c2010 and PF (80) c2010

ii) Technical provisions can be analysed as follows:

	Long term business provision	Technical Provisions for linked liabilities	Outstanding claims
	£000	£000	£000
1998			
Gross	388,481	1,369,420	9,096
Reassurance	(2,595)	(2,159)	(5,381)
Net	<u>385,886</u>	<u>1,367,261</u>	<u>3,715</u>
1997			
Gross	333,384	1,092,564	6,092
Reassurance	(1,701)	-	(3,771)
Net	<u>331,683</u>	<u>1,092,564</u>	<u>2,321</u>

iii) Claims outstanding can be analysed as follows:

	1998 £000	1997 £000
In respect of linked business	6,903	4,247
In respect of non-linked business	2,193	1,845
	<u>9,096</u>	<u>6,092</u>

Winterthur Life UK Limited Notes to the Financial Statement

28 Deferred taxation

A net deferred tax asset has been recognised in the financial statements and included in other prepayments and accrued income as follows:

	1998 £000	1997 £000
Deferral of acquisition costs	<u>3,865</u>	<u>1,436</u>

The movement for the year has been included in the profit and loss account as follows:

	1998 £000	1997 £000
Technical account tax attributable to policyholders	<u>(2,429)</u>	<u>(1,352)</u>

In addition to the above there is a provision for deferred taxation in respect of linked business of £10,486,000 (1997: £6,796,000) included in technical provisions for linked liabilities.

Unprovided deferred tax balances, arising on the deferral of pensions business acquisition costs, totalled £634,000 (1997: £nil).

29 Creditors

i) Other creditors including taxation and social security comprise:

	1998 £000	1997 £000
Investments purchased for subsequent settlements	-	4,676
Social security	547	513
Owed by holding companies	7,733	6,342
Owed by fellow subsidiaries	379	2,560
Owed by subsidiary	1,623	34
Other	1,758	1,080
	<u>12,040</u>	<u>15,205</u>

ii) Amounts owed to credit institutions include bank loans secured on the property of the company, repayable by equal instalments as below. Interest is payable on the loans at variable rates between base rate and 3.5% p.a. above base rate and fixed rates between 9.5% p.a. and 12.5% p.a. These loans are repayable as shown below:

	1998 £000	1997 £000
In less than one year	4,017	1,936
Between one and two years	2,031	1,768
Between two and five years	5,416	4,726
In five years or more	3,509	3,539
	<u>14,973</u>	<u>11,969</u>

The balance of amounts owed to credit institutions, £68,703,000 (1997: £63,785,000), is a liability in respect of a mark-to-market deposit agreement, the value of which is based on the movements in FTSE 100 Share Index.

Winterthur Life UK Limited Notes to the Financial Statements

30 Long term fund

At 31 December 1998, the total amount of assets representing the long term fund as defined in the Insurance Companies Act 1982, valued in accordance with Schedule 1 to the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 was £2,012,651,000 (1997: £1,652,953,000).

31 Pension scheme

The company operates a non-contributory pension scheme providing benefits based on final pensionable pay, contributions being charged to the long term business technical account so as to spread the costs of pensions over employees' working lives with the company. Contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

The most recent actuarial valuation was at 1 April 1997. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. Future investments returns are assumed to be 9.0% and the annual increases in salaries and pensions are assumed to be 7.5% and 5.5% respectively. The above valuation showed that the market value of the scheme's assets was £67,391,000 and that the actuarial value of those assets represented 112.5% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The pension charge for the period was £984,000 (1997: £1,070,000). At the end of the year, the company owed the scheme £987,000 (1997: £853,000).

32 Cash flow statement

Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary of a parent that prepares consolidated financial statements including a cash flow statement dealing with the cash flows of the group.

33 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, which is itself a wholly owned subsidiary of Winterthur (UK) Holdings Limited, both companies being registered in England and Wales. The company's financial statements are consolidated in the financial statements of Credit Suisse Group, Winterthur (UK) Holdings Limited and Winterthur Life UK Holdings Limited. Copies of accounts for Credit Suisse Group, Winterthur (UK) Holdings Limited and other group companies are available from Winterthur Life UK Limited, Winterthur Way, Basingstoke, Hants RG21 6SZ, telephone (01256) 798615.

Winterthur Life UK Limited Notes to the Financial Statements

34 Contingent Liabilities

i) As part of certain arrangements with a number of tied estate agencies, the company has undertaken to guarantee the rental payments which fall due in respect of 137 property leases. The outstanding lease terms range from 1 to 17 years duration. As at 31 December 1998, the maximum possible liability (in the unlikely event that all such lease payments had to be met by the company for the full duration of their terms) was shown below. To date, the company has incurred no actual liability in respect of these guarantees.

	1998 £000	1997 £000
Maximum potential liabilities (before tax) under rent guarantees	<u>12,290</u>	<u>13,415</u>

ii) In addition to the rental payments mentioned above, the company has also guaranteed various other payments in respect of tied agents. As at 31 December 1998, the maximum possible liability (in the unlikely event that all these payments had to be met by the company) was as shown below. To date, no actual liability has been incurred in respect of these guarantees.

	1998 £000	1997 £000
Maximum potential liabilities (before tax) under other guarantees	<u>2,350</u>	<u>-</u>

iii) In common with other life offices in the United Kingdom, the company has written pensions transfer and opt out business. A provision of £4,000,000 (1997: £2,000,000) has been made in respect of rectification and review costs of 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 Personal Investment Authority. 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.

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

v) Winterthur Life UK Limited has guaranteed the rental payments under a lease of the premises of a fellow subsidiary. The maximum potential liability under this guarantee is £180,000 (1997: £nil).

vi) Uncalled capital on investments held by the company at the year end amounted to £nil (1997: £106,000).

35 Capital commitments

Authorised but not yet contracted for £807,000 (1997: £6,296,000).

Contracted but not yet provided for £nil (1997: £489,000)