

These accounts are part of the
consolidated accounts of Royal &
Sun Alliance Insurance Group plc
Company Number 2339826

COMPANY NUMBER 889209

Sun Alliance Linked Life Insurance Limited

Report and Accounts for the year 1997



Sun Alliance Linked Life Insurance Limited

Report and Accounts 1997

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Sun Alliance Linked Life Insurance Limited

Directors

Mr D R Parry (Chairman)

Mr R Calver

Mr B J Hall

Mr J C Hance

Mr D Shore

Secretary

Mr R A Eves, F.C.I.I., F.C.I.S.

Registered office

1 Bartholomew Lane, London EC2N 2AB

Sun Alliance Linked Life Insurance Limited

Directors' report for the year ended 31st December 1997

Activities

The principal activity of the Company is the transaction of long term insurance business in the United Kingdom.

Review of the year and future developments

Plans to rationalise the various life funds and companies within the Group, following the merger of the businesses of the Royal Insurance and the Sun Alliance groups of companies in 1996, have continued. No changes in respect of this planned rationalisation were effected in 1997.

Business transacted

Net premium income of the Company for the year was **£33.0m** (1996 £51.8m) and at 31st December 1997 the total long-term business funds amounted to **£633.8m** (1996 £606.4m).

Valuation

A valuation of the long-term insurance business of the Company in accordance with the Insurance Companies Regulations 1994 was made as at 31st December 1997 in respect of the year ended on that date. The result of the valuation showed a surplus of **£18.3m** (1996 £18.2m), out of which **£6.2m** (1996 £6.1m) has been transferred to shareholders, leaving **£12.1m** (1996 £12.1m) within the long-term fund.

Profit and dividend

The profit of the Company for the year is shown in the profit and loss account on page 8.

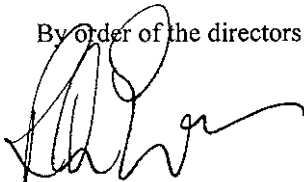
The directors recommend a dividend payable in 1998 amounting to **£5.6m** (1996 £3.5m) resulting in a transfer from retained profits of **£0.1m** (1996 £6.4m transfer to retained profits).

Directors

Messrs R Calver, B J Hall and D Shore were appointed as directors of the Company and Messrs R H W Winch, J S Kent and J J Woods resigned as directors of the Company, all with effect from 19th December 1997.

The other directors whose names appear on page 2 served throughout the year.

By order of the directors



R A Eves
Secretary
2nd March 1998

Sun Alliance Linked Life Insurance Limited

Directors' responsibilities for accounts

The directors are required by UK company law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 31st December 1997. The directors also confirm that applicable accounting standards have been followed and that the accounts have been prepared on the going concern basis.

The directors have responsibility for ensuring that the Company keeps proper accounting records. The directors 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.

Report of the auditors to the members of Sun Alliance Linked Life Insurance Limited

We have audited the accounts on pages 5 to 16.

Respective responsibilities of directors and auditors

As described above, the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company at 31st December 1997 and of its profit and total recognised gains for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London
2nd March 1998

Coopers & Lybrand

Chartered Accountants
and Registered Auditors

Sun Alliance Linked Life Insurance Limited

Accounting Policies

Accounting and disclosure requirements

The principal accounting policies of the Company as set out below comply with Section 255 of and Schedule 9A to the Companies Act 1985 and applicable UK accounting standards and with the Association of British Insurers Guidance on Accounting for Insurance Business issued in 1995 and amended in 1997.

Basis of accounting

The accounts are prepared in accordance with the historical cost convention, modified by the revaluation of certain assets as required by the Companies Act 1985.

Translation of foreign currencies

Assets and liabilities in foreign currencies and overseas revenue transactions are translated into sterling at rates ruling at the year end. For assets and liabilities within the long-term funds, the resulting exchange adjustments are included within the technical account - long term business. For assets and liabilities held outside the long term funds the resulting exchange adjustments are taken to reserves.

Basis of profit recognition

The profits on long term business represent the transfer from the long term funds to shareholders following the actuarial valuation of liabilities, together with the movements in reserves attributable to shareholders held within the long term funds. Profits are shown in the non-technical account grossed up for taxation at the effective rate of corporation tax applicable in the period.

Cash flow statement

As the Company is a wholly owned subsidiary of a UK parent undertaking, advantage has been taken of the exemption from the requirements of Financial Reporting Standard 1 to include a cash flow statement.

Earned premiums

Earned premiums comprise written premiums and are recognised when payment is due, except for linked premiums which are accounted for when the liability for the units is included in the technical provisions for linked liabilities.

New business premiums

New business premiums are recognised when the policy liability is set up. New single premiums include recurrent single premium contracts including DSS rebates and increments under group pension schemes.

Investment income

Interest, rents and dividends on investments, other than ordinary shares, are included on an accruals basis. Account is taken of dividend income when the related investment is quoted 'ex-dividend'. Investment income is grossed up to include related tax credits on dividend income.

Claims incurred

Claims arising on maturity are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or the date at which the policy ceases to be included in the long term business provision or the technical provisions for linked liabilities. Reinsurance recoveries are credited to match relevant gross amounts. Claims paid include related internal and external claims handling costs.

Acquisition costs

Acquisition costs comprise direct and indirect costs of obtaining and processing new business, together with any related policy compensation payments. These costs are deferred as an explicit deferred acquisition cost asset and amortised over the period in which they are expected to be recovered out of margins in matching revenues from related policies. At the end of each accounting period, deferred acquisition costs are reviewed for recoverability, by category, against future margins from the related policies in force at the balance sheet date.

Taxation

Taxation in the technical account - long term business and the non-technical account is based upon the taxation rules applicable to life insurance companies. Deferred taxation is provided on timing differences, other than those likely to continue in the foreseeable future.

Sun Alliance Linked Life Insurance Limited

The balance on the technical account - long term business is transferred to the non-technical account. Profits are shown in the non-technical account grossed up at the effective rate of corporation tax applicable in the period. The amount of grossing up is included within the taxation on the profit or loss on ordinary activities in the non-technical account.

Investments

Investments and assets held to cover linked liabilities are shown at market value, for which purpose unlisted investments, mortgages and loans are included at directors' valuation and properties at professional valuation. For listed securities the stock exchange values are used. Properties are valued annually at open market value.

The property valuations have been prepared on the basis of open market value at the balance sheet date in accordance with The Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual and have been certified by the Group's qualified valuation surveyor.

The Companies Act requires properties to be depreciated over their expected useful economic lives. The directors consider that depreciation of investment properties would not give a true and fair view. In accordance with Statement of Standard Accounting Practice 19 "Accounting for investment properties", no depreciation is provided on these properties on the basis that depreciation is already reflected in the annual valuations. The amounts attributed to this factor by the valuers cannot reasonably be separately identified or quantified.

It is the Company's practice to maintain properties occupied by the Company in a continual state of sound repair. Accordingly the directors consider that the economic lives of these properties and their residual values, based on prices prevailing at the time of acquisition or subsequent valuation, are such that any depreciation is insignificant and is thus not provided.

The treatment of realised and unrealised investment gains and losses is as follows:

(i) Long term

Net realised gains, being net sale proceeds less costs of acquisition, are included within the technical account within investment income. Net realised losses are accounted for within investment expenses and charges and net unrealised gains/losses are shown separately in the technical account - long term business.

(ii) Other than long term

Net realised gains, being the net sale proceeds less costs of acquisition, are taken to investment income, net realised losses are taken to investment expenses and charges, both within the non-technical account. Net unrealised gains/losses are included in the statement of total recognised gains and losses.

Long-term business provision

The long term business provision has been computed by a Fellow of the Institute of Actuaries on the basis of recognised actuarial methods. Details of the main assumptions made and the methods used are given in note 10.

Technical provisions for linked liabilities

The technical provisions for linked liabilities are the repurchase value of units allocated to in-force policies at the balance sheet date, where the policy benefits are wholly or partly related to investments of any description or to indices of the value of investments.

Linked liabilities are established by reference to the value of the underlying assets which are held to meet those liabilities. These assets are included, predominantly, at mid-market value.

Outstanding claims

The provision for outstanding claims comprises the estimated cost of claims reported and not settled at the balance sheet date.

Sun Alliance Linked Life Insurance Limited

Profit and loss account

for the year ended 31st December 1997

Technical account - long term business

	Notes	1997 £m	1996 £m
Earned premiums, net of reinsurance			
Gross premiums written	1a	33.6	52.3
Outward reinsurance premiums	1a	(0.6)	(0.5)
Net earned premiums		33.0	51.8
Investment income	6	56.7	54.5
Unrealised gains on investments	6	57.7	5.7
Claims incurred, net of reinsurance			
Claims paid			
gross amount		(84.5)	(79.7)
reinsurers' share		0.3	-
		(84.2)	(79.7)
Change in the provision for claims			
gross amount		(0.8)	(1.9)
reinsurers' share		(0.1)	0.1
		(0.9)	(1.8)
Net claims incurred		(85.1)	(81.5)
Changes in other technical provisions, net of reinsurance			
Long term business provision			
gross amount		1.8	6.6
reinsurers' share		-	0.2
		1.8	6.8
Technical provision for linked liabilities			
gross amount		(30.3)	(12.6)
reinsurers' share		(0.2)	1.4
		(30.5)	(11.2)
Net changes in other technical provisions		(28.7)	(4.4)
Net operating expenses	2		
Acquisition expenses		(5.2)	(3.7)
Change in deferred acquisition costs		(0.6)	(0.6)
Administrative expenses		(2.2)	(2.1)
Net operating expenses		(8.0)	(6.4)
Investment expenses and charges	6	(1.3)	(0.3)
Taxation attributable to long term business	4	(20.4)	(10.1)
Balance on technical account - long term business		3.9	9.3

All figures relate to continuing operations.

The notes on pages 11 to 16 form part of the accounts.

Sun Alliance Linked Life Insurance Limited

Profit and loss account for the year ended 31st December 1997

Non-technical account

	Notes	1997 £m	1996 £m
Balance on the long term business technical account		3.9	9.3
Tax credit attributable to balance on the long term business technical account		1.8	4.6
		5.7	13.9
Investment income	6	2.0	1.8
Operating profit		7.7	15.7
Reorganisation costs	3	0.2	(0.6)
Profit on ordinary activities before taxation		7.9	15.1
Taxation on profit on ordinary activities	4	(2.4)	(5.2)
Profit on ordinary activities after taxation		5.5	9.9
Dividend	5	(5.6)	(3.5)
Transfer to/(from) retained profits		(0.1)	6.4

All figures relate to continuing operations.

Statement of total recognised gains and losses for the year ended 31st December 1997

	1997 £m	1996 £m
Profit for the financial year	5.5	9.9
Unrealised gains/(losses) on investments	(0.3)	(0.4)
Shareholder recognised gains	5.2	9.5

Movements in shareholders' funds for the year ended 31st December 1997

	Share Capital £m	Revaluation Reserve £m	Profit & Loss Account £m	1997 £m	1996 £m
Shareholders' funds at 1st January	10.0	(1.2)	41.0	49.8	43.8
Shareholder recognised gains	-	(0.3)	5.5	5.2	9.5
Dividends			(5.6)	(5.6)	(3.5)
Shareholders' funds at 31st December	10.0	(1.5)	40.9	49.4	49.8

The profit & loss account includes £15.3m (1996 £13.2m) which is distributable.

The notes on pages 11 to 16 form part of these accounts.

Sun Alliance Linked Life Insurance Limited

Balance sheet at 31st December 1997

	Notes	1997 £m	1996 £m
Assets			
Investments			
Other financial investments	7	76.9	58.2
Assets held to cover linked liabilities		604.6	574.1
Reinsurers' share of technical provisions			
Long term business provision	10	0.2	0.2
Technical provision for linked liabilities		13.6	13.8
Claims outstanding		-	0.1
		13.8	14.1
Debtors			
Debtors arising out of direct insurance operations	8	0.6	0.4
Other debtors		13.0	7.6
		13.6	8.0
Other assets			
Cash at bank and in hand		5.0	12.3
Prepayments and accrued income			
Accrued interest and rent		1.3	1.4
Deferred acquisition costs		5.0	5.6
		6.3	7.0
Total assets		720.2	673.7

The balance sheet includes assets totalling **£638.2m** (1996 **£611.7m**) representing the long-term insurance funds.

The notes on pages 11 to 16 form part of these accounts.

Sun Alliance Linked Life Insurance Limited

Balance sheet at 31st December 1997

	Notes	1997 £m	1996 £m
Liabilities			
Capital and reserves (see page 8)			
Called up share capital	9	10.0	10.0
Revaluation reserve		(1.5)	(1.2)
Profit and loss account		40.9	41.0
Shareholders' funds - equity interest		49.4	49.8
Technical provisions			
Long term business provision	10	8.2	10.0
Claims outstanding		3.5	2.7
		11.7	12.7
Technical provision for linked liabilities		618.2	587.9
Provision for other risks and charges	15	1.4	0.9
Creditors			
Creditors arising out of direct insurance operations	11	-	1.7
Other creditors including taxation and social security	11	33.9	17.0
Proposed dividend	5	5.6	3.5
		39.5	22.2
Accrued and deferred income		-	0.2
Total liabilities		720.2	673.7

The notes on pages 11 to 16 form part of these accounts.

The accounts on pages 5 to 16 were approved by the directors on 2nd March 1998 and were signed on their behalf by:


.....
Director

Liverpool, 2nd March 1998

Sun Alliance Linked Life Insurance Limited

Notes on the Accounts

1. Segmental analysis

No geographical segmental information, as required by Statement of Standard Accounting Practice number 25, is given as business is predominantly sourced in the United Kingdom.

1a Premiums written	Gross	1997 Reinsurance ceded	Net	Gross	1996 Reinsurance ceded	Net
	£m	£m	£m	£m	£m	£m
Life						
Individual						
Unit linked	33.6	(0.6)	33.0	52.3	(0.5)	51.8
Total premiums written	33.6	(0.6)	33.0	52.3	(0.5)	51.8
Periodic premiums	16.6	(0.6)	16.0	16.8	(0.5)	16.3
Single premiums	17.0	-	17.0	35.5	-	35.5
Total premiums written	33.6	(0.6)	33.0	52.3	(0.5)	51.8
1b New business premiums						
	Gross	1997 Reinsurance ceded	Net	Gross	1996 Reinsurance ceded	Net
	£m	£m	£m	£m	£m	£m
Life						
Unit linked	17.4	-	17.4	35.7	-	35.7
Total new business annualised premiums	17.4	-	17.4	35.7	-	35.7
Periodic premiums	0.4	-	0.4	0.2	-	0.2
Single premiums	17.0	-	17.0	35.5	-	35.5
Total new business annualised premiums	17.4	-	17.4	35.7	-	35.7

Sun Alliance Linked Life Insurance Limited

Notes on the Accounts

2. Net operating expenses

All expenses are recharged from a fellow group company, Royal Life Services Limited.

Total commission for direct insurance accounted for by the company during the year, excluding payments to employees, amounted to **£1.4m** (1996 **£2.0m**).

3. Reorganisation Costs

As a result of the integration of the businesses of the Royal Insurance and the Sun Alliance groups of companies on 19 July 1996, a fundamental reorganisation and restructure of the business took place. The **£0.2m** credit to the non-technical account in 1997 represents the reallocation of items charged in 1996 (1996 charge **£0.6m**).

4. Taxation

The charges for taxation in the technical account - long term business and the non-technical account comprise:

	Technical account		Non technical account	
	1997 £m	1996 £m	1997 £m	1996 £m
United Kingdom taxation:				
Corporation tax	(8.5)	(6.5)	-	(0.8)
Taxation attributable to the balance on the technical account - long term business		-	(1.8)	(4.6)
Taxation attributable to UK dividend income	(1.3)	(1.3)	-	-
Prior year release	2.1	1.6	-	-
Deferred taxation on unrealised investment gains	(10.0)	(3.6)	-	-
Deferred taxation	(1.0)	(0.3)	-	0.2
Group relief	(1.7)	-	(0.6)	-
	<u>(20.4)</u>	<u>(10.1)</u>	<u>(2.4)</u>	<u>(5.2)</u>

The charge for UK corporation tax in the technical account - long term business is provided at rates between 20% and 31.5% computed in accordance with the rules applicable to life insurance companies.

The charge for UK corporation tax in the non-technical account is based on a rate of **31.5%** (1996 33%).

5. Dividend

	1997 £m	1996 £m
Proposed final dividend	<u>5.6</u>	<u>3.5</u>

Sun Alliance Linked Life Insurance Limited

Notes on the Accounts

6. Investment return

	1997 £m	1996 £m
ATTRIBUTABLE TO SHAREHOLDERS		
Investment income		
Income from other investments	2.0	1.8
Investment expenses and charges		
Investment management charges	-	-
Net investment income in non-technical account	2.0	1.8
Unrealised gains/(losses) on investments	(0.3)	(0.4)
Investment return attributable to shareholders	1.7	1.4
ATTRIBUTABLE TO LONG-TERM BUSINESS		
Income from investments		
Income from land and buildings	4.6	5.2
Income from other investments	25.5	17.4
Gains on the realisation of investments	26.6	31.9
Total investment income	56.7	54.5
Investment expenses and charges		
Investment management charges	(1.3)	(0.3)
	55.4	54.2
Unrealised gains/(losses) on investments	57.7	5.7
Investment return attributable to long-term business	113.1	59.9

7. Investments

	1997 £m	1996 £m
Other financial investments:		
Shares and other variable yield securities and units in unit trusts	-	1.1
Debt securities and other fixed income securities		
British government securities	42.8	44.9
Policy loans	0.2	0.2
Deposits with credit institutions	33.9	12.0
Total other financial investments	76.9	58.2

The historical cost of investments (including £365.4m (1996 £382.7m) for assets held to cover linked liabilities) is £441.0m (1996 £442.8m).

	1997 £m	1996 £m
Listed investments included in the total investments are as follows:		
Debt securities and other fixed income securities	42.8	44.9

Sun Alliance Linked Life Insurance Limited

Notes on the Accounts

8. Debtors

	1997 £m	1996 £m
Debtors arising out of direct insurance operations		
Due from policyholders	0.6	0.4

Other debtors

Due from group companies	0.2	7.3
Other	12.8	0.3
	13.0	7.6

Total	13.6	8.0
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9. Share capital

	1997 £m	1996 £m
Authorised, issued and fully paid 10,000,000 ordinary shares of £1 each	10.0	10.0

10. Long-term business provision

The long-term business provision has been calculated as the present value of non-unit liabilities and expenses where not covered by future margins. Future expenses are assumed to be at approximately the rate experienced in the year preceding the balance sheet date, subject to inflation. The principal assumptions used are as follows:-

	Interest rate p.a.	Mortality table	Inflation p.a.
Life without profit (unit linked)	5.24% (1996: 5.90%)	A67/70	4.50%

The assumptions are the same as at 31 December 1996 except where indicated.

11. Creditors

	1997 £m	1996 £m
Arising out of direct insurance operations		
Due to group companies	-	0.3
Other	-	1.4
	-	1.7

Other creditors including taxation and social security

Due to group companies	24.9	0.8
Taxation	9.0	14.8
Other	-	1.4
	33.9	17.0

Sun Alliance Linked Life Insurance Limited

Notes on the Accounts

12. Directors' emoluments

All the directors receive remuneration from Royal & Sun Alliance Insurance plc as employees of that company. It is not appropriate, because of the non-executive nature of their services, to make an apportionment of their emoluments in respect of the Company.

13. Auditors' remuneration

The remuneration of the auditors of the Company amounted to **£28,000** (1996 **£35,000**). The auditors of the Company also received fees of **£7,720** (1996 **£14,000**) in respect of non-audit services.

14. Pension costs and other post-retirement benefits

All of the staff in the UK are employed by Royal & Sun Alliance Insurance plc and are members of defined benefits pension schemes, details of which are disclosed in the accounts of that company.

15. Movements on provision for other risks and charges

	Reorganisation Costs		Deferred Tax	
	1997 £m	1996 £m	1997 £m	1996 £m
At 1st January	0.6	-	0.3	-
Utilised	(0.3)	(0.1)	-	-
Charges to/(release) from:				
Non Technical Account	(0.2)	0.7	-	-
Technical Account	-	-	1.0	0.3
At 31st December	0.1	0.6	1.3	0.3

16. Deferred taxation

	Provided		Unprovided	
	1997 £m	1996 £m	1997 £m	1996 £m
The amount of deferred taxation provided and amount unprovided are as follows:-				
Long-term fund				
Tax relating to deferred acquisition costs	-	-	-	(0.5)
Tax relating to other timing differences	1.3	0.3	0.2	0.5
	1.3	0.3	0.2	-

In addition to the amounts stated above, deferred taxation in respect of unrealised gains is allowed for within assets held for linked liabilities, amounting to **£43.0m** (1996 **£33.0m**) on a discounted basis with movements during the year being included in the tax attributable to long term business.

Unprovided deferred taxation reflects amounts not expected to crystallise in the foreseeable future.

Sun Alliance Linked Life Insurance Limited

Notes on the Accounts

17. Capital commitments

The Company had no capital commitments as at 31st December 1997 *(1996 £Nil)*.

18. Financial commitments

The Company had no financial commitments under non-cancellable operating leases as at 31st December 1997 *(1996 £Nil)*.

19. Related party transactions

Included in assets held to cover linked liabilities are investments in unit trusts of **£311.1m** *(1996 £68.1m)* managed by Royal & Sun Alliance Insurance Group plc subsidiaries.

Advantage has been taken of the exemption provided in FRS8 from disclosing details of transactions with Royal & Sun Alliance Insurance Group plc and its subsidiaries and associated undertakings.

20. Parent companies

The Company's immediate parent company is Sun Alliance Life Limited, which is registered in England and Wales.

The parent of the smallest group for which consolidated accounts including Sun Alliance Linked Life Insurance Limited are drawn up is Royal & Sun Alliance Insurance plc, which is registered in England and Wales.

The Company's ultimate parent company is Royal & Sun Alliance Insurance Group plc which is registered in England and Wales. A copy of that company's accounts can be obtained from 1 Bartholomew Lane, London EC2N 2AB.