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Sun Alliance and London Assurance Company Limited

Report and Accounts 1995



Sun Alliance and London Assurance Company Limited

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Sun Alliance and London Assurance Company Limited

Directors

P. Barrow

J. C. Hance

T. A. Hayes

J. S. Kent

J. R. Knightley

T. S. Nelson

R. H. W. Winch, Managing Director

J. J. Woods, Actuary

Secretary

E. R. Wills, F.C.I.I.

Registered office

1 Bartholomew Lane, London EC2N 2AB

Sun Alliance and London Assurance Company Limited

Directors' report for the year ended 31st December, 1995

Activities

The principal activity of the Company is the transaction of ordinary long term insurance business as part of the Sun Alliance Group in the United Kingdom.

Profit and dividend

The profit of the Company for the year is shown in the profit and loss account on page 10.

The directors recommend for payment on 1st July, 1996 a final dividend of £10,000,000. This, together with the interim dividend of £10,000,000 paid on 6th December, 1995 will make a total dividend of £20,000,000.

Directors

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

The interests of the directors in the ordinary shares of 25p each in Sun Alliance Group are as follows:

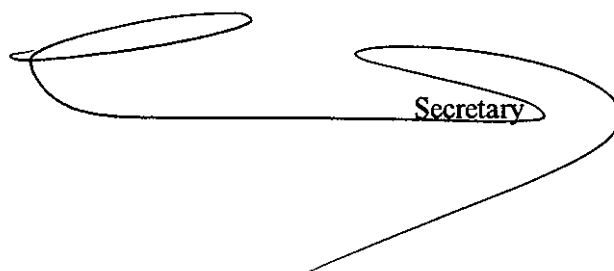
	<u>Shares held at 1st January, 1995</u>	<u>Shares held at 31st December, 1995</u>
P. Barrow	17,349	15,794
J. C. Hance	-	4,035
J. S. Kent	10,485	10,485
J. R. Knightley	3,577	3,771

Options to subscribe for shares

	<u>Held at 1st January, 1995</u>	<u>During 1995</u>		<u>Held at 31st December, 1995</u>
		<u>Granted</u>	<u>Exercised</u>	
P. Barrow	53,806	13,280	1,481	65,605
J. C. Hance	58,850	23,507	20,037	62,320
J. S. Kent	116,477	5,552	-	122,029
J. R. Knightley	72,263	3,208	-	75,471

By order of the directors

29th February, 1996


Secretary

Sun Alliance and London Assurance Company 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, 1995. 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 and London Assurance Company Limited

We have audited the accounts on pages 5 to 22.

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 as at 31st December, 1995 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.

6 March 1996

London

Coopers & Lybrand
Chartered Accountants
and Registered Auditors

Sun Alliance and London Assurance Company Limited

Accounting policies

The principal accounting policies of the Company as set out below comply with Schedule 1, Part 1 of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 ("the Regulations"), which amends Section 255 of and schedule 9A to the Companies Act 1985, UK accounting standards and with the Association of British Insurers Guidance on Accounting for Insurance Business ("the Guidance") issued in 1995.

The requirements of the Regulations came into effect for periods commencing after 23rd December, 1994 and accordingly have been applied for the first time in these accounts. The comparative figures for the year ended 31st December, 1994 have been restated to reflect the changes in the presentation of the accounts introduced by the Regulations.

The majority of changes relate to additional disclosure. Accounting policies have however changed in relation to the following :

- (i) In previous years the transfer to shareholders from the long term business fund, determined in accordance with the Insurance Companies Act 1982, has also been used as the basis of recognising the profit from the long term insurance activity in the accounts. For the purpose of preparing the accounts in accordance with the Regulations and the Guidance two significant adjustments are required :
 - (1) the explicit deferral of new business acquisition costs, and
 - (2) the allocation of the long term business fund between the long term business provision, the technical provisions for linked liabilities and the fund for future appropriations. It should be noted that the assets attributable to the long term business fund continue to be maintained separately as required by the Insurance Companies Act 1982.
- (ii) Realised investment gains and losses previously taken directly to retained profits are now accounted for in the profit and loss account.
- (iii) Income on ordinary shares is now recognised on an ex-dividend rather than paid basis.
- (iv) In prior years the profit arising from long term business was grossed up at the effective taxation rate. This is now grossed up at the full rate applicable in the period.

The principal effects of these changes are disclosed in notes 8, 9, 14 and 17.

Advantage has been taken of the transitional provisions within Financial Reporting Standard 5 which permits the offset of balances arising from insurance broking transactions.

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.

(a) Group accounts

The Company is a wholly owned subsidiary of a UK holding company and, in accordance with section 228 of the Companies Act 1985, consolidated accounts have not been prepared. The accounts of the Company and its subsidiaries are included in the accounts of the Company's immediate parent, Sun Alliance Life Limited. The interests of the Company in its subsidiaries are shown at net asset value, with the movement in the year taken to revaluation reserve.

(b) Exchange

Assets and liabilities in foreign currencies are translated into sterling at rates ruling at the year-end. Overseas revenue transactions are translated at rates prevailing during the year.

Sun Alliance and London Assurance Company Limited

Accounting policies *(continued)*

(c) 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 Regulations.

(d) 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. Profits are shown in the non-technical account grossed up for taxation at the full rate of corporation tax applicable in the period, subject to the exclusion of tax neutral items.

(e) Earned premiums

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

(f) 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.

Where products are substituted by the policyholder or pension contracts are vested, these transactions are reflected as new business only to the extent that they give rise to incremental premiums.

(g) Investment income

Interest 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 and is shown after deduction of interest payable to policyholders.

(h) 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.

Claims paid include related internal and external claims handling costs.

(i) Bonuses

Reversionary bonuses are recognised in the technical account - long term business in bonuses and rebates, when declared and terminal bonuses when payable are included in claims paid.

Sun Alliance and London Assurance Company Limited

Accounting policies (*continued*)

(j) Acquisition costs

Acquisition costs comprise direct and indirect costs of obtaining and processing new business. These costs are deferred as an explicit deferred acquisition cost asset, gross of tax, 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.

(k) 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.

For basic life insurance business, provision of deferred taxation on unrealised appreciation of investments of the long term business fund is included in technical provisions.

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 full rate of corporation tax applicable in the period, subject to the exclusion of tax neutral items. The amount of grossing up is included within the taxation on the profit or loss on ordinary activities in the non-technical account.

(l) Investments

Investments are stated in the balance sheet at market values comprising stock exchange values for listed securities, open market valuations by the Group's qualified surveyors for land and buildings, values determined in accordance with the policy terms for the investments in unit-linked funds and directors' valuations for other investments.

Freehold property and leasehold property with over twenty years to run are accounted for as investment properties and are shown in accordance with Statement of Standard Accounting Practice number 19 at open market value. The movement in market value has been taken to profit and loss account.

No depreciation is provided in respect of these freehold and leasehold investment properties. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider it is necessary to adopt SSAP 19 in order to give a true and fair view. In the directors' opinion residual values are such that depreciation would be insignificant.

In respect of owner occupied property the directors consider the residual values are such that their depreciation is insignificant and is thus not provided.

Sun Alliance and London Assurance Company Limited

Accounting policies *(continued)*

(l) Investments *(continued)*

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 in investment income. Net realised losses are accounted for within investment expenses and charges, whilst 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.

(m) Long term business provision

The long term business provision has been computed by an Actuary on the basis of recognised actuarial methods. Details of the main assumptions made and the methods used are given in note 16.

(n) 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.

(o) Fund for future appropriations

The with profits policyholders have a contingent interest in the excess of assets over liabilities in the long term business fund and accordingly this excess is taken to the fund for future appropriations.

Sun Alliance and London Assurance Company Limited

Profit and loss account

for the year ended 31st December, 1995

Technical account - long term business

	Notes	1995 £m	Restated 1994 £m
Earned premiums, net of reinsurance			
Gross premiums written	2a	500.8	521.0
Outward reinsurance premiums	2a	(81.0)	(212.4)
		419.8	308.6
Investment income	3a	483.3	448.9
Unrealised gains on investments		561.8	-
Claims incurred, net of reinsurance			
Claims paid			
gross amount		(539.0)	(539.1)
reinsurers' share		50.0	45.5
		(489.0)	(493.6)
Change in the provision for claims			
gross amount		1.2	(1.8)
reinsurers' share		(1.5)	1.0
		(0.3)	(0.8)
		(489.3)	(494.4)
Change in other technical provisions, net of reinsurance			
Long term business provision			
gross amount		(311.6)	131.1
reinsurers' share		23.7	118.1
		(287.9)	249.2
Technical provisions for linked liabilities			
gross amount		(43.0)	(8.3)
reinsurers' share		43.1	10.2
		0.1	1.9
Net change in technical provisions		(287.8)	251.1
Bonuses and rebates, net of reinsurance		(129.6)	(129.3)
Net operating expenses	4	(110.1)	(109.7)
Investment expenses and charges	3c	(7.2)	(7.7)
Unrealised losses on investments		-	(714.6)
Taxation attributable to the long term business	5	(14.0)	(29.8)
Transfers (to) from fund for future appropriations		(412.6)	496.2
Balance on technical account - long term business	6	14.3	19.3

All figures relate to continuing operations.

Sun Alliance and London Assurance Company Limited

Profit and loss account

for the year ended 31st December, 1995

Non-technical account

	Notes	1995 £m	Restated 1994 £m
Balance on the long term business technical account	6	14.3	19.3
Tax credit attributable to balance on the long term business technical account		7.0	9.5
		21.3	28.8
Investment income	3a	1.9	1.5
Other charges	20	-	(10.3)
Profit on ordinary activities before taxation	8	23.2	20.0
Taxation on profit on ordinary activities	5	(7.5)	(10.0)
Profit on ordinary activities after taxation		15.7	10.0
Dividends	7	(20.0)	(10.0)
Retained profit or (loss) for the year		(4.3)	-

Statement of total recognised gains and losses
for the year ended 31st December, 1995

	1995 £m	Restated 1994 £m
Profit after taxation, for the year	15.7	10.0
Unrealised appreciation/(depreciation) of investments	5.3	6.5
Total gains and losses recognised relating to the year	21.0	16.5

Reconciliation of movements in shareholders' funds
for the year ended 31st December, 1995

	1995 £m	Restated 1994 £m
Shareholders' funds at 1st January	39.6	33.1
Total recognised gains	21.0	16.5
Dividends	(20.0)	(10.0)
Shareholders' funds at 31st December	40.6	39.6

All figures relate to continuing operations.

Sun Alliance and London Assurance Company Limited

Balance sheet
at 31st December, 1995

	Notes	1995 £m	Restated 1994 £m
<u>Assets</u>			
Investments			
Land and buildings	10	740.7	758.6
Investments in group undertakings and participating interests	10	0.9	0.7
Other financial investments	10	5,891.7	5,052.2
		6,633.3	5,811.5
Assets held to cover linked liabilities		4.2	4.2
Reinsurers' share of technical provisions			
Long term business provision		328.9	304.7
Claims outstanding		2.2	3.7
Technical provisions for linked liabilities		272.5	229.4
		603.6	537.8
Debtors			
Debtors arising out of direct insurance operations	12	10.7	10.0
Other debtors	12	96.8	58.5
		107.5	68.5
Other assets			
Cash at bank and in hand		9.1	14.9
Prepayments and accrued income			
Accrued interest and rent		63.9	61.2
Deferred acquisition costs		168.6	181.8
		232.5	243.0
		7,590.2	6,679.9

Sun Alliance and London Assurance Company Limited

Balance sheet at 31st December, 1995

	Notes	1995 £m	Restated 1994 £m
Liabilities			
Capital and reserves			
Called up share capital	13	1.0	1.0
Revaluation reserve	14	27.8	22.5
Profit and loss account	14	11.8	16.1
Shareholders' funds - equity interest		40.6	39.6
Fund for future appropriations		1,073.1	660.5
Technical provisions			
Long term business provision	16	6,057.1	5,615.4
Claims outstanding		14.6	15.8
		6,071.7	5,631.2
Technical provisions for linked liabilities	16	276.6	233.6
Creditors			
Creditors arising out of direct insurance operations	18	6.1	7.3
Creditors arising out of reinsurance operations	18	0.5	0.5
Amounts owed to credit institutions	19	10.4	8.9
Proposed dividend	7	10.0	10.0
Other creditors including taxation and social security	18	81.3	69.4
		108.3	96.1
Accruals and deferred income		19.9	18.9
		7,590.2	6,679.9

The accounts on pages 5 to 22 were approved by the directors on 29th February, 1996 and were signed on their behalf by:

 , Director

 , Director

Sun Alliance and London Assurance Company Limited

Notes on the accounts

1 Accounting and disclosure requirements

The accounts are prepared in accordance with the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 (which amends Section 255 and schedule 9A of the Companies Act 1985) and the Association of British Insurers Guidance on Accounting for Insurance Business.

2 Segmental analysis

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

2a Written premiums

	1995 £m	1994 £m
Gross premiums written		
Individual		
Conventional	428.1	436.8
Linked	21.4	26.7
Group		
Conventional	35.7	37.7
Linked	15.6	19.8
Total direct gross premiums written	500.8	521.0
Periodic premiums	393.1	388.6
Single premiums	107.7	132.4
Total direct gross premiums written	500.8	521.0
Reinsurance	(81.0)	(212.4)
Net premiums written	419.8	308.6

The 1994 reinsurance premiums include a portfolio transfer of £136.4m to a group company.

Sun Alliance and London Assurance Company Limited

Notes on the accounts (continued)

2b New business premiums

	Gross		Net	
	1995	1994	1995	1994
	£m	£m	£m	£m
Life				
Periodic premiums				
Conventional	24.3	32.6	14.6	25.7
Linked	0.8	1.4	-	-
	<u>25.1</u>	<u>34.0</u>	<u>14.6</u>	<u>25.7</u>
Single premiums				
Conventional	2.0	6.6	2.0	6.6
Linked	-	-	-	-
	<u>2.0</u>	<u>6.6</u>	<u>2.0</u>	<u>6.6</u>
Pensions				
Periodic premiums				
Conventional	9.9	12.6	6.8	10.9
Linked	2.5	3.7	-	-
	<u>12.4</u>	<u>16.3</u>	<u>6.8</u>	<u>10.9</u>
Single premiums				
Conventional	100.0	108.9	98.1	112.0
Linked	14.4	16.8	-	-
	<u>114.4</u>	<u>125.7</u>	<u>98.1</u>	<u>112.0</u>
Total new business premiums	<u>153.9</u>	<u>182.6</u>	<u>121.5</u>	<u>155.2</u>

3a Investment income

	Technical account		Non-technical account	
	1995	1994	1995	1994
	£m	£m	£m	£m
Income from land and buildings	56.0	49.0	-	-
Income from other investments	323.3	290.7	1.9	1.5
	<u>379.3</u>	<u>339.7</u>	<u>1.9</u>	<u>1.5</u>
Net gains on realisation of investments	104.0	109.2	-	-
Total investment income	<u>483.3</u>	<u>448.9</u>	<u>1.9</u>	<u>1.5</u>

Sun Alliance and London Assurance Company Limited

Notes on the accounts (continued)

3b Investment activity account

	Long term		Other than long term	
	1995	1994	1995	1994
	£m	£m	£m	£m
Investment income	379.3	339.7	1.9	1.5
Investment management expenses, including interest	(7.2)	(7.7)	-	-
	<u>372.1</u>	<u>332.0</u>	<u>1.9</u>	<u>1.5</u>
Realised investment gains and losses	104.0	109.2	-	-
Movement in unrealised investment gains (losses)	561.8	(714.6)	5.3	6.5
Net investment return	<u>1,037.9</u>	<u>(273.4)</u>	<u>7.2</u>	<u>8.0</u>

3c Investment expenses and charges

	Technical account	
	1995	1994
	£m	£m
Investment management expenses, including interest	<u>7.2</u>	<u>7.7</u>
Interest included in the above : On bank loans and overdrafts	0.1	0.2
Total	<u>0.1</u>	<u>0.2</u>

4 Net operating expenses

	1995	1994
	£m	£m
Acquisition costs	73.1	87.6
Change in deferred acquisition costs	13.2	3.0
Administrative expenses	26.0	35.3
Reinsurance commissions and profit participation	(2.2)	(16.2)
Total net operating expenses	<u>110.1</u>	<u>109.7</u>
Amount of commission in respect of direct insurance operations	<u>20.8</u>	<u>22.8</u>

Sun Alliance and London Assurance Company Limited

Notes on the accounts (continued)

5 Taxation

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

	Long term		Other than long term	
	1995 £m	1994 £m	1995 £m	1994 £m
United Kingdom taxation:				
Corporation tax	20.2	20.4	0.3	0.2
Taxation attributable to the balance on the technical account - long term business	-	-	7.0	9.5
Taxation attributable to UK dividend income	8.4	9.7	0.2	0.2
Prior year release	(15.3)	-	-	-
Deferred taxation	(0.7)	(0.3)	-	-
	12.6	29.8	7.5	9.9
Less Double taxation relief	(1.1)	(1.7)	-	-
	11.5	28.1	7.5	9.9
Overseas taxation on profits	2.5	1.7	-	0.1
	14.0	29.8	7.5	10.0

The charge for UK corporation tax in the technical account - long term business is provided at an aggregate rate between 25% and 33% computed in accordance with the rules applicable to life insurance companies.

The charge for UK corporation tax in the non-technical account is calculated at 33% (1994 33%).

The potential liability for deferred taxation on unrealised appreciation of investments which is not expected to be payable in the foreseeable future and for which, therefore, no provision has been made is estimated to amount to £8.6m (1994 £7.0) on shareholder fund investments. In relation to investments in the long term insurance fund, provision for deferred taxation has been made in the long term business provision. The unprovided taxation liability on such investments which would arise if they were sold at the balance sheet date is £45.0m (1994 £25.0m).

6 Balance on technical account

The balance on the technical account - long term business comprises £20.2m (1994 £19.3m) representing 10% (1994 9.5%) of the cost of bonuses declared during the year, less £5.9m (1994 £nil) representing the excess of costs incurred in writing unitised with profits business over charges made against policies for that purpose.

7 Dividend

	1995 £m	1994 £m
Interim dividend paid	10.0	-
Proposed final dividend	10.0	10.0
Total dividends	20.0	10.0

8 Profit on ordinary activities

The profit on ordinary activities before taxation for the year, restated in accordance with the basis adopted in previous years, would have been £30.7m

Sun Alliance and London Assurance Company Limited

Notes on the accounts (continued)

9 Changes in accounting policies

The effect of the changes in accounting policies, set out on page 5, on the comparative profit and loss account figures is as follows :

	1994 £m
Profit before taxation, as previously stated	18.7
Taxation adjustment arising from change in the rate of taxation used to gross up the long term business profit	1.3
Profit before taxation, as restated	20.0

10 Investments

	Market value	
	1995 £m	1994 £m
Land and buildings	740.7	758.6
Investment in group undertakings and participating interests		
Shares in group undertakings	0.9	0.7
Other financial investments:		
Shares and other variable yield securities and units in unit trusts	3,381.9	2,940.9
Debt securities and other fixed income securities	2,246.5	1,977.5
Loans secured by mortgages	39.9	43.1
Policy loans	12.6	12.1
Deposits with credit institutions	210.8	78.6
	5,891.7	5,052.2

The historical cost of investments (including £3.6m (1994 £3.6m) for assets held to cover linked liabilities) is £4,436.8m (1994 £4,183.1m).

Sun Alliance and London Assurance Company Limited

Notes on the accounts (continued)

10 Investments (continued)

Included in the above are listed investments :

	1995 £m	1994 £m
Shares and other variable yield securities and units in units trusts	3,374.1	2,934.8
Debt securities and other fixed income securities	2,236.2	1,967.9
	<u>5,610.3</u>	<u>4,902.7</u>

The market value of land and buildings detailed above can be further analysed as :

	1995 £m	1994 £m
Freehold	682.3	668.1
Long leasehold	55.1	87.0
Short leasehold	3.3	3.5
	<u>740.7</u>	<u>758.6</u>
Group occupied	<u>55.5</u>	<u>55.5</u>

A full valuation of properties was undertaken as at 31st December, 1995. The property valuations have been prepared on the basis of open market value in accordance with the Practice Statements in the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual and have been certified by the Company's qualified valuation surveyors.

11 Assets of the long term fund

The total amount of assets, net of reinsurance, representing the long term fund amounted to £6,805.4m (1994 £5,975.4m)

12 Debtors

	1995 £m	1994 £m
Debtors arising out of direct insurance operations:		
Due from policyholders	<u>10.7</u>	<u>10.0</u>
Other debtors		
Taxation	1.7	0.6
Due from other group companies	51.7	36.9
Due from other than group companies	<u>43.4</u>	<u>21.0</u>
	<u>96.8</u>	<u>58.5</u>
Total	<u>107.5</u>	<u>68.5</u>

Sun Alliance and London Assurance Company Limited

Notes on the accounts (continued)

13 Share capital

	1995 £m	1994 £m
Authorised, issued and fully paid £1,000,000 ordinary shares of £1 each	1.0	1.0

14 Retained profits and reserves

	Revaluation reserve		Profit and loss account	
	1995 £m	1994 £m	1995 £m	1994 £m
At 1st January	22.5	16.0	16.1	16.1
Movement in year				
Retained profit (loss) for the year	-	-	(4.3)	-
Unrealised appreciation (depreciation) of investments	5.3	6.5	-	-
At 31st December	27.8	22.5	11.8	16.1

15 Realised and unrealised reserves

Of the total reserves shown on the balance sheet £11.8m (1994 £16.1m) is distributable.

16 Technical provisions

The long term business provisions have been computed by appropriately qualified actuaries using recognised actuarial methods. Assumptions of future experience are the same as those used for mathematical reserves to demonstrate policyholder security under the Insurance Companies Act 1982. Adjustments to mathematical reserves are made to maintain consistency with the deferred acquisition cost asset.

A modified net premium method is used for the majority of individual non-linked policies, including permanent health insurance.

Linked policies are valued at the repurchase value of attaching units together with an additional provision for any anticipated future negative cash flows.

Annuities in payment have been valued using a discounted cash flow approach.

The long term business provision allows only for bonuses either vested or declared at the accounting date. The rate of interest used in the valuation of non-unitised with-profits business contains a margin which makes implicit allowance for some future reversionary bonus. No provision is made for future terminal bonus.

Sun Alliance and London Assurance Company Limited

Notes on the accounts (continued)

16 Technical provisions (continued)

The principal assumptions used to calculate the long term business provision are as follows:

(a) Interest rates have been assumed to be in the range 3.5% to 6.75% (1994 4% to 6.75%).

(b) mortality rates are based upon the published AM(80) (1994 A(67)/(70)), AF(80) (1994 A(67)/(70)) and PA(90) (1994 PA(90)) tables. Morbidity rates are based upon the published MU-AHJ (1994 MU-AHJ) table.

(c) allowances for future expenses has been made in the range £10.50 to £21.00 pa. (1994 £10.00 to £20.00 pa.), inflating at 5% pa. (1994 5% pa.).

These assumptions are prudent relative to the Company's recent experience and, if actual experience is more favourable, the inherent margins will emerge into surplus in future periods.

There have been no changes in the methods of calculation since 31st December, 1994.

17 Restatement

The effect of the changes in accounting policies, set out on page 5, on the provisions of the Company is as follows:

	Long term business fund £m	Long term business provision £m	Technical provision for linked liabilities £m	Fund for future appropriations £m
At 1st January 1995	5,793.6	-	-	-
Allocation of long term business fund	(5,793.6)	5,310.7	4.2	478.7
Deferred acquisition costs	-	-	-	181.8
At 1st January, 1995, as restated	-	5,310.7	4.2	660.5
Reinsurers' share		304.7	229.4	-
Gross		5,615.4	233.6	660.5

Sun Alliance and London Assurance Company Limited

Notes on the accounts *(continued)*

18 Creditors

	1995 £m	1994 £m
Arising from direct insurance operations :		
With other than fellow subsidiaries	6.1	7.3
Arising from reinsurance operations :		
With other than fellow subsidiaries	0.5	0.5
Other creditors including taxation and social security :		
Taxation	6.6	24.3
With other group companies	66.3	42.8
Other	8.4	2.3
	81.3	69.4

No security has been given on any of the above balances.

19 Borrowings

Bank borrowings were as follows :

	1995 £m	1994 £m
Bank loans and overdrafts repayable on demand or within one year	10.4	8.9

20 Subsidiaries

The Company owns the whole of the issued share capital of Sun Alliance Pensions Life & Investment Services (SAPLIS), Sun Alliance Managed Pension Services Limited and Kembrey Park Limited, all of which are registered in England and Wales. The provision against the Company's loan to SAPLIS was charged to profit and loss account in 1994 as a permanent diminution in value.

21 Associated companies and other participating interests

Investments include interest in companies, not being subsidiaries, in which the shareholdings exceed 10% of the equity share capital of those companies. None of these investments materially affects the investment income or assets of the Company.

Sun Alliance and London Assurance Company Limited

Notes on the accounts *(continued)*

22 Pension costs

All of the staff in the UK are employed by Sun Alliance and London Insurance plc and are members of a defined benefits pension scheme, details of which are disclosed in the accounts of Sun Alliance Group plc.

23 Directors' emoluments

No emoluments were paid or are payable to the directors in respect of 1995 or 1994.

All the directors receive remuneration from Sun Alliance and London Insurance plc as employees of that company, and it is not appropriate, because of the non-executive nature of their services, to make an apportionment of their emoluments.

24 Auditors' remuneration

The remuneration of the auditors of the Company amounted to £121,000 (1994 £111,000). The auditors of the Company also received fees of £25,000 (1994 £32,390) in respect of non-audit services.

25 Parent companies

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

The Company's ultimate parent company is Sun Alliance 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.

Sun Alliance Life Limited

These accounts are to be filed with the company records of company number 894616 (Sun Alliance and London Assurance Company Limited) pursuant to section 228 of the Companies Act 1985 as amended

Report and Accounts 1995

Sun Alliance Life Limited

Report and Accounts 1995

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Sun Alliance Life Limited

Directors

T. A. Hayes

T. S. Nelson

R. H. W. Winch, Managing Director

J. J. Woods, Actuary

Secretary

D. J. Miller, Barrister

Registered office

1 Bartholomew Lane, London EC2N 2AB

Sun Alliance Life Limited

Directors' report for the year ended 31st December, 1995

Activities

The Company acts as the holding company for the long term and certain general insurance business operations of the Sun Alliance Group in the United Kingdom.

Profit and dividends

The profit of the Group for the year is shown in the profit and loss account on page 12.

The directors recommend for payment on 1st July, 1996 a final dividend of £20,000,000. This, together with the interim dividend of £15,000,000 paid on 6th December, 1995, will make a total dividend of £35,000,000.

Directors

The directors named on page 2 served throughout the year. Mr P. Barrow, Mr J. C. Hance, Mr J. S. Kent and Mr J. R. Knightley also served until they resigned on 1st April 1995.

The interests of directors in the ordinary shares of 25p each in Sun Alliance Group plc are as follows:

	<u>Shares held at 1st January, 1995</u>	<u>Shares held at 31st December, 1995</u>
J. J. Woods	17,715	12,480

Options to subscribe for shares

	<u>Held at 1st January, 1995</u>	<u>During 1995</u>		<u>Held at 31st December, 1995</u>
		<u>Granted</u>	<u>Exercised</u>	
R. H. W. Winch	126,582	7,653	-	134,235
J. J. Woods	97,347	4,723	-	102,070

By order of the directors

D. J. MILLER

4th March, 1996

Secretary

Sun Alliance Life 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 and the Group as at the end of the financial year and of the profit or loss of the Company and the Group 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, 1995. 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 the Group and to prevent and detect fraud and other irregularities.

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

We have audited the accounts on pages 5 to 27.

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 and of the Group as at 31st December, 1995 and of the profit and total recognised gains for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*London
6th March, 1996*

Coopers & Lybrand
*Chartered Accountants
and Registered Auditors*

Sun Alliance Life Limited

Accounting policies

The principal accounting policies of the Group as set out below comply with Schedule 1, Part 1 of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 ("the Regulations") which amends Section 255 of and schedule 9A to the Companies Act 1985, UK accounting standards and with the Association of British Insurers Guidance on Accounting for Insurance Business ("the Guidance"), issued in 1995.

The requirements of the Regulations came into effect for periods commencing after 23rd December, 1994 and accordingly have been applied for the first time in these accounts. The comparative figures for the year ended 31st December, 1994 have been restated to reflect the changes in the presentation of the accounts introduced by the Regulations.

The majority of changes relate to additional disclosure. Accounting policies have however changed in relation to the following :

- (i) In previous years the transfer to shareholders from the long term business fund, as determined in accordance with the Insurance Companies Acts 1982, has also been used as the basis of recognising the profit from the long term insurance activity in the accounts. For the purpose of preparing the accounts in accordance with the Regulations and the Guidance two significant adjustments are required :
 - (1) the explicit deferral of new business acquisition costs, and,
 - (2) the allocation of the long term business fund between the long term business provision, the technical provisions for linked liabilities, the fund for future appropriations and shareholders reserves. It should be noted that the assets attributable to the long term business fund continue to be maintained separately as required by the Insurance Companies Act 1982.
- (ii) Realised investment gains and losses previously taken directly to retained profits are now accounted for in the profit and loss account.
- (iii) Income on ordinary shares is now recognised on an ex-dividend rather than paid basis.
- (iv) In prior years the profit arising from long term business was grossed up at the effective taxation rate. This is now grossed up at the full rate applicable in the period.
- (v) Development finance previously taken directly to revaluation reserve is now charged to profit and loss account.

The principal effects of these changes are disclosed in notes 7, 8, 13 and 16.

Advantage has been taken of the transitional provisions within Financial Reporting Standard 5 which permits the offset of balances arising from insurance broking transactions.

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 produce a cash flow statement.

(a) Group accounts

The consolidated accounts of the Group include the audited accounts of all subsidiaries drawn up to 31st December.

The results of associated companies attributable to the Group's shareholdings are not of sufficient significance to be included in the consolidated accounts, except to the extent of dividends received.

(b) 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 Regulations.

Sun Alliance Life Limited

Accounting policies *(continued)*

(c) Exchange

Assets and liabilities in foreign currencies and overseas revenue transactions are translated into sterling at rates of exchange ruling at the year end. In the case of general insurance business the resulting exchange adjustments, including differences arising from the translation of the insurance funds at the beginning of the year at year end rates, and gains and losses on the conversion of remittances are transferred to the intermediate parent company. In the case of long term business, exchange adjustments are included within the technical account - long term business.

(d) General insurance business

(i) Underwriting results

Except for those classes of business referred to below, the underwriting result is determined on an annual basis. Premiums written are accounted for in the year in which the risks are assumed. The proportion of written premiums, including where relevant those of prior accounting periods, attributable to the risks borne during the year are accounted for as earned premium. The proportions attributable to future periods are deferred as unearned premium. The commission and other acquisition costs incurred in writing the business are deferred and amortised over the period in which the related premiums are earned. Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising from events occurring in the year and adjustments to prior years' claims provisions. Deductions are made for salvage and other recoveries and the proportions attributable to reinsurers.

The underwriting result for London market marine business is determined using a fund basis of accounting as it is not possible to obtain sufficient and timely information in respect of provisions and claims. Under the fund basis the balance of each underwriting year fund is assessed to determine whether it is sufficient to cover present and anticipated future liabilities. Any deficiency identified in the individual underwriting year fund is recognised in the profit and loss account in the accounting period but surpluses are not recognised until the end of the second year following the year of account.

(ii) Technical provisions

Unearned premiums are calculated on a time apportionment basis.

Outstanding claims comprise provisions for the estimated costs of settling all claims incurred up to but not paid at the balance sheet date, whether reported or not, and the balance on the open year accounts for marine business. Claims provisions include estimates based on both past settlement experience and factors that are foreseeable and determinable at the time. In the case of an excess of loss reinsurance agreement made with The Chubb Corporation in 1985 the claims provision at 31st December, 1994 was discounted at the average interest rate applicable to the investment funds specifically held to meet the liability. The Chubb Corporation exercised their right under the reinsurance agreement to terminate the contract at 31st December, 1995. Full provision has been made for all liabilities remaining under the contract.

Technical provisions include provisions, based on information available at the balance sheet date, for any estimated future underwriting losses relating to unexpired risks, after taking account of future investment income on unearned premiums, and for underwriting losses expected to arise on open years' accounts. The unexpired risk provision is assessed in aggregate for all business classes which in the opinion of the directors are managed together.

Sun Alliance Life Limited

Accounting policies *(continued)*

(e) Long term insurance business

(i) 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 movement in certain reserves attributable to shareholders held within the long term funds. Profits are shown in the non-technical account grossed up for taxation at the full rate of corporation tax applicable in the period subject to the exclusion of tax neutral items.

(ii) Earned premiums

Earned premiums comprise written premiums and are accounted for when due, except in respect of certain linked business which is accounted for upon receipt, being the date at which the liability for the units is included in the technical provisions for linked liabilities.

(iii) 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.

Where products are substituted by the policyholder or pension contracts are vested, these transactions are reflected as new business only to the extent that they give rise to incremental premiums.

(iv) 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.

Claims paid include related internal and external claims handling costs.

(v) Bonuses

Reversionary bonuses are recognised in the technical account - long term business in bonuses and rebates, when declared and terminal bonuses when payable are included in claims paid.

(vi) Acquisition costs

Acquisition costs comprise direct and indirect costs of obtaining and processing new business. These costs are deferred as an explicit deferred acquisition cost asset, gross of tax, 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.

Sun Alliance Life Limited

Accounting policies *(continued)*

(vii) Long term business provisions

The long term business provisions have been computed by Actuaries on the basis of recognised actuarial methods. Details of the main assumptions made and the methods used are given in note 15.

(viii) 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. In addition, provisions for deferred taxation on unrealised appreciation of investments are also included.

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.

(ix) Fund for future appropriations

Certain long term funds comprise both participating and non-participating long term insurance policies, where both of these types of policies have a contingent interest in the excess of assets over liabilities in the long term business fund. Accordingly this excess is not allocated between policyholders and shareholders and is taken to the fund for future appropriations.

(f) 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, including those arising from the recognition of shareholders' reserves retained in the long term business fund, other than those likely to continue in the foreseeable future.

For basic life insurance business, provision for deferred taxation on unrealised appreciation of investments of the long term business fund is included in technical provisions.

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 for taxation at the full rate of corporation tax applicable in the period subject to the exclusion of tax neutral items. The amount of grossing up is included within the taxation on the profit or loss on ordinary activities.

Under an agreement with the Inland Revenue, the United Kingdom corporation tax liabilities of the Group attributable to general insurance business have been aggregated with those attributable to such business of other UK subsidiaries of Sun Alliance and London Insurance plc and assessed in the name of that company. Accordingly, the attributable provisions of the current year's United Kingdom taxation liability are transferred to Sun Alliance and London Insurance plc.

(g) Investment income

Interest 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 and is shown after deduction of interest payable to policyholders.

Sun Alliance Life Limited

Accounting policies *(continued)*

(h) Investments

Investments are stated in the balance sheet at market values comprising stock exchange values for listed securities, open market valuations by the Group's qualified surveyors for land and buildings, values determined in accordance with the policy terms for investments in the unit-linked funds and directors' valuations for other investments.

Investments in subsidiaries are included in the parent company's balance sheet at net asset value.

Freehold property and leasehold property with over twenty years to run, are accounted for as investment properties, are shown in accordance with Statement of Standard Accounting Practice 19 at open market value. The movement in market value has been taken to the profit and loss account.

No depreciation is provided in respect of freehold and leasehold investment properties. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider it is necessary to adopt SSAP 19 in order to give a true and fair view. In the directors' opinion residual values are such that depreciation would be insignificant.

In respect of owner occupied property the directors consider the residual values such that their 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 in investment income. Net realised losses are accounted for within investment expenses and charges, whilst net unrealised gains or losses are shown separately within the technical account - long term business.

(ii) Other than long term

Net realised gains, being 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 or losses are included in the statement of total recognised gains and losses.

Sun Alliance Life Limited

Consolidated profit and loss account
for the year ended 31st December, 1995

Technical account - general business

	Notes	1995 £m	Restated 1994 £m
Earned premiums, net of reinsurance			
Gross premiums written		44.2	54.2
Outward reinsurance premiums		(31.4)	(40.8)
		12.8	13.4
Change in the gross provision for unearned premiums		(1.2)	1.9
Change in the provision for unearned premiums reinsurers' share		0.3	-
		(0.9)	1.9
		11.9	15.3
Claims incurred, net of reinsurance			
Claims paid			
gross amount		(170.7)	(65.8)
reinsurers' share		36.0	38.4
		(134.7)	(27.4)
Change in the provision for claims			
gross amount		136.1	19.3
reinsurers' share		7.6	(0.9)
		143.7	18.4
		9.0	(9.0)
Net operating expenses	4	(5.8)	(0.3)
Balance on the technical account - general business		15.1	6.0

All figures relate to continuing operations.

Sun Alliance Life Limited

Consolidated profit and loss account
for the year ended 31st December, 1995

Technical account - long term business

	Notes	1995 £m	Restated 1994 £m
Earned premiums, net of reinsurance			
Gross premiums written		711.5	739.8
Outward reinsurance premiums		(26.6)	(28.5)
		684.9	711.3
Investment income	3a	727.7	699.3
Unrealised gains on investments		857.1	-
Claims incurred, net of reinsurance			
Claims paid			
gross amount		(800.5)	(871.4)
reinsurers' share		29.0	32.2
		(771.5)	(839.2)
Change in the provision for claims			
gross amount		4.6	0.9
reinsurers' share		(4.0)	3.9
		0.6	4.8
		(770.9)	(834.4)
Change in other technical provisions, net of reinsurance			
Long term business provision			
gross amount		(396.3)	160.3
reinsurers' share		6.2	(16.3)
		(390.1)	144.0
Technical provisions for linked liabilities			
gross amount		(196.1)	209.3
reinsurers' share		-	-
		(196.1)	209.3
Net changes in technical provisions		(586.2)	353.3
Bonuses and rebates, net of reinsurance		(136.9)	(132.9)
Net operating expenses	4	(176.3)	(182.2)
Investment expenses and charges	3c	(10.4)	(10.6)
Unrealised losses on investments		-	(1,090.3)
Taxation attributable to the long term business	5	1.1	(44.1)
Transfers (to) from the fund for future appropriations		(543.5)	553.0
Balance on technical account - long term business		46.6	22.4

All figures relate to continuing operations.

Sun Alliance Life Limited

Consolidated profit and loss account for the year ended 31st December, 1995

Non-technical account

	Notes	1995 £m	Restated 1994 £m
Balance on the general business technical account		15.1	6.0
Balance on the long term business technical account		46.6	22.4
Tax credit attributable to balance on the long term business technical account		13.3	20.9
		59.9	43.3
Investment income	3a	15.3	15.1
Investment expenses and charges	3c	(0.8)	(0.6)
Profit on ordinary activities before taxation	7	89.5	63.8
Taxation on profit on ordinary activities	5	(23.2)	(28.1)
Profit on ordinary activities after taxation		66.3	35.7
Dividends	6	(35.0)	(33.0)
Retained profits for the year		31.3	2.7

Statement of total recognised gains and losses for the year ended 31st December, 1995

	Notes	1995 £m	Restated 1994 £m
Profit after taxation, for the year		66.3	35.7
Unrealised appreciation (depreciation) of investments		14.4	(20.0)
Total recognised gains relating to the year		80.7	15.7
Prior year adjustment	8b	32.4	
Total gains (losses) recognised since last annual report		113.1	

Reconciliation of movements in shareholders' funds for the year ended 31st December, 1995

	Notes	1995 £m	Restated 1994 £m
Shareholders' funds at 1st January (originally £246.7m before prior year adjustment of £32.4m)	8b	279.1	296.4
Total recognised gains		80.7	15.7
Dividends		(35.0)	(33.0)
Shareholders' funds at 31st December		324.8	279.1

All figures relate to continuing operations.

Sun Alliance Life Limited

Consolidated balance sheet
at 31st December, 1995

	Notes	1995 £m	Restated 1994 £m
Assets			
Investments			
Land and buildings	9	823.3	848.5
Other financial investments	9	7,740.6	6,678.5
Deposits with ceding undertakings	9	38.9	31.4
		8,602.8	7,558.4
Assets held to cover linked liabilities		1,702.3	1,515.7
Reinsurers' share of technical provisions			
Provision for unearned premiums		0.3	0.1
Long term business provision	15	105.6	98.7
Claims outstanding		100.7	97.0
		206.6	195.8
Debtors			
Debtors arising out of direct insurance operations	11	28.6	23.1
Debtors arising out of reinsurance operations	11	1.3	1.4
Other debtors	11	241.4	193.7
		271.3	218.2
Other assets			
Cash at bank and in hand		31.8	48.9
Prepayments and accrued income			
Accrued interest and rent		94.9	93.7
Deferred acquisition costs			
long term business		231.4	244.4
general business		1.1	0.9
		327.4	339.0
		11,142.2	9,876.0

Sun Alliance Life Limited

Consolidated balance sheet
at 31st December, 1995

	Notes	1995 £m	Restated 1994 £m
Liabilities			
Capital and reserves			
Called up share capital	12	78.4	78.4
Revaluation reserve	13	36.8	22.4
Profit and loss account	13	209.6	178.3
Shareholders funds' - equity interest		324.8	279.1
Fund for future appropriations		1,553.5	1,010.0
Technical provisions			
Provision for unearned premiums		4.3	2.9
Long term business provision	15	7,047.3	6,513.5
Claims outstanding		132.9	271.6
		7,184.5	6,788.0
Technical provisions for linked liabilities	15	1,678.0	1,481.9
Creditors			
Creditors arising out of direct insurance operations	17	12.1	14.1
Creditors arising out of reinsurance operations	17	126.0	15.1
Amounts owed to credit institutions	18	15.7	17.4
Proposed dividend	6	20.0	33.0
Other creditors including taxation and social security	17	205.5	218.5
		379.3	298.1
Accruals and deferred income		22.1	18.9
		11,142.2	9,876.0

Sun Alliance Life Limited

Company balance sheet
at 31st December, 1995

	Notes	1995 £m	Restated 1994 £m
<u>Assets</u>			
Investments			
Investment in group undertakings and participating interests	9	306.2	251.7
Other financial investments	9	2.1	4.5
		308.3	256.2
Debtors			
Other debtors	11	130.5	93.5
Other assets			
Cash at bank and in hand		0.7	0.1
Prepayments and accrued income			
Accrued interest and rent		0.1	-
		439.6	349.8
<u>Liabilities</u>			
Capital and reserves			
Called up share capital	12	78.4	78.4
Revaluation reserve	13	218.7	173.1
Profit and loss account	13	27.7	27.6
Shareholders funds - equity interest		324.8	279.1
Creditors			
Proposed dividend	6	20.0	33.0
Other creditors including taxation and social security	17	94.8	37.7
		114.8	70.7
		439.6	349.8

The accounts on pages 5 to 27 were approved by the directors on 4th March, 1996 and were signed on their behalf by :

T. S. NELSON, Director

Sun Alliance Life Limited

Notes on the accounts

1 Accounting and disclosure requirements

The accounts are prepared in accordance with the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 (which amends Section 255 and schedule 9A to the Companies Act 1985) and the Association of British Insurers Guidance on Accounting for Insurance Business.

2a Segmental analysis

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

2b New business premiums

	Gross		Net	
	1995 £m	1994 £m	1995 £m	1994 £m
Life				
Periodic premiums				
Conventional	46.0	56.9	42.2	55.8
Linked	1.6	2.3	2.4	0.9
	<u>47.6</u>	<u>59.2</u>	<u>44.6</u>	<u>56.7</u>
Single premiums				
Conventional	13.3	6.6	13.3	8.3
Linked	18.7	45.7	18.7	44.0
	<u>32.0</u>	<u>52.3</u>	<u>32.0</u>	<u>52.3</u>
Pensions				
Periodic premiums				
Conventional	9.9	12.6	7.4	12.4
Linked	2.5	3.7	5.0	4.3
	<u>12.4</u>	<u>16.3</u>	<u>12.4</u>	<u>16.7</u>
Single premiums				
Conventional	114.4	123.2	100.3	125.0
Linked	13.9	17.1	28.0	16.8
	<u>128.3</u>	<u>140.3</u>	<u>128.3</u>	<u>141.8</u>
Total new business premiums	<u>220.3</u>	<u>268.1</u>	<u>217.3</u>	<u>267.5</u>

Sun Alliance Life Limited

Notes on the accounts (continued)

3a Investment income

	Consolidated			
	Technical account		Non-technical account	
	long term			
	1995	1994	1995	1994
	£m	£m	£m	£m
Income from land and buildings	76.2	67.0	(0.4)	(0.6)
Income from other investments	466.3	415.9	15.7	15.5
	542.5	482.9	15.3	14.9
Net gains on realisation of investments	185.2	216.4	-	0.2
Total investment income	727.7	699.3	15.3	15.1

3b Investment activity account

	Long term		Other than long term	
	1995	1994	1995	1994
	£m	£m	£m	£m
Investment income	542.5	482.9	15.3	14.9
Investment management expenses including interest	(10.4)	(10.6)	(0.6)	(0.6)
	532.1	472.3	14.7	14.3
Realised investment gains and losses	185.2	216.4	(0.2)	0.2
Movement in unrealised investment gains and losses	857.1	(1,090.3)	14.4	(20.0)
Net investment return	1,574.4	(401.6)	28.9	(5.5)

3c Investment expenses and charges

	Technical account		Non-technical account	
	long term			
	1995	1994	1995	1994
	£m	£m	£m	£m
Investment management expenses including interest	10.4	10.6	0.6	0.6
Net losses on realisation of investments	-	-	0.2	-
	10.4	10.6	0.8	0.6
Interest included in the above :				
On bank loans and overdrafts	0.1	0.2	-	-
On other loans	0.8	0.6	-	-
Total	0.9	0.8	-	-

Sun Alliance Life Limited

Notes on the accounts (continued)

4 Net operating expenses

	Technical account long term		Technical account general	
	1995	1994	1995	1994
	£m	£m	£m	£m
Acquisition costs	121.7	136.5	5.0	1.4
Change in deferred acquisition costs	13.0	(0.7)	(0.2)	-
Administrative expenses	54.1	60.0	1.1	-
Reinsurance commissions and profit participation	(12.5)	(13.6)	(0.1)	(1.1)
Total net operating expenses	176.3	182.2	5.8	0.3

5 Taxation

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

	Long term		Other than long term	
	1995	1994	1995	1994
	£m	£m	£m	£m
United Kingdom taxation:				
Corporation tax	25.5	30.3	9.7	7.1
Taxation attributable to the balance on the technical account - long term business	-	-	13.3	20.9
Taxation attributable to UK dividend income	12.2	14.7	0.2	-
Prior year release	(40.5)	(0.7)	-	-
Deferred taxation	0.1	(0.3)	-	-
	(2.7)	44.0	23.2	28.0
Less double taxation relief	1.1	1.7	-	-
	(3.8)	42.3	23.2	28.0
Overseas taxation on profits	2.7	1.8	-	0.1
	(1.1)	44.1	23.2	28.1

The charge for UK corporation tax in the technical account - long term business is provided at an aggregate rate between 25% and 33% computed in accordance with the rules applicable to life insurance companies.

The charge for UK corporation tax in the non-technical account is calculated at 33% (1994 33%).

The potential liability for deferred taxation on unrealised appreciation of investments which is not expected to be payable in the foreseeable future and for which, therefore, no provision has been made is estimated to amount to £13.0m (1994 £8.7m) on shareholder fund investments. In relation to investments in the long term insurance fund, provision for deferred taxation has been made in the long term business provisions. The unprovided taxation liability on such investments which would arise if they were sold at the balance sheet date is £75.0m and (1994 £40.0m).

The potential liability for deferred taxation on shareholder's reserves held within the long term business fund which is not provided for, because it is not expected that these reserves will be released to surplus in the foreseeable future, is estimated to amount to £6.5m (1994 £5m).

Sun Alliance Life Limited

Notes on the accounts (continued)

6 Dividends

	1995 £m	1994 £m
Interim dividend paid	15.0	-
Proposed final dividend	20.0	33.0
Total dividends	35.0	33.0

7 Profit on ordinary activities

The consolidated profit on ordinary activities before taxation for the year, restated in accordance with the basis adopted in previous years would have been £77.7m.

8 Changes in accounting policies

(a) The effect of the changes in accounting policies, set out on page 5, on the comparative profit and loss account figures is as follows:

	1994 £m
Profit before taxation, as previously stated	77.9
Development finance to long term fund, previously charged to revaluation reserve	(10.0)
Movement in shareholders' interest in reserves previously recognised in the long term business fund	(5.7)
Deferral of acquisition costs	1.3
Release of taxation provision in 1994	2.5
Realised gains	0.1
Change in tax credit attributable to long term insurance profits	(2.3)
Profit before taxation, as restated	63.8

(b) The prior year adjustment of £32.4m, resulting from the changes in accounting policies which is reported in the statement of total recognised gains and losses arises from the allocation of £16.3m to shareholders of certain reserves held within the long term business funds, £13.6m of deferred acquisition costs and £2.5m in respect of the release of taxation provision in 1994.

Sun Alliance Life Limited

Notes on the accounts (continued)

9 Investments

	Consolidated Market value		Company Market value	
	1995	1994	1995	1994
	£m	£m	£m	£m
Land and buildings	823.3	848.5	-	-
Investments in group undertakings and participating interests				
Shares in group undertakings	-	-	306.2	251.7
Other financial investments				
Shares and other variable yield securities and units in unit trusts	4,183.7	3,573.1	-	-
Debt securities and other fixed income securities	3,162.7	2,851.1	2.1	2.0
Loans secured by mortgages	43.7	48.4	-	-
Policy loans	14.8	14.6	-	-
Deposits with credit institutions	335.7	191.3	-	2.5
	7,740.6	6,678.5	2.1	4.5
Deposits with ceding undertakings				
Reinsurance deposits	38.9	31.4	-	-

Included in the above are listed investments :

	Consolidated		Company	
	1995	1994	1995	1994
	£m	£m	£m	£m
Shares and other variable yield securities units in unit trusts	4,161.7	3,554.3	-	-
Debt securities and other fixed income securities	3,147.7	2,837.2	2.1	2.0
	7,309.4	6,391.5	2.1	2.0

The historical cost of investments (including £1,227.0m (1994 £1,196.0m) for assets held to cover linked liabilities) for the consolidated and company balance sheets respectively, are £7,165.1m (1994 £6,832.8m) and £89.9m (1994 £82.9m).

Sun Alliance Life Limited

Notes on the accounts (continued)

9 Investments (continued)

The market value of the land and buildings detailed above can be further analysed as :

	Consolidated		Company	
	1995	1994	1995	1994
	£m	£m	£m	£m
Freehold	756.3	747.9	-	-
Long leasehold	63.5	97.0	-	-
Short leasehold	3.5	3.6	-	-
	823.3	848.5	-	-
Group occupied	78.3	79.6	-	-

A full valuation of properties was undertaken as at 31st December, 1995. The property valuations have been prepared on the basis of open market value in accordance with the Practice Statements in the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual and have been certified by the Group's qualified valuation surveyors.

10 Assets of the long term fund

The total amount of assets, net of reinsurance, representing the consolidated long term fund amounted to £10,231.9m (1994 £8,938.8m).

11 Debtors

	Consolidated		Company	
	1995	1994	1995	1994
	£m	£m	£m	£m
Arising out of direct insurance operations:				
Due from policyholders	28.6	23.1	-	-
Arising out of reinsurance operations				
Due from fellow subsidiaries	0.3	0.3	-	-
Due from others	1.0	1.1	-	-
	1.3	1.4	-	-
Other debtors				
Taxation	6.7	5.2	-	-
Due from fellow subsidiaries	169.6	155.4	130.5	93.4
Due from others	65.1	33.1	-	0.1
	241.4	193.7	130.5	93.5
Total	271.3	218.2	130.5	93.5

Sun Alliance Life Limited

Notes on the accounts (continued)

12 Share capital

	1995 £m	1994 £m
Authorised :		
100,000,000 ordinary shares of £1 each	<u>100.0</u>	<u>100.0</u>
Issued and fully paid:		
78,366,110 ordinary shares of £1 each	<u>78.4</u>	<u>78.4</u>

13 Retained profits and reserves

Consolidated	Revaluation reserve		Profit and loss account	
	1995 £m	1994 £m	1995 £m	1994 £m
At 1st January, as previously stated	59.7	79.7	108.6	104.1
Prior year adjustments :				
Reallocation of reserves	(37.3)	(37.3)	37.3	37.3
Shareholders interest in long term fund (see note 8b)	-	-	32.4	34.2
At 1st January, as restated	<u>22.4</u>	<u>42.4</u>	<u>178.3</u>	<u>175.6</u>
Movement in year :				
Retained profit for the year	-	-	31.3	2.7
Unrealised appreciation (depreciation) of investments	14.4	(20.0)	-	-
At 31st December	<u>36.8</u>	<u>22.4</u>	<u>209.6</u>	<u>178.3</u>

The adjustment of £37.3m represents the reallocation of reserves to leave only unrealised gains in revaluation reserve.

Company	Revaluation reserve		Profit and loss account	
	1995 £m	1994 £m	1995 £m	1994 £m
At 1st January, as previously stated	130.7	150.4	37.6	33.4
Prior year adjustments :				
Development finance (see note 8a)	10.0	-	(10.0)	-
Shareholders interest in long term fund (see note 8b)	32.4	-	-	-
At 1st January, as restated	<u>173.1</u>	<u>150.4</u>	<u>27.6</u>	<u>33.4</u>
Movement in year :				
Retained profit for the year	-	-	0.1	24.2
Contribution to subsidiary company	-	-	-	(30.0)
Unrealised appreciation (depreciation) of investments	45.6	22.7	-	-
At 31st December	<u>218.7</u>	<u>173.1</u>	<u>27.7</u>	<u>27.6</u>

Sun Alliance Life Limited

Notes on the accounts (continued)

14 Realised and unrealised reserves

Of the total reserves shown in the company balance sheet £27.7m (1994 £27.6m) is distributable.

15 Technical provisions

The principal assumptions used to calculate the long term business provision for the main classes of business are as follows :-

		Interest rate		Mortality rate table	
		1995	1994	1995	1994
		%	%		
Life	with profit	3.5	4.0	AM/F80	A67 - 70
	without profit	4.5	4.5	AM/F80	A67 - 70
Pensions	with profit	5.5	5.5	AM/F80	A67 - 70
	without profit	6.75	6.75	AM/F80, PA(90)	A67 - 70, PA(90)

For other classes of business comparable bases are used, in each case following the basis used to demonstrate solvency to the regulatory authority.

The valuation is carried out using a modified net premium method for the majority of individual policies and a discounted cash flow approach for annuities in payment. Linked policies are mainly valued at the repurchase price of units together with an additional provision for any anticipated future negative cash flows.

For material classes of with profit business, explicit provision is made only for vested bonuses disclosed as a result of the current valuation. The rate of interest used in the valuation of with profit business contains a margin which makes implicit allowance for some future reversionary bonus. No provision is made for terminal bonuses.

The profit in the linked subsidiaries includes the impact of the difference between the actual return on the investments matching the long term business provision and the interest rate assumption used in determining the long term business provision at the beginning and end of the year.

Sun Alliance Life Limited

Notes on the accounts (continued)

16 Restatement

The effect of the changes in accounting policies on the long term business fund, set out on page 5, on the reserves and provisions of the Group is as follows :

	Long term business fund £m	Long term business provision £m	Technical provision for linked liabilities £m	Fund for future appropriations £m
At 1st January, 1995	8,661.6	-	-	-
Prior year adjustments :				
Recognised in retained profits	(16.3)			
	8,645.3			
Allocation of long term business fund	(8,645.3)	6,402.2	1,463.9	779.2
Deferred acquisition costs	-	-	-	230.8
Deferred tax on investments	-	12.6	18.0	-
At 1st January, 1995, as restated	-	6,414.8	1,481.9	1,010.0
Reinsurers' share		98.7	-	-
Gross		6,513.5	1,481.9	1,010.0

17 Creditors

	Consolidated		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
Arising from direct insurance operations:				
With other than fellow subsidiaries	12.1	14.1	-	-
Arising from reinsurance operations:				
With other than fellow subsidiaries	126.0	15.1	-	-
Other creditors including taxation and social security				
Taxation	17.8	59.4	0.2	0.1
With fellow subsidiaries	147.9	122.2	94.6	37.6
With other	20.0	14.0	-	-
Other loans	19.8	22.9	-	-
	205.5	218.5	94.8	37.7

The other loans are unsecured, at interest rates ranging from 5.72% to 6.71%, repayable within one year and all due to group companies.

No security has been given on any of the above balances.

Sun Alliance Life Limited

Notes on the accounts *(continued)*

18 Borrowings

Bank borrowings were as follows :

	Consolidated		Company	
	1995	1994	1995	1994
	£m	£m	£m	£m
Bank loans and overdrafts	15.7	17.4	-	-

19 Parent company accounts

(i) The Company's profit before taxation for the year amounted to £35.2m (1994 £57.2m)

(ii) Shares in subsidiaries are stated in the Company's balance sheet at net asset value and the excess over book value is taken to the revaluation reserve.

(iii) Investment income comprises :

- dividends from subsidiaries £35.0m (1994 £57.0m)
- income from other investments £0.2m (1994 £0.2m)

20 Subsidiaries

The Company owns the whole of the issued share capital of Phoenix Assurance plc, Sun Alliance and London Assurance Company Limited, Sun Alliance Linked Life Insurance Limited and Sun Alliance Pensions Limited, all of which are registered in England and Wales.

21 Associated companies and other participating interests

Investments include interest in companies, not being subsidiaries, in which the shareholdings exceed 10% of the equity share capital of those companies. None of these investments materially affects the investment income or assets of the Group.

22 Pension costs

All of the staff in the UK are employed by Sun Alliance and London Insurance plc and are members of a defined benefits pension scheme, details of which are disclosed in the accounts of Sun Alliance Group plc.

Sun Alliance Life Limited

Notes on the accounts (continued)

23 Directors' emoluments

Directors' emoluments amounted to £474,851 (1994 £548,124) in respect of other services. No emoluments were paid by the Company to the Chairman nor to the previous Chairman. The emoluments, excluding pension fund contributions, of the highest paid director were £227,690 (1994 £181,881)

The following table shows the number of directors of the Company whose emoluments (excluding pension fund contributions) were within the ranges stated:

Emoluments £	1995	1994
0 - 5,000	3	6
25,001 - 30,000	3	-
35,001 - 40,000	-	1
60,001 - 65,000	-	1
100,001 - 105,000	-	1
120,001 - 125,000	-	1
130,001 - 135,000	1	-
180,001 - 185,000	-	1
225,001 - 230,000	1	-
	8	11

Three directors did not receive emoluments during the year. They were employed by Sun Alliance and London Insurance plc and did not receive remuneration for their services to the 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.

24 Transaction and arrangements involving directors of the company and its parent companies.

The following loan under staff house purchase scheme, repayable out of the proceeds of collaterally charged life assurance policies applied throughout 1995 : Mr A. J. Barron £24,000 on which interest was charged at between 4 % and 8.35 % per annum.

25 Auditors' remuneration

The remuneration of the auditors of the Company and its subsidiaries amounted to £233,500 (1994 £210,500). The auditors of the Company also received fees of £75,000 (1994 £75,604) in respect of non-audit services, for the Company and its subsidiaries.

26 SIB pension review

Following guidelines issued by both the Department of Trade and Industry and the Securities and Investments Board during 1994, and whilst the outcome of further investigations remains uncertain, liabilities in the long business provision of the Pensions linked business subsidiary were increased by £20m in 1994 to cover the costs of compensating customers who may have been given non-compliant advice to either transfer from or opt out of an Occupational Pension Scheme or State Earnings Related Pension Scheme and to take out a Personal Pension Plan instead.

Sun Alliance Life Limited

Notes on the accounts *(continued)*

27 Parent companies

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

The Company's ultimate parent company is Sun Alliance 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.