1824102

Swinchan Holdings Limited

Report and Accounts 1995

Swinchan Holdings Limited

Directors

T.A. Hayes, Chairman

T.S. Nelson

P.G. Taylor

Secretary

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

Registered Office

1 Bartholomew Lane, London EC2N 2AB

Swinchan Holdings Limited

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

Activities

The Company is the intermediate holding company for Chancellors Holdings Limited and Swinton (Holdings) Limited. The Company has not traded during the year.

Directors

The directors whose names appear on page 1 served throughout the year.

Mr.J. Rochelle also served until he retired on 30th April, 1995.

By order of the directors

29th February, 1996

Secretary

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.

Swinchan Holdings Limited

Auditors' report

The report of the auditors to the members of Swinchan Holdings Limited

We have audited the accounts on pages 4 to 5.

Respective responsibilities of directors and auditors

As described on page 2 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 the Company's affairs at 31st December, 1995 and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

COOPERS & LYBRAND
Chartered Accountants
and Registered Auditors

London
6 March, 1996

Swinchan Holdings Limited

Balance sheet
at 31st December, 1995

	Notes	1995	1994
		£	£
Fixed assets			
Investments			
Shares in subsidiaries	4	**2**	2
Current assets			
Debtors: amount falling due within one year			
Sundry debtor		**25**	25
Creditor: amount falling due within one year			
Due to parent company		**25**	25
Net current assets		**-**	-
Total assets less current liabilities		**2**	2
Capital and reserves			
Called up share capital	5	**100**	100
Profit and loss account		**(98)**	(98)
Shareholders' funds		**2**	2

The accounts on pages 4 and 5 were approved by the directors on 29th February, 1996 and were signed on their behalf by:-

, **Director**

Swinchan Holdings Limited

Notes to the accounts

1. Accounting policies

(a) The accounts are prepared under the historical cost convention and comply with applicable U.K. Accounting Standards.

(b) Under section 228(1) of the Companies Act 1985 the Company is exempt from the obligation to prepare and deliver group accounts.

(c) The investment in subsidiaries is shown at cost.

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

3. No remuneration was paid or is payable to the auditors in respect of the accounts for 1995 *(1994 £3,000 paid by parent company)*.

4. The Company owns the whole of the issued share capital of Swinton (Holdings) Limited and Chancellors Holdings Limited.

5. **Share capital**	**1995**	1994
	£	£
Authorised, allotted, issued and fully paid		
100 ordinary shares of £1 each	**100**	100

6. Parent company

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.

ANNUAL REPORT AND ACCOUNTS 19

These accounts are to be filed with the company records of company number 1824102 (Swinchan Holdings Limited) pursuant to section 228 of the Companies Act 1985 as amended

SUN ALLIANCE

SUN ALLIANCE GROUP plc
ANNUAL REPORT and ACCOUNTS 1995

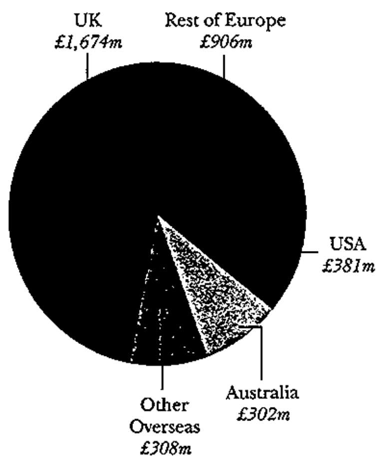
CONTENTS

FINANCIAL HIGHLIGHTS

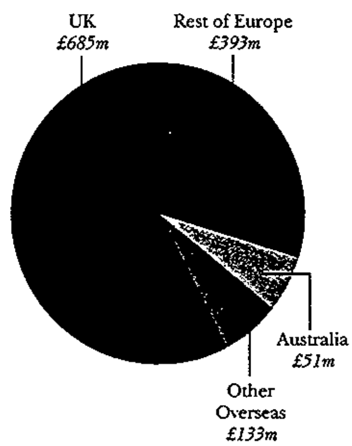
KEY FEATURES	1995	Restated 1994
Operating profit before tax	**£480m**	£301m
Net assets	**£2,640m**	£1,768m
Solvency margin	**82%**	58%
Operating earnings per ordinary share	**44·0p**	26·9p
Attributable earnings per ordinary share	**48·4p**	30·8p
Dividend per ordinary share	**17·25p**	15·75p

SUMMARY OF RESULTS	1995 £m	Restated 1994 £m
Premium income		
General insurance	**3,571·3**	3,402·1
Long term insurance	**1,261·5**	1,237·1
	4,832·8	4,639·2
Profit and loss account		
General insurance underwriting result	**(30·7)**	(127·2)
Long term insurance profits	**94·2**	72·5
Net investment income excluding realised gains	**421·7**	387·2
Income from associates	**14·4**	–
Other activities	**(19·1)**	(31·4)
OPERATING PROFIT	**480·5**	301·1
Realised investment gains	**102·8**	42·4
Profit (loss) arising on, and provided for, disposal of subsidiaries	**(37·0)**	3·9
PROFIT BEFORE TAXATION	**546·3**	347·4
Taxation	**(96·8)**	(75·5)
Minority interests	**(47·3)**	(13·6)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	**402·2**	258·3

TERRITORIAL ANALYSIS OF WORLDWIDE PREMIUM INCOME



GENERAL



LONG TERM

CHAIRMAN'S STATEMENT

This year the Group reports a further increase in profit, although we cannot be complacent. Profits in each particular underwriting market are inevitably cyclical, but a well-managed international insurance group – applying the strength of its capital base in a controlled manner to specific classes of business and territories – can do much to ensure real growth in dividends.

Life and pensions business again made a valuable contribution to Group results, despite – in common with the rest of the UK life market – suffering a substantial fall in new business during 1995. However, the fundamentals of the life market are sound and the need for pension provision must inevitably grow. Now that the problems of the market have been tackled, business prospects can only improve.

The UK insurance industry has been the subject of two useful reports during the year, one from the Department of Trade and Industry, the other commissioned by the Association of British Insurers and prepared by Price Waterhouse. They make clear the massive significance of the insurance sector to the UK economy; worldwide premiums are equal to 11·7% of gross domestic product and 23% of all UK equities are held by insurers. The industry has provided net invisible earnings of £19 billion over the last five years.

The resumption of terrorist violence in London is a matter of general horror and dismay. Since the establishment of Pool Re, the Government now stands as statutory reinsurer of last resort in relation to terrorism, thus enabling property owners to cover otherwise uninsurable risks. Nevertheless, the economic burden to the community is heavy, whilst the human cost is unspeakable.

Sun Alliance is a leader of the UK insurance industry, developing sophisticated global arrangements and the provision of highly technical advice on risk improvement; such work saves lives as well as bringing insurance benefits. The Group is expanding actively in Europe and in Asia. In the UK, it has adopted a higher advertising and marketing profile with attractive new presentations of its products and services. We also strive to reduce operating costs by investment in technology and by the purchase of services externally if that option is more cost-effective than internal resourcing.

The Group also recognises a responsibility to the wider community. We have an active Community Investment Programme, involving Sun Alliance staff at all levels, through established schemes such as the Prince's Youth Business Trust and Young Enterprise, as well as new and imaginative initiatives such as "RoadRunners", which encourages teenagers to adopt a sensible attitude towards motor vehicles.

This year the Report and Accounts are longer than in previous years, because a rigidly prescriptive and much more detailed approach has been imposed by new accounting regulations. These seek to harmonise practice for insurance companies

CHAIRMAN'S STATEMENT

Sir Christopher Benson, Chairman

throughout Europe. However, the combination of the new requirements and potentially different accounting standards in the UK create difficulties in the industry's efforts to report to shareholders the performance of operations. We hope that the continuing debate will lead to greater clarity, consistency and comparability across the industry.

The directors also report additional matters, reflecting the Cadbury and Greenbury initiatives. Both as a major investor in other companies and as a listed company, we are committed to the principles of good corporate governance. My preference, however, would be to focus upon core principles applied according to individual circumstances, rather than on ever-lengthening check-lists of formal criteria.

In the year under review, we said farewell not only to Leopold de Rothschild (to whom I paid tribute in my statement last year), but also to Michael Dew and Ralph Petty, who contributed much to the management of our property and overseas companies; we wish them well in retirement. We welcomed the Duke of Westminster and Amschel Rothschild to the board, together with Peter Foreman and Ian Trotter from amongst the executives.

May I express my appreciation for their good work over the last year to Roger Taylor and his team, and to Sun Alliance staff worldwide.

In conclusion, I would like to invite any shareholder who cannot attend the Annual General Meeting in person to write in advance of that meeting if there are points relating to the running of the Group that they would like to raise.

Christopher Benson.

6th March, 1996

GROUP CHIEF EXECUTIVE'S REVIEW

The Group's excellent results for 1995 have been achieved despite above average claims experience.

In the United Kingdom, there has been intense competition on rates in most classes of general insurance business. Sun Alliance has met this competition by close attention to cost containment and positive steps to demonstrate quality of service all grounded on rigorous underwriting. We have not been afraid to turn down business which we believed would not produce a reasonable return to shareholders over time.

Overseas, there has been a welcome improvement in underwriting performance across the board, coupled with improved investment conditions. We are poised to expand in our key areas of Europe, which is our home market, Asia Pacific, and South America.

Our exchange of business with the Chubb Corporation in the USA is reviewed annually. At our last review, it was decided by mutual agreement that the levels of premiums exchanged now represented too great a proportion of the business outside each Group's direct control and that as a result, the proportions of business ceded and assumed in 1996 should reduce by about one third. This will lead to a modest reduction in the positive balance of premium to Sun Alliance.

On the life insurance and pensions side, market conditions in the UK have continued to be particularly difficult. Like the rest of the industry, we have had to cope with the effects of new expense disclosure requirements, and the residue of uncertainty regarding provision for old age left behind by the problems surrounding personal pensions. More positively, our products now stand comparison with the best in the sector, and our initiatives on distribution methods and in the lump sum investment market will benefit from improved investment performance, which culminated in our winning the Planned Savings/Micropal Best Life Insurance Fund Manager of the Year Award.

Our overseas life business made another useful contribution to Group profits, and is growing satisfactorily in challenging markets.

Investment markets around the world recovered from 1994, and our policy of investing in equities generated substantial gains. These and our operating profits produced an increase of £872m in shareholders' net assets to £2·6 billion. Including the increased embedded value of our life businesses, the asset value per share at 31st December 1995 stood at 413p.

GROUP CHIEF EXECUTIVE'S REVIEW

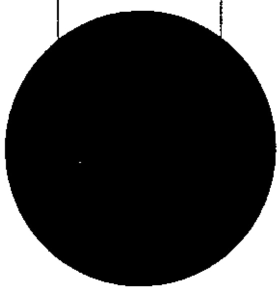
Roger Taylor, Group Chief Executive

There has also been visible proof of the quality we offer Sun Alliance customers. In the course of the year we were presented with a Polite Society award for our telephone marketing, and we won the British Insurance Industry Claims Team of the Year award. Our Sun Alliance Connections proposition is based on the belief that keen pricing must be combined with excellence of service if direct marketing is to succeed in the present competitive climate.

These developments under the Sun Alliance brand, together with Swinton's entry into telemarketing for intermediated business and the launch of its own brand insurance product, and our entry into the direct markets in France and Germany, show that the Group has distinctive qualities to offer a whole range of clients.

During the course of the year, a fundamental review has been conducted in respect of our management services organisation in the United Kingdom. This has led us fully to integrate our systems development resources into our business divisions, and to enter into extensive outsourcing arrangements for a number of other services, including mainframe computing. These steps will further increase our responsiveness and flexibility to changing markets, and enable us to achieve significant savings in operating costs.

GROUP CHIEF EXECUTIVE'S REVIEW



PREMIUM INCOME

UNDERWRITING RESULT	1995 £m	1994 £m
Commercial	17	13
Personal	27	(29)
	44	(16)

UK GENERAL INSURANCE

Commercial

In increasingly competitive markets, our Commercial business operations produced an encouraging underwriting profit. Apart from the cold spell at the end of the year there was little in the way of exceptional weather to affect results but additional provisions were required for professional indemnity business written in earlier years.

Premium income was static as rating concessions were made on quality risks and unprofitable business was discontinued.

Business units were realigned to increase customer focus and facilitate a reduction in our cost base. This included reduction in staff numbers across most areas of activity.

Our regional operations produced another strong underwriting profit, especially in the property portfolio.

The investment in our multinational capability continued with the opening of an office in New York at the end of the year and the delivery of the first phase of our new IT system to support this development. Growth in this segment was significantly better than anticipated.

Our marine account recovered strongly from recent years' losses. Further reserve strengthening was necessary in respect of years prior to 1992, but the 1993 underwriting year closed with a profit and, at this stage, a profit is expected on the open years.

National Vulcan's result reflects the investment made in recent years in our engineering business. We achieved both growth and underwriting profit and development of our overseas portfolio is proceeding particularly well.

Personal

An underwriting profit was achieved in difficult conditions which included the return of subsidence and severe weather.

In the direct portfolio we achieved a small increase in volume, demonstrating our competitiveness, in the face of reductions in premium rates

GROUP CHIEF EXECUTIVE'S REVIEW

affecting household and in particular private car risks. At the same time we have won awards for both our service generally and most importantly our claims service.

We launched Sun Alliance Connections in September to raise the profile of our direct business, stressing that "we take the hassle out of insurance" for our customers. While we remain very competitive on price, this approach differentiates us from many of our competitors in direct insurance, who concentrate heavily on price alone.

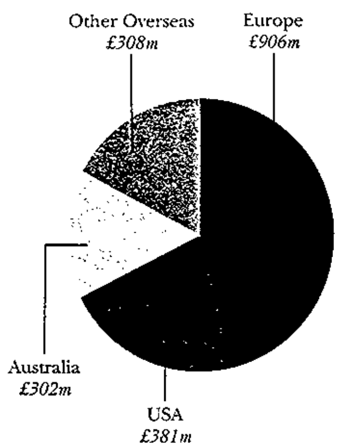
Our focus on strengthening relationships with major corporate partners has been maintained, leading to substantial levels of premium income in the face of intense competitive pressure. A major programme of investments in new technology tailored to the requirements of our partners will lead to further service level and productivity gains in the areas of claims handling and policy administration.

The Halifax Building Society's decision to set up its own insurance services company, and to replace its panel of insurers with just one insurer for a three year period, brought to an end a long relationship with Sun Alliance. The terms available under the new arrangement did not meet the Group's required rate of return and the business (representing £160m of premium income) will cease from 1st June 1996.

As more direct writers enter the personal insurances market and intensify competition, personal business transacted through intermediaries is constantly under pressure. Nevertheless, a review of the market which we have carried out reaffirms our view that this remains a potentially profitable market segment, and we will refocus our marketing activity in certain areas accordingly.

Bradford Pennine, our motor insurance subsidiary specialising in broker business, recorded a reduced insurance profit and premium income fell through reduced volumes and rating levels. However there were encouraging signs of improvement in business volumes towards the end of the year.

GROUP CHIEF EXECUTIVE'S REVIEW



PREMIUM INCOME

UNDERWRITING RESULT	1995 £m	1994 £m
Europe (excluding UK)	(60)	(79)
USA	3	(11)
Australia	(6)	(22)
Other Overseas	(12)	1
	(75)	(111)

OVERSEAS GENERAL INSURANCE

Europe

In Denmark, Codan achieved a much improved result. Recent years' efforts to improve the underwriting result started to bear fruit. The underlying performance in the fourth quarter was particularly encouraging and motor results showed an impressive turnaround from 1994 although there is still some way to go to restore profitability in this class. Expenses were reduced, and this trend will continue following completion of the planned redundancy programme, for which the full cost has been provided during 1995. In Sweden, Holmia maintained its positive contribution to Group results.

Our key business in Ireland produced another highly satisfactory underwriting profit.

Results elsewhere in Europe have improved, notably in our German subsidiary Securitas. Organic growth in Italy and Spain continues. Signs of re-emerging competition are clear but there is confidence that by continuing to pursue strongly focused segmentation strategies good progress will be maintained over the next twelve months. Restructuring with a growing emphasis on Commercial Lines has commenced in Belgium, France and Holland.

Pursuing the Group strategy of capitalising on our direct business expertise, Sun Direct commenced business in Germany, and Tellit was acquired in France towards the end of the year.

USA

Results in North America reflect the reduction in catastrophe losses, as compared to 1994, and an improvement in the underlying performance of the business, offset in part by some reserve strengthening for environmental losses.

During the year, we disposed of our 100% shareholding in the McGee Underwriting Management Agency.

Australia

Sun Alliance and Royal Insurance Australia produced a much improved result, providing a significant contribution to insurance profit, together with prospects for further improvement in 1996.

GROUP CHIEF EXECUTIVE'S REVIEW

Other Overseas

In New Zealand, the Commercial Union's general insurance business was acquired in October 1995 and has now been successfully integrated; the combined operation produced good underwriting profits despite softening market conditions.

Japan produced a poor result for the year which was compounded by the Great Hanshin Earthquake in January 1995 with claims in the overseas account amounting to £6m. Excellent results were reported from our operations in South East Asia and Hong Kong, despite an active typhoon season and difficult market conditions in Hong Kong.

In South Africa underwriting results showed some improvement although high crime rates continue to have an impact in several classes. Our associate company in Saudi Arabia produced underwriting profits.

The Caribbean suffered the most active and damaging hurricane season for over 50 years producing for our account storm related losses of £13m. However, the application of careful risk selection and sound exposure management limited the overall underwriting loss.

Positive development was achieved throughout South America, with our new subsidiary in Uruguay making a promising start, solid progress in Argentina and encouraging profits in Colombia and Peru. However, the overall underwriting loss reflected the impact of some large losses and initial development costs in Uruguay.

We opened our third Chinese Representative Office in Shanghai early in 1996 and continued our efforts to obtain a licence there. During 1995 we announced the intention to form a joint venture insurance company in India with Cholamandalam Investment & Finance Company Limited, part of the Madras based Murugappa Group, as and when circumstances permit.

GROUP CHIEF EXECUTIVE'S REVIEW

PREMIUM INCOME

SHAREHOLDERS' PROFITS	1995 £m	Restated 1994 £m
United Kingdom	60	43
Rest of Europe	30	25
Australia	(4)	(2)
Other overseas	8	6
	94	72

LIFE AND PENSIONS

The basis of calculating life profits has changed in accordance with new accounting regulations. On the new basis, shareholders' profits increased by 30% to £94m. This result reflects the favourable investment conditions, in the UK and the continued development of the overseas life operations.

The embedded value of the shareholders' interest in the long term funds increased from £704m to £853m (1994 value restated in accordance with the accounting changes). After excluding capital injections and the profit transfers the underlying growth was 25%.

UK

The market place has again been particularly difficult, following the introduction of new requirements for expense disclosure and the continuing consumer uncertainty surrounding personal pensions business. New regular premiums fell by 22%, and single premiums by 17%; however there were definite signs of improvement in the second half of the year.

At the start of the year we launched a new range of individual pensions products (including a unitised with profits version) which provides particularly good value for the policyholder over the whole term of the policy.

Progressive Protection, launched in the spring, was very well received by Independent Financial Advisers. A new group critical illness product brought out in October maintained our strong position in the group risk market.

Sun Alliance Investments On Line, a joint venture with the Continuum Company, was launched later in the year with encouraging results, selling single premium investment products by telephone in response to newspaper advertisements.

During the year major reviews of our direct sales and IFA operations were completed with the aim of improving their efficiency and increasing customer focus. Our marketing activity was completely restructured to strengthen research, product development and promotion.

Overseas

Denmark was again the main contributor to profits, which were offset to a degree by the effect of new business strain and development costs elsewhere. Investment being made in the business is reflected in the embedded value.

The deterioration in Australia reflects the predominance of risk business with its heavy financing requirements. The acquisition during the year of a favourable investment rating should materially assist the development of other classes in the future.

GROUP CHIEF EXECUTIVE'S REVIEW

INVESTMENT

Our investment portfolios worldwide enjoyed substantial appreciation over the year and provided a very significant contribution to the overall increase in Group net assets.

The economic background was one of low inflation and growth rates which, although moderating, were showing no signs of recession. Monetary authorities were able to reduce interest rates as the year progressed. High and increasing levels of liquidity among investors provided the ammunition for increased demand for stocks and shares.

In recent years we have continued to see investment markets dominated by global trends. This is particularly true in the case of fixed interest securities. Long term yields fell sharply in the USA, with Western Europe, including the UK, not far behind.

In equity markets the gains seen in the UK were given added impetus by the level of overall corporate activity in the form of mergers and acquisitions. Advances at home were surpassed, however, by those achieved in the USA. In Continental Europe underlying equity gains were much more modest but were enhanced by currency appreciation. Elsewhere overseas, equities in Australia had a successful year while in Japan and South Africa equities ended the year higher than at the outset.

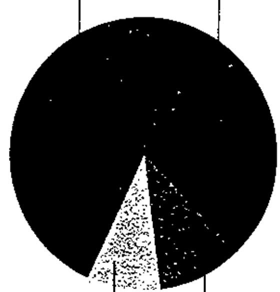
Equities were our preferred investment during the year but new investments worldwide needed to take account of local circumstances and the differing insurance liabilities of individual funds.

Current investment plans for 1996 include increased exposure to some overseas markets.

Group investment income (excluding realised gains) was £422m (1994 £387m), an increase of 7% after adjusting for currency movements.

After a number of years of sustained improvement, the Group's unit linked life and pensions funds in the UK had a particularly successful year in terms of fund performance. This has been acknowledged by Sun Alliance being awarded the Planned Savings/Micropal Best Life Insurance Fund Manager for 1995.

Total assets under management at the year end exceeded £25 billion.



WORLDWIDE FUNDS UNDER MANAGEMENT

	1995 £m	1994 £m
TOTAL	25,929	22,219

GROUP CHIEF EXECUTIVE'S REVIEW

SUN ALLIANCE GROUP PROPERTIES

The shareholders' worldwide property portfolio produced exceptionally good results in the USA, Ireland, France, South Africa and Denmark during 1995. This was largely because of favourable exchange rate movements, but was also helped by a more optimistic economic outlook, particularly in Denmark.

In the UK, property values were held back by a more reticent investment market despite good progress in eliminating unlet space. Some 550,000 square feet of new lettings and lease renewals were achieved.

We anticipate that the demand for first class office accommodation in the City of London will exceed supply in the near future, and as the year ended instructions were given for the commencement of the redevelopment of 1 King William Street (the former head office of The London Assurance) to provide high class office accommodation behind the existing listed facade.

Recent rationalisation of office occupation by the Group, in line with the improved operating efficiency of our insurance business will provide an opportunity to find new tenants to enhance our rental receipts in 1996, at a time when we expect demand to be increasing in most areas of the United Kingdom.

THE FUTURE

There is no lack of challenges in 1996 and the years ahead. Long-standing relationships like that between Sun Alliance and the Halifax Building Society do come to an end, and while that may be a matter for regret, new opportunities emerge to enable us to compete effectively in what is increasingly becoming a global market. Our attention to the possibilities which are emerging in China and India, our willingness to acquire businesses that will add to the value of our operations and to dispose of those that cannot, and our attention to cost reduction, demonstrate the vigour of our approach.

The structural changes we have implemented in the Group are already bringing a sharper focus on our customers and markets; our continuing investment in technology and people will ensure that we are equipped both to weather the movements in the underwriting cycle and to take advantage of the business opportunities that we will create.

Our dynamic approach to changes in the world of insurance will ensure that our policy of real dividend growth will be sustained.

6th March, 1996

DIRECTORS

Chairman
SIR CHRISTOPHER BENSON‡
Age 62. Director of Sun Alliance since 1988; Vice-Chairman from 1991 to 1992; Deputy Chairman from 1992 to 1993; Chairman since 1993. Chairman of Albright & Wilson plc, Costain Group PLC and the Funding Agency for Schools. Deputy Chairman of Thorn Lighting Group Limited. Member of the Panel on Takeovers and Mergers.

Deputy Chairman
HENRY KESWICK‡
Age 57. Director of Sun Alliance since 1975; Deputy Chairman since 1993. Chairman of Jardine Matheson Holdings Limited. Director of Robert Fleming Holdings Limited and The Telegraph plc.

ROBERT AYLING†‡
Age 49. Director of Sun Alliance since 1993. Chief Executive of British Airways Plc. Deputy Chairman of Business in the Community. Former Under Secretary at the Department of Trade.

SIR EWEN FERGUSSON, GCMG, GCVO
Age 63. Director of Sun Alliance since 1993. Chairman of Coutts & Co. and The Savoy Hotel Plc. Director of British Telecommunications PLC. Formerly HM Ambassador to France and to South Africa.

PETER FOREMAN*
Age 53. Director of Sun Alliance since July, 1995. Managing Director, Overseas.

ARTHUR HAYES*
Age 53. Director of Sun Alliance since 1992. Group Executive Director.

JOHN KEMP-WELCH
Age 60. Director of Sun Alliance since 1994. Chairman of the London Stock Exchange Limited. Member of the Panel on Takeovers and Mergers. Former Senior Partner of Cazenove & Co.

THE LORD KINDERSLEY†
Age 66. Director of Sun Alliance since 1965. Former Vice-Chairman of Lazard Brothers & Co. Limited and former Chairman of the Commonwealth Development Corporation.

SCOTT NELSON*
Age 57. Director of Sun Alliance since 1991. Group Finance Director.

SIR ROGER NEVILLE, VRD†
Age 64. Director of Sun Alliance since 1979. Former Group Chief Executive.

THE HONOURABLE AMSCHEL ROTHSCHILD†‡
Age 40. Director of Sun Alliance since June, 1995. Director of N.M. Rothschild & Sons Limited and Chairman of Rothschild Asset Management Limited.

PETER TAYLOR*
Age 56. Director of Sun Alliance since 1992. Group Marketing Director.

ROGER TAYLOR*
Age 54. Director of Sun Alliance since 1986. Group Chief Executive.

IAN TROTTER*
Age 58. Director of Sun Alliance since July, 1995. Managing Director, Worldwide Asset Management.

THE DUKE OF WESTMINSTER, OBE, TD, DL
Age 44. Director of Sun Alliance since February, 1995. Chairman of Grosvenor Estate Holdings. Colonel, Royal Armoured Corps, Territorial Army. Formerly Lieutenant Colonel, commanding the Queen's Own Yeomanry, Territorial Army.

* Executive Director
† Member of Audit Committee
‡ Member of Remuneration Committee

GROUP MANAGEMENT

HOLDING COMPANY

Group Chief Executive	R. J. TAYLOR, FCII
Group Executive Director	T. A. HAYES, FCII, ACIS
Group Finance Director	T. S. NELSON, CA
Group Marketing Director	P. G. TAYLOR, FCII
Managing Director, Overseas	P. F. FOREMAN, FCII
Managing Director, Worldwide Asset Management	I. M. TROTTER, FCIS
Group Secretary	D. J. MILLER, BARRISTER

DIVISIONS

General Insurances	A. P. LATHAM, ACII
Direct & Retail	S. W. BROUGHTON, FCII
Life & Pensions	R. H. W. WINCH
Corporate Partnership	P. E. CROUCHER, FIA
Europe	K. D. SINFIELD, ACII
Scandinavia	P. ZOBEL
Americas	N. D. HOOPER, FCII
Asia Pacific	A. J. BARRON, ACII
Group Properties	J. N. COOTE, FRICS
Investment Management	J. S. KENT, ACIS, ACII
Planning and Services	M. J. HEAPS, FCA

DIRECTORS' REPORT

The directors of Sun Alliance Group plc submit their report and the accounts of the Group for the year ended 31st December, 1995.

Activities

The Company is the holding company of the Sun Alliance group of companies whose principal activity is the transaction in the United Kingdom and overseas of all major classes of insurance business and the provision of related financial services.

Share capital

During the year 4,732,900 shares of 25p were issued on the exercise of employee share options for a total consideration of £11,613,940 and 1,069,056 shares were issued pursuant to scrip dividend offers.

Review of the year

A review of the Group's performance and likely future developments appears on pages 4 to 12. The Group profit, appropriations and financial position are shown on pages 27 to 29.

Dividends

The directors recommend a final dividend of 11·35p per share for payment on 1st July, 1996 to holders of ordinary shares on the register at the close of business on 26th March, 1996. This, together with the interim dividend of 5·9p per share paid on 1st December, 1995 will make a total dividend for the year of 17·25p per share. A scrip dividend offer is being made in respect of the final dividend.

The preferential dividend at the rate of 3·6875% for the period from 1st October, 1995 to 31st March, 1996 is to be paid on 1st April, 1996 to holders of preference shares on the register at the close of business on 5th March, 1996.

Directors

The Duke of Westminster was appointed a director on 1st February, 1995, the Hon. Amschel Rothschild was appointed a director on 1st June, 1995 and Mr. P. F. Foreman and Mr. I. M. Trotter were appointed directors on 1st July, 1995. The other directors named on page 13 served during the year together with Mr. L. D. de Rothschild who, as indicated in last year's report, retired at the conclusion of the Annual General Meeting on 3rd May, 1995, and Mr. M. L. Dew and Mr. R. Petty who retired from the board on 30th June, 1995.

The Hon. Amschel Rothschild, Mr. P. F. Foreman and Mr. I. M. Trotter will retire at the forthcoming Annual General Meeting and will be proposed for re-election together with Mr. R. J. Ayling, Mr. Henry Keswick, Mr. P. G. Taylor and Mr. R. J. Taylor, who will retire by rotation.

Corporate Governance

A statement on corporate governance appears on page 18.

Directors' and officers' liability insurance

The Company has purchased and maintains insurance for its directors and officers to cover liabilities in relation to their duties.

DIRECTORS' REPORT

Employees

The average number of persons employed by the Company's subsidiaries in the United Kingdom in 1995 was 15,825. The aggregate remuneration for the year was £278,000,000.

The Group remains committed to employee involvement and equality of opportunity. Financial and other information on matters concerning employees is provided by in-house publications and in various other ways, centrally and through the business divisions. Regular negotiations, consultations and discussions on a wide range of subjects are held between Group management and recognised staff representative bodies under agreed procedures at joint meetings at national and local levels.

The continuing policy of the Group is to make available to the disabled, on recruitment or subsequently, the fullest opportunities for employment, training, career development and promotion.

To encourage employees to identify themselves more fully and directly with the Group's profitability, the Group has a Profit-Related Pay Scheme for UK Staff. A bonus under the Scheme is payable if operating profits exceed a threshold which is designed to provide appropriate cover for a growing dividend. Subject to audit of the Scheme, the bonus pool available for distribution based on the 1995 pre-tax profits is estimated to amount to £10·9m.

A savings related share option scheme was first introduced in 1984 and an executive share option scheme in 1988. During 1995 options to subscribe for 3,904,032 ordinary shares in the Company at 248p each were granted to 3,415 employees under the Sun Alliance Group 1989 Savings Related Share Option Scheme; options to subscribe for 1,283,433 ordinary shares at 343p each were granted to 223 employees under the Sun Alliance Group 1989 Executive Share Option Scheme.

Substantial share interests

As declared to the Company in accordance with Part VI of the Companies Act 1985, on 4th March, 1996, Mercury Asset Management Group plc, Mercury Asset Management plc and its subsidiaries were interested in 90,177,712 ordinary shares, representing 11·05% of the Company's issued ordinary share capital of which 90,142,962 ordinary shares were held non-beneficially by virtue of discretionary management arrangements.

Close company provisions

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

Capital gains tax

For capital gains tax purposes the equivalent market value as at 31st March, 1982 of each ordinary share in the Company after allowing for the sub-division of the shares in Sun Alliance and London Insurance plc in 1984 and the effect of the Scheme of Arrangement in 1989, is 52·656p.

Charitable and political contributions

During the year the Company and its subsidiaries gave a total of £370,000 in the United Kingdom for charitable purposes. In addition, a contribution of £50,000 was made to the Conservative Party.

Auditors

A resolution to re-appoint Coopers & Lybrand as auditors of the Company will be put to the Annual General Meeting.

By order of the directors
D. J. MILLER
Secretary

6th March, 1996

REMUNERATION COMMITTEE REPORT

Statement of policy: executive director remuneration
The salary and other benefits of executive directors are determined by a Remuneration Committee of non-executive directors, whose key objective is to ensure that executive directors are fairly rewarded for their individual contributions to the performance of the Group.

Individual salary, bonus and benefit levels are determined in the light of the practice of other comparable companies, and are reviewed annually by the Remuneration Committee, having regard to performance and responsibilities. The Committee's current policy is to set pensionable salaries by reference to mid-market pay levels, and bonus payments by reference both to the performance of the Group relative to its competitors and the practice of other major public companies, in particular those in the finance sector.

Bonuses granted by the Committee each year are inclusive of any entitlement of executive directors under the Managers Performance Incentive Bonus Scheme (MPIBS) and the staff profit-related bonus scheme, details of which are provided on page 16; the introduction of each of these schemes was dealt with in the Report & Accounts for 1994. The MPIBS is applicable to managers in general and in 1995 was limited, in terms of total payment, to 10% of aggregate management salaries.

Directors' remuneration and share options
Details of directors' remuneration are set out on page 46, and directors' share options on pages 47 and 48, as part of note 29 on the accounts.

Interests of directors in long term incentive schemes
No director received, nor was any potentially entitled to receive, any benefit under long term incentive schemes, apart from participation in the executive and savings related share option schemes.

Pensionable remuneration
The basic salary of executive directors is the only element of remuneration which is pensionable. All executive directors are members of the main United Kingdom pension scheme (see note 8 on the accounts on page 35) for which the employer's contribution for 1995 was equal to 8% of basic salaries. Non-executive service as a director does not give any entitlement to pension.

Directors' service contracts
No non-executive director has a service contract with the Company or any of its subsidiaries. All directors are subject to retirement by rotation under the Articles of Association.

Directors holding executive office have service contracts, the terms of which are considered by the Remuneration Committee to provide a proper balance of duties and security between the respective parties. Dismissal by the employer, without notice and in the absence of specific grounds, may require payment of up to two years' pay in lieu of the corresponding notice period. If not so terminated, the contract can continue until the end of the month in which the director's sixty-second birthday falls, being in the case of the executive directors proposed for election or re-election at the forthcoming Annual General Meeting:

Mr. P. F. Foreman	March 2005
Mr. P. G. Taylor	December 2001
Mr. R. J. Taylor	December 2003
Mr. I. M. Trotter	March 2000

HENRY KESWICK
Chairman, Remuneration Committee
6th March, 1996

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE

The Group supports the objectives of the Cadbury Committee on the Financial Aspects of Corporate Governance. Throughout 1995, and in the preparation of the Annual Report and Accounts 1995, the Company complied with the provisions of the Code of Best Practice published in December 1992 by that Committee.

Internal control

The Board of Directors is responsible for the Group's system of internal financial control. The structure of the system is judged to be appropriate to the risks of the Group's composite insurance business activities and is designed to provide reasonable but not absolute assurance against material avoidable loss or mis-statement of financial information. The key features of the control system are as follows:

The Board determines Group strategy and financial and other business objectives. The Underwriting and Financial Committees of the Board, which like the Board meet regularly, monitor the performance and plans of the Group's business divisions.

Management of the Group is delegated to the Group Chief Executive and the other executive directors to whom divisional directors are responsible and accountable for their business divisions.

The holding company management considers and approves the Group policy for the control of risk in relation to underwriting, investment and other business risks. Compliance with each aspect of Group policy is monitored by the relevant Committee or the Board on a worldwide basis, through reporting and assessment procedures approved by the Board as appropriate for each category of risk.

The Group also operates a comprehensive financial control system including summary monthly and detailed quarterly financial reports to the Board incorporating a budgetary control system and supported by a project appraisal and monitoring system for capital expenditure. Proper operation of control procedures is reviewed and tested by the internal auditors.

The Audit Committee of the Board meets regularly, receives reports from the internal and external auditors and has reviewed the effectiveness of the system of internal financial control.

The Board has continued to review the system of internal financial control and the formal reporting on the operation of the system. During the year the Group has formalised and reissued statements of policy across its business activities. The development of the management structure has strengthened the focus on individual responsibility for the control of risk and this has been reinforced by the introduction of a control self assessment process.

Basis of accounts

In the considered view of the directors, there is a reasonable expectation that the resources of the Group are sufficient to enable the business to be carried on for the foreseeable future. The Group accounts therefore continue to be prepared on a going concern basis.

By order of the directors
D. J. MILLER
Secretary

6th March, 1996

AUDITORS' REPORT ON CORPORATE GOVERNANCE

Report by the Auditors to Sun Alliance Group plc on Corporate Governance Matters
In addition to our audit of the accounts, we have reviewed the directors' statement on page 18 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

Basis of opinion
We carried out our review in accordance with Bulletin 1995/1 'Disclosure relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of the Group's system of internal financial control or its corporate governance procedures, nor on the ability of the Group to continue in operational existence.

Opinion
With respect to the directors' statements on internal financial control and going concern on page 18, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 18 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

London
6th March, 1996

COOPERS & LYBRAND
Chartered Accountants

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 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.

AUDITORS' REPORT

To the members of Sun Alliance Group plc
We have audited the accounts on pages 21 to 53.

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, total recognised gains and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

COOPERS & LYBRAND
Chartered Accountants
and Registered Auditors

London
6th March, 1996

ACCOUNTING POLICIES

The principal accounting policies of the Group as set out below comply with UK accounting standards and the ABI Guidance on Accounting for Insurance Business issued in 1995. Advantage has been taken of the transitional provision within FRS5 which permits the offset of balances arising from insurance broking transactions.

The requirements of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 ("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. Compliance with SSAP19 requires a departure from the Companies Act 1985; an explanation of the departure is given in note (i) on page 24.

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

(i) Realised investment gains and losses previously taken directly to retained profits are now accounted for in the profit and loss account.

(ii) In previous years the transfer to shareholders from the long term business fund, as determined in accordance with the Insurance Companies Act 1982, has also been used as the basis for recognising the profit from the Group's long term business activity. For the purpose of preparing the accounts in accordance with the Regulations two significant adjustments have been made:

(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 shareholder reserves.

This adjusted basis of recognising profit is known as the modified statutory basis and is adopted in these accounts.

(iii) Income on ordinary shares is now recognised on an ex-dividend rather than paid basis.

(iv) Internal claims handling provisions in relation to certain overseas territories have been increased to include indirect costs of settlement.

(v) The tax charge in the profit and loss account has been adjusted to reflect the above changes.

The effects of these changes are disclosed in note 13 on page 38.

(a) Group accounts

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

Major associated companies are accounted for by the equity method in the consolidated accounts. Associates which do not represent a material part of the Group's income or assets are included within other financial investments in the consolidated balance sheet.

Goodwill, being the difference between cost of acquisition and fair values of the assets acquired, arising on the acquisition of subsidiary companies and associated companies, is written off against consolidated retained profits in the year of purchase. From 1st January, 1995 fair values have been determined in accordance with the requirements of FRS7.

(b) General insurance business

(i) Underwriting results

Except for those classes of business referred to below, the underwriting results of general insurance business are determined on an annual basis. Premiums written are accounted for in the year in

ACCOUNTING POLICIES

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 and aviation 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 cost of settling all claims incurred up to but not paid at the balance sheet date, whether reported or not, and the balances of the open years' accounts for marine and aviation business. Mortgage indemnity claims are recognised as incurred based on those mortgages that are in arrears and which are projected to become repossessions. 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.

Provision is made, 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.

(c) Long term insurance business

(i) Basis of profit recognition

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

ACCOUNTING POLICIES

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 when declared; terminal bonuses are recognised when payable.

(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.

(vii) Long term business provision
The long term business provision has been computed by suitably qualified Actuaries on the basis of recognised actuarial methods. Details of the main assumptions made and the methods used are given in note 18 on page 41.

(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. Provision for deferred taxation on unrealised appreciation of the related investments are included under the same heading.

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 either participating or both participating and non-participating life insurance contracts where policyholders have a contingent interest in the excess of assets over liabilities in the fund. Accordingly the excess of assets over liabilities within these funds is not allocated between policyholders and shareholders and is taken to the fund for future appropriations.

(d) Exchange
Assets and liabilities in foreign currencies and overseas revenue transactions are translated into sterling at rates ruling at the year-end. The resulting exchange adjustments, including the differences arising from the translation of the technical provisions at the beginning of the year at year-end rates, are taken, in the case of general insurance business, to reserves and in the case of long term business are included within the technical account – long term business.

(e) Tangible assets
Expenditure on plant and machinery, motor vehicles and fixtures and fittings is capitalised and depreciated by equal annual instalments over the estimated useful lives of the assets, which range from three to ten years.

ACCOUNTING POLICIES

(f) Pension costs

The cost of providing pensions for the Group's employees is accounted for over the employees' working lives on a systematic basis as advised by qualified actuaries.

(g) Investment income

Interest and dividends on investments other than ordinary shares are included on an accruals basis. Dividend income on ordinary shares is recognised when the related investment goes "ex-dividend". Investment income is grossed up to include related tax credits on dividend income.

(h) Taxation

Taxation in the consolidated non-technical account is based on the profits and the income for the year and includes deferred taxation on timing differences other than those considered likely to continue in the foreseeable future.

The taxation arising on long term business 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 shareholder reserves in the long term business funds, other than those likely to continue in the foreseeable future. For basic life insurance business the provision for deferred taxation on unrealised appreciation of investments of the long term business funds is included in technical provisions.

Provision for deferred taxation on unrealised appreciation of all investments other than that relating to basic life insurance business is made only where realisations giving rise to a taxation liability are anticipated in the foreseeable future.

No provision is made for taxation that might arise on the distribution of profits retained by overseas subsidiaries or associated companies.

(i) Investments

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

In accordance with SSAP19, no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over twenty years to run as these properties are held for investment. In respect of owner-occupied property the directors consider that residual values are such that their depreciation is insignificant and is thus not provided.

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 SSAP19. The directors consider it is necessary to adopt SSAP19 in order to give a true and fair view.

The difference between market values and book values of general fund investments, other than the amount attributable to minority interests, is taken to revaluation reserve. Profits and losses on the realisation of general fund investments, obtained by comparing net sale proceeds with ~~original~~ cost, are taken to the non-technical account.

Realised and unrealised investment gains and losses attributable to assets in the long term business fund, or in the case of overseas subsidiaries, attributed to long term business are taken to the technical account – long term business.

(j) Investments in subsidiary companies

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31st December, 1995

TECHNICAL ACCOUNT – GENERAL BUSINESS

	Notes	1995 £m	Restated 1994 £m
Gross premiums written		4,467·4	4,324·9
Outward reinsurance premiums		(896·1)	(922·8)
Net premiums written		3,571·3	3,402·1
Change in the gross provision for unearned premiums		(99·8)	(9·5)
Change in the provision for unearned premiums, reinsurers' share		69·3	28·1
Change in the net provision for unearned premiums		(30·5)	18·6
Earned premiums, net of reinsurance		3,540·8	3,420·7
Claims paid			
Gross amount		(3,030·9)	(2,838·3)
Reinsurers' share		520·1	422·2
		(2,510·8)	(2,416·1)
Change in the provision for claims			
Gross amount		(92·5)	(163·2)
Reinsurers' share		192·5	67·6
		100·0	(95·6)
Claims incurred, net of reinsurance	2	(2,410·8)	(2,511·7)
Net operating expenses	3 & 4	(1,160·7)	(1,036·2)
Balance on the technical account for general business		(30·7)	(127·2)

All figures relate to continuing operations

SUNALLIANCE

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31st December, 1995

TECHNICAL ACCOUNT – LONG TERM BUSINESS

	Notes	1995 £m	Restated 1994 £m
Gross premiums written		1,299·8	1,275·7
Outward reinsurance premiums		(38·3)	(38·6)
Earned premiums, net of reinsurance		1,261·5	1,237·1
Investment income	5(a)	1,156·7	1,139·5
Unrealised gains on investments		1,220·1	–
Claims paid			
Gross amount		(1,321·4)	(1,330·6)
Reinsurers' share		32·8	34·1
		(1,288·6)	(1,296·5)
Change in the provision for claims			
Gross amount		0·7	2·7
Reinsurers' share		(3·6)	3·5
		(2·9)	6·2
Claims incurred, net of reinsurance		(1,291·5)	(1,290·3)
Changes in other technical provisions			
Long term business provision			
Gross amount		(540·1)	179·0
Reinsurers' share		9·7	(11·5)
		(530·4)	167·5
Technical provisions for linked business, net of reinsurance		(334·6)	162·0
Net change in technical provisions		(865·0)	329·5
Bonuses and rebates, net of reinsurance		(235·2)	(231·6)
Net operating expenses	3 & 4	(273·8)	(275·5)
Investment expenses and charges	5(b)	(23·6)	(26·9)
Unrealised losses on investments		–	(1,544·6)
Taxation attributable to the long term business		(93·8)	(132·6)
Transfers (to) from the fund for future appropriations		(786·1)	835·8
Balance on the technical account for long term business		69·3	40·4

All figures relate to continuing operations.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31st December, 1995

NON-TECHNICAL ACCOUNT

	Notes	1995 £m	Restated 1994 £m
Balance on the technical account for general business		(30·7)	(127·2)
Balance on the technical account for long term business		69·3	40·4
Tax credit attributable to balance on the technical account		24·9	32·1
		94·2	72·5
Investment income	5(a)	577·6	480·8
Income from associates	30	14·4	–
Investment expenses and charges	5(b)	(53·1)	(51·2)
Other charges	27	(19·1)	(31·4)
Operating profit	11	480·5	301·1
Realised investment gains		102·8	42·4
		583·3	343·5
Profit (loss) on disposal of subsidiaries	21	(11·0)	3·9
Goodwill write down on business planned for disposal	21	(26·0)	–
Profit on ordinary activities before taxation		546·3	347·4
Taxation on profit on ordinary activities	7	(96·8)	(75·5)
Profit on ordinary activities after taxation		449·5	271·9
Minority interests		(47·3)	(13·6)
Profit for the financial year		402·2	258·3
Dividends	9	(149·9)	(136·7)
Retained profits transfer	13	252·3	121·6
Earnings per ordinary share	10	48·4p	30·8p
Operating earnings per ordinary share	10	44·0p	26·9p

All figures relate to continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31st December, 1995

	1995 £m	Restated 1994 £m
Profit for the financial year	402·2	258·3
Foreign exchange gains	53·4	18·4
Unrealised appreciation (depreciation) of investments	504·0	(389·9)
Total recognised gains (losses) arising in the year	959·6	(113·2)
Prior year adjustment (as explained in note 13)	12·6	
Total gains and losses recognised since last annual report	972·2	

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 £1,755·6m before prior year adjustment of £12·6m)	13	1,768·2	2,026·6
Share capital issued	12 & 26(a)	15·2	7·1
Total recognised gains (losses)		959·6	(113·2)
Goodwill written back (off)	21	47·1	(15·6)
Dividends	9	(149·9)	(136·7)
Shareholders' funds at 31st December		2,640·2	1,768·2

CONSOLIDATED BALANCE SHEET

at 31st December, 1995

	Notes	Shareholder Consolidated 1995 £m	Shareholder Consolidated Restated 1994 £m	Combined Consolidated 1995 £m	Combined Consolidated Restated 1994 £m
ASSETS					
Investments					
Land and buildings	14	**831·9**	871·6	**2,031·1**	2,030·7
Interests in associates	30	**130·8**	106·7	**130·8**	106·7
Other financial investments	14	**6,705·6**	5,845·8	**20,012·3**	16,878·7
Deposits with ceding undertakings		**56·1**	57·9	**73·6**	74·6
Interests in life and banking operations	27	**419·5**	335·0	–	–
		8,143·9	7,217·0	**22,247·8**	19,090·7
Assets held to cover linked liabilities		–	–	**2,375·8**	2,040·3
Reinsurers' share of technical provisions					
Provision for unearned premiums		**341·5**	253·7	**341·5**	253·7
Long term business provision	18	–	–	**119·7**	109·0
Claims outstanding		**1,167·7**	972·3	**1,171·4**	979·5
Technical provisions for linked liabilities		–	–	**0·2**	0·2
		1,509·2	1,226·0	**1,632·8**	1,342·4
Debtors					
Debtors arising out of direct insurance operations	15	**777·1**	741·0	**856·6**	809·5
Debtors arising out of reinsurance operations		**289·5**	263·4	**296·3**	267·3
Other debtors		**443·6**	370·7	**345·2**	294·4
Bank customer advances	27	–	–	**553·0**	456·8
		1,510·2	1,375·1	**2,051·1**	1,828·0
Other assets					
Tangible assets	16	**141·3**	132·9	**152·7**	140·3
Cash at bank and in hand		**142·1**	135·1	**192·7**	202·1
		283·4	268·0	**345·4**	342·4
Prepayments and accrued income					
Accrued interest and rent		**95·7**	90·2	**288·7**	271·3
Deferred acquisition costs	17	**426·6**	411·5	**826·7**	794·8
Other prepayments and accrued income		**19·4**	37·8	**25·3**	43·6
		541·7	539·5	**1,140·7**	1,109·7
		11,988·4	10,625·6	**29,793·6**	25,753·5

The shareholder consolidated balance sheet represents the shareholder and general insurance business assets and liabilities. The combined balance sheet includes the long term business assets and liabilities.

CONSOLIDATED BALANCE SHEET

at 31st December, 1995

	Notes	Shareholder Consolidated 1995 £m	Shareholder Consolidated Restated 1994 £m	Combined Consolidated 1995 £m	Combined Consolidated Restated 1994 £m
LIABILITIES					
Capital and reserves					
Ordinary share capital	12	**203·9**	202·4	**203·9**	202·4
Preference share capital	12	**125·0**	125·0	**125·0**	125·0
Called up share capital		**328·9**	327·4	**328·9**	327·4
Share premium account	12	**47·7**	34·0	**47·7**	34·0
Revaluation reserve	13	**1,752·1**	1,240·6	**1,752·1**	1,240·6
Profit and loss account	13	**511·5**	166·2	**511·5**	166·2
Shareholders' funds		**2,640·2**	1,768·2	**2,640·2**	1,768·2
Interests of minority shareholders		**275·7**	211·1	**275·7**	211·1
Total capital and reserves		**2,915·9**	1,979·3	**2,915·9**	1,979·3
analysed between:					
Equity		**2,790·9**	1,854·3	**2,790·9**	1,854·3
Non-equity		**125·0**	125·0	**125·0**	125·0
Fund for future appropriations		–	–	**1,884·1**	1,098·0
Technical provisions					
Provision for unearned premiums		**2,078·3**	1,949·5	**2,078·3**	1,949·5
Long term business provision	18	–	–	**12,532·7**	11,273·4
Claims outstanding		**5,460·7**	5,299·2	**5,503·8**	5,341·7
		7,539·0	7,248·7	**20,114·8**	18,564·6
Technical provisions for linked liabilities		–	–	**2,357·7**	2,030·5
Provisions for other risks and charges	19	**87·2**	80·7	**92·0**	82·9
Deposits received from reinsurers		**25·7**	25·0	**33·5**	29·5
Creditors					
Creditors arising out of direct insurance operations		**93·3**	90·5	**115·6**	111·1
Creditors arising out of reinsurance operations		**327·9**	204·9	**329·7**	206·9
Convertible debt	25	**153·3**	152·5	**153·3**	152·5
Amounts owed to credit institutions	24	**280·0**	306·1	**290·1**	316·4
Proposed ordinary dividend	9	**92·5**	83·1	**92·5**	83·1
Other creditors including taxation and social security		**307·5**	297·9	**506·7**	464·9
Banking borrowings	27	–	–	**697·0**	451·3
		1,254·5	1,135·0	**2,184·9**	1,786·2
Accruals and deferred income		**166·1**	156·9	**210·7**	182·5
		11,988·4	10,625·6	**29,793·6**	25,753·5

PARENT COMPANY BALANCE SHEET

at 31st December, 1995

	Notes	1995 £m	Restated 1994 £m
Fixed assets			
Investments in subsidiaries	20 & 21	**2,696·6**	1,924·9
Current assets			
Amounts due from subsidiaries		**459·8**	360·4
Other debtors		**10·3**	–
		470·1	360·4
Creditors – amounts falling due within one year			
Borrowings	24	**(98·9)**	(100·4)
Amounts due to subsidiaries		**(7·1)**	(6·4)
Taxation		**–**	(0·7)
Accrued interest		**(14·4)**	(14·3)
Proposed ordinary dividend		**(92·5)**	(83·1)
Other creditors		**(5·3)**	(4·5)
Net current assets		**251·9**	151·0
Total assets less current liabilities		**2,948·5**	2,075·9
Creditors – amounts falling due after more than one year			
Convertible debt	25	**(153·3)**	(152·5)
Borrowings	24	**(149·8)**	(149·5)
		(303·1)	(302·0)
Provisions for liabilities and charges	19	**(5·2)**	(5·7)
Net assets		**2,640·2**	1,768·2
Capital and reserves			
Ordinary share capital	12	**203·9**	202·4
Preference share capital	12	**125·0**	125·0
Called up share capital		**328·9**	327·4
Share premium account	12	**47·7**	34·0
Revaluation reserve	20	**2,179·8**	1,325·0
Profit and loss account	20	**83·8**	81·8
Total capital and reserves		**2,640·2**	1,768·2
analysed between:			
Equity		**2,515·2**	1,643·2
Non-equity		**125·0**	125·0

The accounts on pages 21 to 53 were approved by the directors on 6th March, 1996, and were signed on their behalf by:

CHRISTOPHER BENSON, *Chairman*
R. J. TAYLOR, *Group Chief Executive*
T. S. NELSON, *Group Finance Director*

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December, 1995 (excluding long term business)

	Notes	1995 £m	Restated 1994 £m
Operating activities			
Net cash inflow from operating activities		329·5	358·8
Servicing of finance			
Dividends paid		(134·6)	(127·9)
Dividends paid to minority shareholders		(5·5)	(7·1)
Taxation			
Tax (paid) recovered		(33·9)	44·6
Investing activities			
Net (purchases) sales of:			
Fixed interest investments		16·0	(319·3)
Stocks and shares		(86·0)	27·0
Property		33·2	(5·7)
		(36·8)	(298·0)
Subsidiaries	21	2·1	32·0
Associates	30	(6·8)	(36·5)
Capitalised equipment		(67·7)	(50·9)
Net cash outflow from investing activities		(109·2)	(353·4)
Net cash outflow before financing activities		46·3	(85·0)
Financing activities	26(a)		
Issue of ordinary share capital		11·6	5·3
Increase (decrease) in net borrowings		(29·0)	72·4
Increase (decrease) in cash and cash equivalents	26(b)	28·9	(7·3)

NOTE TO THE CASH FLOW STATEMENT	1995 £m	1994 £m
Reconciliation between profit on ordinary activities before taxation and net cash inflow from operating activities:		
Profit on ordinary activities before taxation	546·3	347·4
Adjustments to convert revenue and expenditure to a cash basis:		
Depreciation	60·7	62·3
Net realised gains on investments and disposal of subsidiaries	(65·8)	(46·3)
Profits retained in associates	(12·0)	–
(Increase) in debtors	(106·8)	(1·0)
(Increase) in amount due from long term funds in respect of profits	(56·3)	(51·3)
(Decrease) increase in technical provisions	(129·0)	46·4
Increase in creditors	131·5	33·0
Tax deducted at source	(39·1)	(31·7)
Net cash inflow from operating activities	329·5	358·8

The above statement is considered to be potentially misleading in terms of giving a proper understanding of the Group's cash flow position because of the definition of cash and cash equivalents which includes short term deposits.

A funds flow statement prepared on a basis which provides more meaningful information about the Group's cash flow is set out within note 28 on page 45.

NOTES ON THE ACCOUNTS

1 ACCOUNTING AND DISCLOSURE REQUIREMENTS

The consolidated accounts of the Group are prepared in accordance with the provisions of Section 255A of, and Schedule 9A, to the Companies Act 1985. The balance sheet of the Company is prepared in accordance with the provisions of the Act applicable to companies generally. As permitted by section 230 of the Act, a separate profit and loss account for the Company is not presented.

2 MORTGAGE INDEMNITY

In 1994 there was a charge of £167m for losses on UK domestic mortgage indemnity business, of which £100m arose from a change whereby likely losses were recognised by reference to mortgage arrears rather than repossessions. There was no charge in 1995 relating to this business.

3 NET OPERATING EXPENSES

	Consolidated technical account general business		Consolidated technical account long term business	
	1995 £m	1994 £m	1995 £m	1994 £m
Acquisition costs	**1,029·4**	976·7	**194·9**	202·5
Change in deferred acquisition costs	**(28·6)**	(32·2)	**(7·1)**	(9·7)
Administrative expenses	**270·6**	202·9	**98·5**	96·3
Reinsurance commissions and profit participation	**(110·7)**	(111·2)	**(12·5)**	(13·6)
Net operating expenses	**1,160·7**	1,036·2	**273·8**	275·5

4 EMPLOYEES AND STAFF COSTS

	1995	1994
The average monthly number of persons employed by the Group during the year was:		
United Kingdom:		
– Insurance business	**12,814**	13,256
– Other activities	**3,011**	3,731
Overseas	**8,374**	8,910
	24,199	25,897

	1995 £m	1994 £m
Staff costs amounted to:		
Wages and salaries	**491·8**	475·9
Social security costs	**48·4**	44·8
Pension costs	**39·2**	35·4
	579·4	556·1

NOTES ON THE ACCOUNTS

5(a) INVESTMENT INCOME

	Consolidated non-technical account		Consolidated technical account long term business	
	1995 £m	1994 £m	1995 £m	1994 £m
Income from other investments:				
Income from land and buildings	**54·9**	54·2	**99·5**	81·7
Income from other investments	**419·9**	384·2	**839·7**	755·5
Realised investment gains	**102·8**	42·4	**217·5**	302·3
	577·6	480·8	**1,156·7**	1,139·5

5(b) INVESTMENT EXPENSES AND CHARGES

	Consolidated non-technical account		Consolidated technical account long term business	
	1995 £m	1994 £m	1995 £m	1994 £m
Interest payable:				
On bank loans and overdrafts	**2·5**	1·6	**0·1**	0·2
On other loans	**33·6**	34·0	**3·0**	8·7
	36·1	35·6	**3·1**	8·9
Investment expenses	**17·0**	15·6	**20·5**	18·0
Investment expenses and charges	**53·1**	51·2	**23·6**	26·9

6 LONG TERM INSURANCE BUSINESS

Net new business, written during the year, was as follows:

	1995			1994		
	Life £m	Pensions £m	Total £m	Life £m	Pensions £m	Total £m
Annual premiums –						
Conventional	**88·0**	**21·3**	**109·3**	101·8	26·0	127·8
Linked	**15·7**	**11·6**	**27·3**	13·4	11·8	25·2
	103·7	**32·9**	**136·6**	115·2	37·8	153·0
Single premiums –						
Conventional	**27·9**	**117·5**	**145·4**	32·9	141·3	174·2
Linked	**106·3**	**61·1**	**167·4**	101·5	84·7	186·2
	134·2	**178·6**	**312·8**	134·4	226·0	360·4

Gross new business premiums are not materially different to the above. Linked life single premiums in 1995 include £54m received as part of a portfolio purchase agreement in New Zealand.

NOTES ON THE ACCOUNTS

7 TAXATION

The charges (credits) for taxation comprise:

	Consolidated non-technical account		Consolidated technical account long term business	
	1995 £m	1994 £m	**1995 £m**	1994 £m
United Kingdom taxation –				
Corporation tax	**39·5**	17·3	**25·6**	30·0
Tax attributable to UK dividend income and to UK long term insurance transfers	**26·4**	31·5	**12·2**	14·7
Prior year adjustments	**(7·4)**	(16·2)	**(40·5)**	(0·7)
Advance corporation tax	**3·8**	14·8	**–**	–
	62·3	47·4	**(2·7)**	44·0
Double taxation relief	**(29·4)**	(16·2)	**(1·0)**	(1·7)
	32·9	31·2	**(3·7)**	42·3
Overseas taxation on profits	**59·9**	44·3	**97·5**	90·3
Tax on associates	**4·0**	–	**–**	–
	96·8	75·5	**93·8**	132·6

UK corporation tax has been calculated at 33% *(1994 33%)* in the consolidated non-technical account, and at an aggregate rate between 25% and 33% in the technical account – long term business in accordance with the rules applicable to life insurance companies.

The taxation charge in the consolidated non-technical account has benefited from the utilisation of prior year losses and from investment profits where the measure of the tax profit is below that of the accounts profit. Included in the charge is deferred taxation of £8·2m *(1994 £2·9m)*.

Included in the balance sheet within other debtors is taxation recoverable of £8·2m *(1994 £10·4m)* in respect of deferred taxation on the pension fund creditor set up under SSAP24.

Included in the balance sheet within provisions for other risks and charges is £6·9m *(1994 £1·4m)* in respect of deferred tax relating to overseas operations.

The potential liability for deferred taxation 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:

	Shareholder consolidated		Combined consolidated	
	1995 £m	1994 £m	**1995 £m**	1994 £m
On unrealised appreciation of investments	**610·0**	420·0	**700·0**	460·0
Tax losses carried forward and continuing timing differences	**(79·0)**	(149·0)	**(79·0)**	(149·0)
	531·0	271·0	**621·0**	311·0

In relation to investments in the long term insurance fund, provision for deferred taxation has been made in the long term business provisions. The combined figures above include the balance not provided on such investments which would arise if they were sold at the balance sheet date.

NOTES ON THE ACCOUNTS

8 PENSION COSTS

The majority of the staff pension schemes operated by the Group throughout the world are of the defined benefit type and the assets of these schemes are held mainly in separate trustee-administered funds. The principal exception is Denmark where a defined contribution scheme is operated. The total pension cost for the Group was £39·2m *(1994 £35·4m)* of which £26·0m *(1994 £22·3m)* related to overseas schemes.

The pension cost relating to the main scheme in the United Kingdom is assessed using the projected unit method, in accordance with the advice of the actuary to the scheme, who is an employee of the Group. The last actuarial valuation of the scheme for the purpose of assessing the pension cost was made as at 31st March, 1994 for which purpose an investment return of 9·0% p.a. was assumed, with provision for pension increases of 5·0% p.a. and salary increases of 7·5% p.a. The market value of the assets of the scheme at 31st March, 1994 was £1,597m and their actuarial value was sufficient to cover 127% of the benefits that accrued to members, after allowing for projected increases in earnings and pensions. The surplus resulting from this valuation is being applied to reduce pension costs over the estimated working lives of employees.

Included in creditors at 31st December, 1995 is an amount of £25·0m *(1994 £30·6m)* resulting from the difference between the amounts charged to revenue and the amounts contributed to the main scheme in the United Kingdom. Also included in creditors are provisions amounting to £31·2m *(1994 £29·1m)* in respect of unfunded overseas schemes and £3·1m *(1994 £2·6m)* in respect of post-retirement benefits relating to USA subsidiaries.

9 DIVIDENDS

	1995 £m	1994 £m
Ordinary		
Interim dividend of 5·9p *(1994 5·5p)*	**48·2**	44·4
Final dividend of 11·35p *(1994 10·25p)*	**92·5**	83·1
	140·7	127·5
Preference	**9·2**	9·2
Total dividends	**149·9**	136·7

10 EARNINGS PER ORDINARY SHARE

Earnings per share is based on the profit attributable to ordinary shareholders of £393·0m *(1994 £249·1m)* and on the weighted average of 812,444,780 shares of 25p *(1994 808,050,410)*.

Operating earnings per share is based on the profit attributable to ordinary shareholders of £393·0m *(1994 £249·1m)* excluding realised gains on investments and losses on disposals of subsidiaries of £65·8m *(1994 £46·3m)*, attributable tax on realised gains of £6·3m *(1994 £11·1m)* and minority interests of £24·4m *(1994 £3·3m)*. It is considered that operating earnings per share is a better measure of performance.

11 SEGMENTAL ANALYSIS

An analysis of the premium income, result and net assets of the Group is provided below in accordance with SSAP25. Premium income by destination does not differ materially from premium income by territory of origin as most risks are located in the territories where the policies are written.

PREMIUM INCOME	1995	1994	1995	1994
	General business		Long term business	
	£m	£m	£m	£m
United Kingdom	**1,674·2**	1,689·4	**684·9**	711·3
Rest of Europe	**906·5**	791·3	**393·4**	368·5
USA	**380·6**	361·3	–	–
Australia	**301·9**	265·5	**50·5**	75·9
Other Overseas	**308·1**	294·6	**132·7**	81·4
	3,571·3	3,402·1	**1,261·5**	1,237·1

RESULT	1995			1994		
	General business £m	Long term business £m	Total £m	General business £m	Long term business £m	Total £m
United Kingdom	**230·3**	**59·9**	**290·2**	181·6	43·3	224·9
Rest of Europe	**14·5**	**29·8**	**44·3**	(19·0)	25·0	6·0
USA	**38·3**	–	**38·3**	32·1	–	32·1
Australia	**23·2**	**(3·6)**	**19·6**	12·4	(2·4)	10·0
Other Overseas	**8·5**	**8·1**	**16·6**	14·3	6·6	20·9
	314·8	**94·2**	**409·0**	221·4	72·5	293·9
Investment/borrowings			**71·5**			7·2
Operating profit before taxation and realised gains			**480·5**			301·1

NET ASSETS	1995			1994		
	General business £m	Long term business £m	Total £m	General business £m	Long term business £m	Total £m
United Kingdom	**669·7**	**60·3**	**730·0**	560·8	32·4	593·2
Rest of Europe	**362·6**	**270·4**	**633·0**	316·5	230·9	547·4
USA	**152·2**	–	**152·2**	144·5	–	144·5
Australia	**120·8**	**27·3**	**148·1**	84·7	20·8	105·5
Other Overseas	**123·2**	**21·5**	**144·7**	117·8	18·1	135·9
	1,428·5	**379·5**	**1,808·0**	1,224·3	302·2	1,526·5
Investment/borrowings			**1,107·9**			452·8
Shareholders' funds including minority interests			**2,915·9**			1,979·3

NOTES ON THE ACCOUNTS

Net assets of the general insurance business have been attributed to territorial segments of the Group's business on the basis of management's view of the assets committed locally to support the general business operation. The net assets of the long term business represents the shareholders' interest in the long term funds of UK linked subsidiaries and the entire attributable shareholders's funds of overseas companies. The territorial disposition of the remaining net assets is determinable by group management and these have therefore not been segmented.

The result for general business represents the profit(loss) from insurance operations including investment income on the attributed net assets. The long term insurance business result represents the balance on the technical account for long term business together with the related tax credits. The investment/borrowings result represents investment income, net of interest payable, arising on the remaining net assets together with the results from non-insurance operations.

12 SHARE CAPITAL

	1995 £m	1994 £m
Ordinary share capital		
Authorised:		
1,200,000,000 *(1994 1,200,000,000)* ordinary shares of 25p each	**300·0**	300·0
Issued and fully paid:		
815,460,992 *(1994 809,659,036)* ordinary shares of 25p each	**203·9**	202·4
Preference share capital		
Authorised:		
300,000,000 (*1994 300,000,000)* preference shares of £1 each	**300·0**	300·0
Issued and fully paid:		
125,000,000 (*1994 125,000,000)* preference shares of £1 each	**125·0**	125·0

During the year 4,732,900 ordinary shares were issued on the exercise of employee share options for a total consideration of £11·6m and 1,069,056 ordinary shares were issued pursuant to scrip dividend offers. As a consequence the issued share capital increased by £1·5m and share premium account by £13·7m.

At 31st December, 1995 under employee savings related share option schemes, employees held options to subscribe for 18,331,151 ordinary shares at prices ranging from 186p to 307p per share. The options are normally exercisable within 6 months of the respective exercise dates which are between 1st August, 1995 and 1st August, 2002.

Under executive share option schemes, options normally exercisable within 7 years of the exercise date to subscribe for 8,490,658 ordinary shares were outstanding at 31st December, 1995 as follows:–

Number of shares	Option price per share	Exercise date
962,508	232·25p	6th May, 1991
997,478	282·50p	5th May, 1992
1,032,378	303·00p	20th April, 1993
1,046,224	384·00p	17th April, 1994
667,902	232·00p	14th April, 1995
1,027,588	337·00p	21st April, 1996
412,203	369·00p	13th September, 1996
1,060,944	344·00p	14th April, 1997
1,283,433	343·00p	13th April, 1998

The preference shares carry a right to a fixed cumulative preferential dividend of 7⅞% per annum, payable in half-yearly instalments, and are irredeemable. On a return of capital on a winding up, the holders are entitled, in priority to holders of all other shares of the Company, to receive out of the surplus assets of the Company any arrears and accruals of the dividend together with the greater of the price at which the gross yield on each preference share is equal to the mean gross yield on 3½% War Loan or such Government Stock as may be agreed (but not exceeding twice the nominal amount of the preference share) and the nominal amount of the share together with any premium paid on issue. The holders of preference shares have the right to vote at a general meeting of the Company only if at the date of the notice of the meeting the dividend payable on the shares is in arrears or otherwise on a resolution to vary the rights attaching to the preference shares.

Details of the 7·25% Convertible Subordinated Bonds 2008 are shown in note 25.

13 CONSOLIDATED RESERVES

	Profit and loss account		Revaluation reserve	
	1995 £m	1994 £m	**1995 £m**	1994 £m
Balance at 1st January	**339·7**	231·4	**1,054·5**	1,426·6
Prior year adjustment (see below)	**(173·5)**	(201·1)	**186·1**	215·4
Balance at 1st January as restated	**166·2**	30·3	**1,240·6**	1,642·0
Profit and loss account transfer	**252·3**	121·6	–	–
Foreign exchange gains and losses	**45·9**	29·9	**7·5**	(11·5)
Goodwill written back (off)	**47·1**	(15·6)	–	–
Unrealised appreciation (depreciation) of investments	–	–	**504·0**	(389·9)
Balance at 31st December	**511·5**	166·2	**1,752·1**	1,240·6

PRIOR YEAR ADJUSTMENTS

Foreign exchange and other items, principally goodwill, previously charged to revaluation reserve amounting to £186·1m have been reallocated to retained profits. In addition a prior year adjustment net of taxation increasing retained profits by £12·6m has been made the components of which are:

(i) recognition of shareholders reserves, after adjusting for deferred acquisition costs and tax, within the long term business funds, net of adjustment for minority interests, amounting to £23·9m.

(ii) recognition under the ex-dividend basis of additional investment income on equity investments amounting to £8·7m.

(iii) recognition of an additional internal claims handling provision in relation to the Group's overseas operations giving rise to a charge of £20m after minorities.

The impact of the accounting policy changes as set out on page 21 has been to increase the reported 1994 profit before tax by £31·9m and increase the current year profit before tax by £106m.

14 INVESTMENTS

Land and buildings:

	Shareholder consolidated balance sheet		Combined consolidated balance sheet	
	1995 £m	1994 £m	1995 £m	1994 £m
Freehold	**765·9**	801·9	**1,898·2**	1,861·3
Long leasehold	**54·2**	57·3	**117·4**	153·4
Short leasehold	**11·8**	12·4	**15·5**	16·0
	831·9	871·6	**2,031·1**	2,030·7
Group occupied	**213·8**	216·0	**327·2**	311·9

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.

Other financial investments:

	Shareholder consolidated balance sheet market value		Combined consolidated balance sheet market value	
	1995 £m	1994 £m	1995 £m	1994 £m
Shares and other variable yield securities and units in unit trusts	**2,870·3**	2,295·9	**7,913·3**	6,662·6
British Government securities	**683·5**	611·7	**2,719·4**	2,419·1
Overseas government securities	**1,609·6**	1,323·9	**2,481·9**	1,901·4
Debentures	**818·7**	725·1	**5,537·5**	4,575·7
Preference shares	**39·2**	42·1	**71·6**	65·0
Debt securities and other fixed income securities	**3,151·0**	2,702·8	**10,810·4**	8,961·2
Loans secured by mortgages	**64·5**	70·8	**232·6**	227·7
Other loans	**18·4**	23·7	**66·5**	67·5
Deposits with credit institutions	**601·4**	752·6	**989·5**	959·7
	6,705·6	5,845·8	**20,012·3**	16,878·7

Included above are listed investments:

	1995 £m	1994 £m	1995 £m	1994 £m
Shares and other variable yield securities and units in unit trusts	**2,814·3**	2,255·9	**7,782·5**	6,600·0
Debt securities and other fixed income securities	**3,111·4**	2,601·0	**10,715·1**	8,845·4

Included within other loans in the combined consolidated balance sheet are amounts of £40·8m *(1994 £38·9m)* relating to policyholder loans.

The historical cost of investments for the combined consolidated balance sheet is £17,485·4m *(1994 £15,923·6m)*. The historical cost of assets held to cover linked liabilities is £1,823·3m *(1994 £1,693·7m)*.

NOTES ON THE ACCOUNTS

15 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	Shareholder consolidated balance sheet		Combined consolidated balance sheet	
	1995 £m	1994 £m	**1995 £m**	1994 £m
Due from policyholders	**319·8**	355·0	**392·6**	411·5
Due from intermediaries	**457·3**	386·0	**464·0**	398·0
	777·1	741·0	**856·6**	809·5

16 TANGIBLE ASSETS

	Combined consolidated balance sheet			
	Plant and machinery £m	Motor vehicles £m	Fixtures & fittings £m	Total £m
Cost				
Balance at 1st January, 1995	194·1	50·9	201·9	446·9
Purchases	48·5	19·3	26·5	94·3
Transfers/exchange	(2·8)	(1·3)	(2·6)	(6·7)
Disposals	(12·7)	(17·8)	(16·2)	(46·7)
Balance at 31st December, 1995	**227·1**	**51·1**	**209·6**	**487·8**
Depreciation				
Balance at 1st January, 1995	(141·4)	(21·2)	(144·0)	(306·6)
Charged to technical accounts	(34·5)	(9·4)	(20·4)	(64·3)
Transfers/exchange	1·7	0·7	1·7	4·1
Depreciation on disposals	9·8	9·7	12·2	31·7
Balance at 31st December, 1995	**(164·4)**	**(20·2)**	**(150·5)**	**(335·1)**
Net book value at 31st December, 1995	**62·7**	**30·9**	**59·1**	**152·7**
Net book value at 31st December, 1994	52·7	29·7	57·9	140·3

17 DEFERRED ACQUISITION COSTS

An amount of £400·1m *(1994 £383·3m)* is included in the combined consolidated balance sheet in relation to the deferral of acquisition costs in respect of long term business.

NOTES ON THE ACCOUNTS

18 LONG TERM BUSINESS PROVISION

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

		Interest Rate %		Mortality Table	
		31.12.1995	31.12.1994	31.12.1995	31.12.1994
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 and PA (90)	A67/70 and PA (90)

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 all 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 bonus.

A reduction has been made in some rates of interest adopted since 1st January, 1994 in the light of changes since then in fixed interest returns. The mortality tables used for the valuation of life business have been updated, but with no significant effect on the overall provision.

For business underwritten outside the UK, bases are used which are comparable to those used in the UK but which demonstrate solvency to the relevant local regulatory authority. In the subsidiary company in Denmark, a net premium method is used, with interest rates varying between 2·5% and 4·5% for life business and linked to matching bond yields for annuity business. Mortality rates were based mainly upon G82m/G82k.

The opening long term business fund has been allocated 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 as previously stated	13,876·2	–	–	–
Prior year adjustments	19·6	–	–	–
	13,895·8	–	–	–
Allocation of long term business fund	(13,895·8)	11,125·1	2,012·2	758·5
Deferred acquisition costs	–	–	–	339·5
Deferred tax on investments	–	39·3	18·1	–
Included within liabilities	–	11,273·4	2,030·5	1,098·0
Included within assets	–	109·0	0·2	–
At 1st January, 1995 as restated	–	11,164·4	2,030·3	1,098·0

NOTES ON THE ACCOUNTS

19 PROVISIONS FOR OTHER RISKS AND CHARGES

	Combined consolidated balance sheet			
	Deferred tax £m	Pensions provisions £m	Other provisions £m	Total £m
At 1st January, 1995	1·4	62·3	19·2	82·9
Charged/utilised	5·5	(3·0)	6·6	9·1
At 31st December, 1995	**6·9**	**59·3**	**25·8**	**92·0**

Included within provisions for liabilities and charges within the parent company balance sheet is deferred taxation of £5·2m *(1994 £5·7m)*.

20 PARENT COMPANY ACCOUNTS

The profit attributable to shareholders amounted to £151·9m *(1994 £138·3m)*. After dividends of £149·9m *(1994 £136·7m)* the balance on the profit and loss account at 31st December, 1995 amounted to £83·8m *(31st December, 1994 £81·8m)*.

Investments in subsidiaries are stated at net asset value. These have been restated as at 31st December, 1994 to reflect the increase in net assets arising on implementation of the Regulations by subsidiary companies, increasing the investments in subsidiaries by £12·6m and increasing revaluation reserve by an equivalent amount. The excess over book value of £2,179·8m *(1994 £1,325·0m)* is taken to revaluation reserve. The increase in net asset value during the year of £771·7m *(1994 decrease £285·3m)* comprises a revaluation increase of £854·8m *(1994 decrease £267·1m)* and net disposals of £nil *(1994 £18·2m)* after decreases in loans to subsidiaries inclusive of amounts written off of £83·1m *(1994 increase £15·0m)*. Loans to subsidiaries at 31st December, 1995 amounted to £28·5m *(31st December, 1994 £111·6m)*. The historical cost of investments is £516·8m *(1994 £599·9m)*.

21 SUBSIDIARIES

A list of subsidiaries appears on pages 51 to 53.

On 6th October, 1995 the Group acquired Commercial Union General Insurance Company Limited incorporated in New Zealand. The operations of this company were subsequently merged with the Group's general business company in New Zealand.

The aggregate consideration for acquisitions during the year, principally Commercial Union General Insurance Company Limited, comprised cash of £22·5m. The provisional book and fair values of the net assets acquired were £14·4m and £14·7m respectively. Goodwill in respect of these acquisitions amounted to £7·9m after minorities and has been written off to retained profits. The cash and cash equivalents of the subsidiaries acquired amounted to £1·1m.

The aggregate proceeds from disposals during the year, principally the Group's US subsidiary Wm. H. McGee & Co. Inc. amounted to £23·8m. The disposals gave rise to a net loss of £11·0m after allowing for goodwill on acquisition of £26·6m. The cash and cash equivalents of the subsidiaries disposed of amounted to £0·3m. Included within the non-technical account is a goodwill writedown of £26m relating to the planned disposal of the Group's UK estate agency operations.

The cumulative goodwill charged against the Group's reserves arising on acquisitions since 1984 of subsidiaries that are still part of the Group amounted to £261·0m at 31st December, 1995.

The accounts of certain subsidiaries, where the amounts involved are insignificant, have not been consolidated. Shares in these subsidiaries are included in the consolidated balance sheet at net asset value.

NOTES ON THE ACCOUNTS

22 CAPITAL COMMITMENTS

Expenditure in respect of office premises and equipment contracted for but not provided for at 31st December amounted to £3·4m *(1994 £16·8m)*.

23 AUDITORS' REMUNERATION

The remuneration of the auditors of the Company and its subsidiaries, in respect of annual accounts, amounted to £3·8m *(1994 £3·7m)* of which £0·01m *(1994 £0·01m)* related to the Company and £2·7m *(1994 £2·7m)* related to overseas. In the United Kingdom, Coopers & Lybrand also received fees of £0·4m *(1994 £0·7m)* in respect of other audit and non-audit services.

24 BORROWINGS

Bank borrowings and other loans were as follows:

	Parent Company balance sheet		Shareholder consolidated balance sheet		Combined consolidated balance sheet	
	1995 £m	1994 £m	**1995 £m**	1994 £m	**1995 £m**	1994 £m
Bank loans and overdrafts repayable –						
Within one year, or on demand						
Unsecured	–	–	**21·8**	34·7	**22·8**	42·3
Other unsecured loans, at interest rates						
ranging from 5% to 11%, repayable –						
Within one year	**98·9**	100·4	**104·9**	118·4	**104·9**	118·4
Between two and five years	**149·8**	149·5	**149·8**	149·5	**149·8**	149·5
Loans secured on properties, most						
of which are at interest rates						
ranging from 6% to 10% repayable –						
Within one year, or on demand	–	–	–	–	**0·1**	0·8
Between two and five years	–	–	–	–	**7·2**	0·2
After five years	–	–	**3·5**	3·5	**5·3**	5·2
	248·7	249·9	**280·0**	306·1	**290·1**	316·4

Bank overdrafts represent cash book balances except where the bank account is managed to ensure that a cleared overdraft does not arise, in which event uncleared items are included in creditors.

25 CONVERTIBLE DEBT

This comprises £155,000,000 7·25% Convertible Subordinated Bonds 2008, after deducting unamortised acquisition costs, which may be converted at a price of 390p per share into ordinary shares of 25p, at the option of the holders, at any time until 23rd November, 2008.

NOTES ON THE ACCOUNTS

26 CHANGES IN FINANCING AND CASH & CASH EQUIVALENTS

(a) Changes in financing

	Share capital and share premium		Minority shareholders		Borrowings	
	1995 £m	1994 £m	**1995 £m**	1994 £m	**1995 £m**	1994 £m
Balance at 1st January	**361·4**	354·3	**211·1**	220·0	**458·6**	383·7
Activities involving the movement of cash:						
Shares issued	**11·6**	5·3	**–**	–	**–**	–
Dividends paid to minority shareholders	**–**	–	**(5·5)**	(7·1)	**–**	–
Increase in other net borrowings	**–**	–	**–**	–	**(29·0)**	72·4
	11·6	5·3	**(5·5)**	(7·1)	**(29·0)**	72·4
Activities not involving the movement of cash:						
Shares & loan notes issued	**3·6**	1·8	**–**	–	**–**	–
Share of results for the year	**–**	–	**47·3**	(1·8)	**–**	–
Other	**–**	–	**22·8**	–	**3·7**	2·5
	376·6	361·4	**275·7**	211·1	**433·3**	458·6

Borrowings include commercial paper that is repayable within three months of the date of issue, in accordance with Group investment management policy. Other short term loans and overdrafts are not material and are also included in borrowings rather than in cash and cash equivalents.

(b) Changes in cash & cash equivalents

During the year cash and cash equivalents, comprising bank balances and cash and deposits at interest with maturity dates of less than three months when acquired, increased from £550·8m to £586·1m *(1994 decrease £558·7m to £550·8m)*. This movement includes an increase of £6·4m *(1994 decrease of £0·6m)* in respect of foreign exchange.

27 OTHER INTERESTS

The shareholder balance sheet includes the shareholder interests in long term funds and the 35% shareholder interest in Codan Bank A/S. The Danish long term funds hold a 65% interest in the Bank.

The primary function of the Bank is to provide support to the activities of the Danish long term and general business operations. The assets of the Bank comprise principally loans and advances to customers; liabilities comprise mainly deposits received. During the year, the Bank made a pre-tax profit of £12·3m *(1994 £4·4m)*. No dividends were paid or declared in the year.

Other charges within the consolidated non-technical account includes profit attributable to the shareholder interest in the Bank and the results arising from the Group's insurance broking and estate agency activities.

NOTES ON THE ACCOUNTS

28 FUNDS FLOW STATEMENT

The following statement sets out the Group's cash flows reflecting management's view of a more appropriate format than that prescribed by FRS1. For an insurance company the principal fund flows are between the insurance operations and the portfolio of investments which are held to meet the insurance liabilities as they fall due. The key funds flow information for an insurance company is therefore the amount of funds made available by the insurance operations for investment, or withdrawn from investments to meet insurance liabilities.

In addition the format avoids the artificial distinction of cash and cash equivalents required by FRS1.

Funds flow for the year ended 31st December, 1995

	Notes	1995 £m	Restated 1994 £m
Operating activities			
Net cash inflow from operating activities		329·5	358·8
Servicing of finance			
Dividends paid		(134·6)	(127·9)
Dividends paid to minority shareholders		(5·5)	(7·1)
Taxation			
Tax (paid) recovered		(33·9)	44·6
Capitalised equipment		(67·7)	(50·9)
Net cash inflow before financing activities		87·8	217·5
Financing activities	26(a)		
Issue of ordinary share capital		11·6	5·3
Total cash flow		99·4	222·8
Net sales of subsidiaries	21	2·1	32·0
Purchases of associates	30	(6·8)	(36·5)
Cash available for investment		94·7	218·3
Applied to:			
Investments:			
Fixed interest investments		10·3	306·7
Stocks and shares		86·0	(27·0)
Property		(33·2)	5·7
Borrowings		29·0	(72·4)
Cash		2·6	5·3
		94·7	218·3

NOTES ON THE ACCOUNTS

29 DIRECTORS

The aggregate emoluments of the directors of the Company, including amounts received from subsidiaries, were:

	1995 £000	1994 £000
Executive directors – remuneration	**1,551**	1,512
– pension contributions	**110**	167
Fees to non-executive directors	**294**	236
	1,955	1,915

Six executive directors waived fees amounting to £40,434 *(1994 seven directors – £130,000).*

The emoluments of the Chairman were £91,648 *(1994 £80,000).* No pension contributions were made on behalf of the Chairman in 1995 or 1994. The emoluments of the highest paid director excluding pension fund contributions, were £375,121 *(1994 £304,027).* Pension contributions of £28,125 *(1994 £23,449)* were paid on his behalf. A pension payment of £17,430 *(1994 £17,493)* was made by a subsidiary to a former director in respect of services other than as a director.

The remuneration of individual directors and former directors was as follows:

	Salary & fees (note 1) £	Benefits (note 3) £	Annual bonus (note 4) £	Total £	Prior year total £
Executive					
M. L. Dew	105,072	3,741	29,456	138,269	181,121
P. F. Foreman	81,651	5,633	–	87,284	–
T. A. Hayes	243,226	7,047	11,490	261,763	208,920
T. S. Nelson	214,476	7,032	10,134	231,642	188,886
R. Petty	102,677	5,673	30,699	139,049	178,479
P. G. Taylor	213,226	6,753	9,863	229,842	181,555
R. J. Taylor	348,225	10,524	16,372	375,121	278,792
I. M. Trotter	84,150	3,874	–	88,024	–
Non-Executive					
R. J. Ayling	24,000	–	–	24,000	18,250
Sir Christopher Benson	91,648	–	–	91,648	80,000
Geoffrey Bowler	–	–	–	–	6,300
Sir Ewen Fergusson	24,000	–	–	24,000	18,250
Graeme E. Gilchrist	–	–	–	–	6,300
J. Kemp-Welch	24,000	–	–	24,000	13,359
Henry Keswick	45,000	–	–	45,000	39,625
The Lord Kindersley	28,000	–	–	28,000	24,250
Sir Roger Neville (note 5)	20,000	–	–	20,000	304,027
The Hon. Amschel Rothschild	11,648	–	–	11,648	–
Leopold de Rothschild	8,175	–	–	8,175	20,250
The Duke of Westminster	18,278	–	–	18,278	–
	1,687,452	50,277	108,014	1,845,743	1,748,364

Notes

1 This column includes fees payable to non-executive directors, and the payments in respect of salary for executive directors. Mr. M. L. Dew and Mr. R. Petty remained in executive service until 30th November and 30th September, although standing down from the board with effect from 30th June.

2 In respect of service after 30th June Mr. M. L. Dew and Mr. R. Petty received salary payments, in addition to the figures shown above, totalling £78,459 and £45,849 respectively; benefits amounted to £2,804 and £2,837 respectively.

3 Benefits relate to taxable car benefit.

4 Annual Bonus includes payments made in respect of the Managers Performance Incentive Bonus Scheme, the Staff Profit-Related Pay Scheme and performance bonuses as approved by the Remuneration Committee.

5 The prior year total for Sir Roger Neville includes £294,027 in relation to duties as Group Chief Executive.

NOTES ON THE ACCOUNTS

No director has a material interest in any contract of significance entered into by the Company or its subsidiaries subsisting during or at the end of the year.

A guarantee to a building society in respect of a mortgage advance under a staff house purchase scheme to Mr. M. L. Dew for an amount of £14,943 subsisted throughout the year. There were amounts outstanding at 1st January, 1995 in respect of loans under the staff season ticket scheme to Mr. P. F. Foreman of £2,300, Mr. P. G. Taylor of £902 and Mr. I. M. Trotter of £2,764, which were the maximum amounts outstanding during the year and were all repaid during the year.

The interests of directors in the ordinary shares of 25p in the Company, as declared and recorded in accordance with the Companies Act 1985, are as follows:

	Shares held at 1st January, 1995 or on appointment	Shares held at 31st December, 1995
R. J. Ayling	600	600
Sir Christopher Benson	36,457	38,117
Sir Ewen Fergusson	494	494
T. A. Hayes	6,682	6,726
J. Kemp-Welch	10,000	10,000
J. Kemp-Welch (as Trustee)	50,000	50,000
Henry Keswick	25,966	27,267
The Lord Kindersley	1,600	1,600
T. S. Nelson	1,114	1,114
Sir Roger Neville	191,166	192,573
P. G. Taylor	7,796	41,669
R. J. Taylor	17,271	119,815
I. M. Trotter	23,519	25,000
The Duke of Westminster	42,000	126,000
The Duke of Westminster (as Trustee)	50,000	80,000

Mr. J. Kemp-Welch was also interested as Trustee in the 7·25% Convertible Subordinated Bonds 2008 of the Company. His holding was £250,000 at 1st January and 31st December, 1995.

On 4th March, 1996 the holdings of Mr. P. G. Taylor and Mr. R. J. Taylor were 41,756 and 119,998 shares respectively and the other directors' holdings were unchanged.

Options to subscribe for ordinary shares

	Held at 1 January 1995 or on appointment	During 1995 Granted	During 1995 Exercised (see note 2)	Held at 31 December 1995	Option Prices (see note 3) p	Exercise Dates
P. F. Foreman	171,613					
				6,429	384	17 April 1994
				165,184	324*	5 May 1992 to 13 April 1998*
	171,613			171,613		
T. A. Hayes	228,387					
		80,505			343	13 April 1998
				6,562	384	17 April 1994
				302,330	322*	6 May 1991 to 13 April 1998*
	6,048†	2,782†		8,830†		
	234,435	83,287		317,722		

NOTES ON THE ACCOUNTS

	Options to subscribe for ordinary shares					
	Held at 1 January 1995 or on appointment	During 1995 Granted	Exercised (see note 2)	Held at 31 December 1995	Option Prices (see note 3) p	Exercise Dates
T. S. Nelson	251,047					
		40,817			343	13 April 1998
				6,835	384	17 April 1994
				285,029	300*	6 May 1991 to 13 April 1998*
	9,190†	3,477†	2,134†	10,533†		
	260,237	44,294	2,134	302,397		
Sir Roger Neville	260,074					
				16,250	384	17 April 1994
				243,824	265*	6 May 1991 to 14 April 1995*
	5,513†		1,481†	4,032†		
	265,587		1,481	264,106		
P. G. Taylor	219,438‡		93,808			
		46,649			343	13 April 1998
				6,562	384	17 April 1994
				165,717	319*	5 May 1992 to 13 April 1998*
	8,893†	2,782†	2,845†	8,830†		
	228,331‡	49,431	96,653	181,109		
R. J. Taylor	403,255		100,000			
		152,258			343	13 April 1998
				10,625	384	17 April 1994
				444,888	315*	6 May 1991 to 13 April 1998*
	12,096†			12,096†		
	415,351	152,258	100,000	467,609		
I. M. Trotter	173,008					
				7,739	384	17 April 1994
				165,269	331*	5 May 1992 to 13 April 1998*
	9,686†		1,481†	8,205†		
	182,694		1,481	181,213		

Notes

1 Figures marked † are shares subject to option under the Sun Alliance Group savings related share option schemes, in which Group employees generally participate, further details of which are shown in note 12 on page 37. All other options were granted under the executive share option schemes and are normally exercisable within seven years of the relevant exercise date.

2 The price at which Mr. R. J. Taylor and Mr. P. G. Taylor exercised executive options was 232·25p per share, the official closing middle market price at the respective dates of exercise being 342p and 358p per share.

3 Option prices and exercise dates marked * relate to a number of grants and are the weighted average option price of shares under option and the range of exercise dates.

4 Numbers of shares subject to option marked ‡ have been adjusted in respect of a grant subsequently discovered to be invalid.

5 The official closing middle market price at its highest during the year was 406p and at its lowest was 284p per share; on the last dealing day of the year it was 373p per share.

6 Full details of all directors' shareholdings and options to subscribe for shares are recorded in the Company's Register of Director's Interests which is open to inspection in accordance with the provisions of the Companies Act 1985.

NOTES ON THE ACCOUNTS

30 INTEREST IN ASSOCIATES

(a) Movements in the Group's investments in associates comprise:

	Share of capital £m	Share of reserves £m	Total investment £m
Balance at 1st January	17·8	88·9	106·7
Profit for the year after taxation	–	14·4	14·4
Taxation	–	(4·0)	(4·0)
Foreign exchange gains and losses	1·9	4·9	6·8
Unrealised investment gains after taxation	–	2·5	2·5
Dividends received	–	(2·4)	(2·4)
Acquisitions	0·4	6·4	6·8
Balance at 31st December	**20·1**	**110·7**	**130·8**

(b) Companies in which the Group's interest in the equity capital amounts to 20% or more, all of which are associated companies and are involved in insurance except where noted are as follows:

Name and country of incorporation and of principal operations unless otherwise indicated	Class of shares	Issued capital £m	Group Interest (held by subsidiaries) %
United Kingdom			
(registered in England and Wales)			
British Aviation Insurance Co. Ltd.	Ordinary	2·0	29·7
Switzerland			
Rothschilds Continuation Holdings AG	Ordinary	75·7	21·5
(merchant banking group)			
Jamaica			
West Indies Alliance Insurance Co. Ltd.	Ordinary	0·1	49·0
Malaysia			
Sun Alliance Insurance (Malaysia) Sdn. Bhd	Ordinary	1·3	49·0
Philippines			
Federal Phoenix Assurance Co. Ltd.	Ordinary	1·5	40·0
Saudi Arabia			
(incorporated in Bahrain)			
Al-Alamiya Insurance Co. Ltd. (EC)	Ordinary	6·5	42·0

The above details are based on the latest available accounts. Included for the first time are the results of Rothschilds Continuation Holdings AG based on their accounts to March 1995.

NOTES ON THE ACCOUNTS

(c) Other companies in which the Group's interest in the equity capital exceeds 10%

Name and country of incorporation	Class of shares	Group Interest (held by subsidiaries) %
United Kingdom		
(registered in England and Wales)		
The Fleming Continental European Trust P.L.C.	Ordinary	10·1
Peru		
Compania de Seguros La Fenix Peruana	Ordinary	19·2

Some interests in associated companies and other participating interests have been omitted from this statement to avoid providing particulars of excessive length but none materially affects the results or assets of the Group.

SUBSIDIARIES

Name and country of incorporation and of principal operations	Percentage of ordinary shares held By Parent Company	Through Subsidiaries
United Kingdom		
(registered in England and Wales)		
Sun Alliance and London Insurance plc	100·0	
Alliance Assurance Co. Ltd.		100·0
Bradford Insurance Co. Ltd.		100·0
Chancellors Holdings Ltd.		100·0
Legal Protection Group Holdings Ltd.		100·0
The London Assurance		100·0
Mynshul Group PLC		100·0
National Vulcan Engineering Insurance Group Ltd.		100·0
Phoenix Assurance plc		100·0
The Sea Insurance Co. Ltd.		100·0
Sun Alliance and London Assurance Co. Ltd.		100·0
Sun Alliance Fund Management Ltd.	100·0	
Sun Alliance Group Properties Ltd.	100·0	
Sun Alliance Insurance International Ltd.		100·0
Sun Alliance Insurance Overseas Ltd.		100·0
Sun Alliance Insurance UK Ltd.		100·0
Sun Alliance Investment Management Ltd.	100·0	
Sun Alliance Life Ltd.		100·0
Sun Alliance Linked Life Insurance Ltd.		100·0
Sun Alliance Management Services Ltd.		100·0
Sun Alliance Mortgage Co. Ltd.	100·0	
Sun Alliance Pensions Ltd.		100·0
Sun Alliance Property Construction Ltd.		100·0
Sun Alliance Trust Co. Ltd.	100·0	
Sun Alliance Unit Trust Management Ltd.	100·0	
Sun Insurance Office Ltd.		100·0
Swinton (Holdings) Ltd.		100·0
Tariff Reinsurances Ltd.		100·0
Antigua		
Sun Alliance Insurance (Eastern Caribbean) Ltd.		75·0
Argentina		
Los Andes Compania de Seguros S.A.		51·0
Australia		
Sun Alliance Holdings Ltd.		100·0
Sun Alliance and Royal Insurance Australia Holdings Ltd.		60·0
Sun Alliance and Royal Insurance Australia Ltd.		60·0
Sun Alliance Life Assurance Ltd.		100·0
Austria		
Sun Alliance Versicherungs AG		100·0
Bahamas		
Sun Alliance Insurance (Bahamas) Ltd.		65·0

SUBSIDIARIES

Name and country of incorporation and of principal operations	Percentage of ordinary shares held By Parent Company	Through Subsidiaries
Belgium		
Sun Alliance SA		100·0
Brazil		
Sun Alliance Seguradora SA		100·0
Canada		
Yonge Wellington Property Ltd.		100·0
Channel Islands (Guernsey)		
Sun Alliance International Life Assurance Co. Ltd.		100·0
Colombia		
Compania de Seguros La Fenix de Colombia S.A.		51·9
Curacao		
Sun Alliance Insurance (Antilles) NV		51·0
Denmark		
A/S Forsikringsselskabet Codan		71·5
A/S Forsikringsselskabet Codan Liv		71·5
A/S Forsikringsselskabet Codan Pension		71·5
Codan Bank A/S		71·5
France		
Sún Alliance Assurances SA		100·0
Tellit Assurances Sun Alliançe SA		100·0
Germany		
Securitas Bremer Allgemeine Versicherungs AG		99·6
Securitas-Gilde Lebensversicherung AG		99·7
Greece		
Sun Alliance Insurance (Hellas) SA		100·0
Holland		
Sun Alliance Verzekering NV		100·0
Sun Alliance Levensverzekering NV		100·0
Indonesia		
PT Sun Alliance Insurance Indonesia		65·0
Italy		
Sun Alliance Vita S.p.A.		100·0
New Zealand		
Sun Alliance Insurance Ltd.		100·0
Sun Alliance Life Ltd.		100·0
Republic of South Africa		
Protea Assurance Co. Ltd.		79·7
Singapore		
Sun Alliance Insurance Ltd.		100·0

SUBSIDIARIES

Name and country of incorporation and of principal operations	Percentage of ordinary shares held By Parent Company	Through Subsidiaries
Spain		
Sun Alliance SA		98·9
Sweden		
Försäkringsaktiebolaget Holmia		71·5
United States of America		
Alliance Assurance Company of America		100·0
Phoenix Assurance Company of New York		100·0
Sun Alliance USA Inc.		100·0
Sun Insurance Office of America Inc.		100·0
The London Assurance of America Inc.		100·0
The Sea Insurance Company of America		100·0
Zimbabwe		
Phoenix Assurance Zimbabwe Ltd.		53·2

Some subsidiaries have been omitted from this statement to avoid providing particulars of excessive length but none materially affects the results or assets of the Group.

TEN YEAR FINANCIAL SUMMARY

	1995 £m	New format (note a) 1994 £m	1993 £m
PREMIUM INCOME			
General insurance	**3,571**	3,402	3,392
Long term insurance	**1,262**	1,237	1,134
	4,833	4,639	4,526
CONSOLIDATED PROFIT AND LOSS ACCOUNT			
General insurance underwriting result	**(31)**	(127)	(243)
Long term insurance profits	**94**	72	96
Investment income and other activities	**417**	356	369
Operating profit (loss) before taxation	**480**	301	222
Realised investment gains	**103**	42	–
Profit (loss) on disposal of subsidiaries	**(37)**	4	–
Profit (loss) before taxation	**546**	347	222
Taxation, minority interests and other items	**(144)**	(88)	(41)
Profit (loss) attributable to shareholders	**402**	259	181
Dividends	**(150)**	(137)	(121)
Retained profits transfer	**252**	122	60
	p	p	p
Operating earnings (loss) per ordinary share	**44·0**	26·9	22·3
Dividend per ordinary share	**17·25**	15·75	14·75
	£m	£m	£m
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
Profit (loss) attributable to shareholders	**402**	259	181
Realised investment profits less losses	**–**	–	92
Unrealised investment appreciation and foreign exchange gains	**558**	(372)	270
Development finance for long term insurance	**–**	–	(5)
Total recognised gains (losses)	**960**	(113)	538
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS			
Shareholders' funds at 1st January	**1,768**	2,027	1,548
Share capital issued	**15**	7	131
Total recognised gains (losses)	**960**	(113)	538
Goodwill written off	**47**	(16)	(84)
Dividends	**(150)**	(137)	(121)
Other items	**–**	–	
Shareholders' funds at 31st December	**2,640**	1,768	2,012
EFFECTS OF INFLATION – amounts restated at December 1995 £'s (c)			
Operating profit (loss) before taxation	**480**	311	236
Shareholders' funds at 31st December	**2,640**	1,825	2,137
	p	p	p
Operating earnings (loss) per ordinary share	**44·0**	27·8	23·7
Dividend per ordinary share	**17·25**	16·3	15·7

Notes

(a) The financial summary for the years 1994 and 1995 is shown in a format which reflects the changes resulting from the implementation of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. The financial summary contains a summarised presentation of the main statements, while the complete format is provided in the accounts. The financial summary for the years before 1993 has not been restated for the new format as information in the new basis for earlier years is not readily available. Opening shareholders' funds at 1st January, 1994 have been restated.

(b) Includes £100m capitalisation arising from the scheme of arrangement.

(c) Based on the change in the retail prices index since 1986.

TEN YEAR FINANCIAL SUMMARY

1992 £m	1991 £m	1990 £m	1989 £m	1988 £m	1987 £m	1986 £m
3,128	2,678	2,513	2,475	2,252	1,990	1,994
1,302	1,018	861	811	860	765	705
4,430	3,696	3,374	3,286	3,112	2,755	2,699
(548)	(833)	(551)	(64)	58	(107)	(78)
62	54	48	40	34	30	27
356	313	322	342	280	249	231
(130)	(466)	(181)	318	372	172	180
–	–	–	–	–	–	–
–	–	–	–	–	–	–
(130)	(466)	(181)	318	372	172	180
1	(6)	75	(103)	(120)	(51)	(54)
(129)	(472)	(106)	215	252	121	126
(114)	(114)	(111)	(99)	(81)	(61)	(46)
(243)	(586)	(217)	116	171	60	80
p	p	p	p	p	p	p
(16·1)	(59·2)	(13·4)	27·3	31·9	15·3	16·0
14·25	14·25	14·00	12·50	10·25	7·75	5·88
£m	£m	£m	£m	£m	£m	£m
(129)	(472)	(106)	215	252	121	126
267	118	190	42	36	39	21
(151)	185	(855)	740	243	(81)	275
(5)	(8)	(9)	(9)	(5)	(4)	(2)
(18)	(177)	(780)	988	526	75	420
1,684	2,034	2,936	2,103	1,693	1,690	1,316
10	9	4	(b) 111	–	–	–
(18)	(177)	(780)	988	526	75	420
(14)	(68)	(39)	(58)	(35)	(11)	–
(114)	(114)	(111)	(99)	(81)	(61)	(46)
–	–	24	(b) (109)	–	–	–
1,548	1,684	2,034	2,936	2,103	1,693	1,690
(140)	(518)	(210)	404	509	250	273
1,676	1,870	2,359	3,725	2,874	2,469	2,558
p	p	p	p	p	p	p
(17·4)	(65·7)	(15·5)	34·6	43·5	22·3	24·3
15·4	15·8	16·2	15·9	14·0	11·3	8·9

SUN ALLIANCE

FINANCIAL CALENDAR AND ADDRESSES

FINANCIAL CALENDAR 1996

First 1996 preference dividend payment	1st April
Annual General Meeting	1st May
Final 1995 ordinary dividend payment	1st July
Announcement of half-year results	5th September
Second 1996 preference dividend payment	1st October
Interim 1996 ordinary dividend payment	2nd December

ADDRESSES

Head office and registered office: 1 Bartholomew Lane, London EC2N 2AB

Registrar: Lloyds Bank Registrars, The Causeway, Worthing, West Sussex BN99 6DA

Designed by Michael Peters Limited Printed by Royle Print Limited

Printed on environmentally friendly paper which contains no chlorine, acid or optical bleaching agents.

R&As/RC10437