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Swinchan Holdings Limited

Report and Accounts 1994

Directors

T.A. Hayes

T.S. Nelson

J. Rochelle

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, 1994

Activities

The Company is the intermediate holding company for Chancellors Holdings Limited and Swinton (Holdings) Limited.

Directors

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

On 1st January, 1994 Mr.J.Rochelle held 5,420 shares of 25p each in Sun Alliance Group plc and options over 173,779 shares; during 1994 he was granted options over 7,630 shares and exercised options over 101,772 shares; on 31st December, 1994 he held 5,420 shares and options over 79,637 shares.

By order of the directors

20th January, 1995

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, 1994. 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.

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, 1994 and of the result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

London
23 January , 1995

COOPERS & LYBRAND
Chartered Accountants
and Registered Auditors

Profit and loss account
for the year ended 31st December, 1994

	Notes	1994 £	1993 £
Exceptional item:			
Write down investment in subsidiaries	4	-	(98)
Loss on ordinary activities before taxation		-	(98)
Taxation		-	-
Loss on ordinary activities after taxation		-	(98)
Interim dividend		-	(111,534)
		-	(111,632)

No recognised gains or losses arose during the year.

Balance sheet
at 31st December, 1994

	Notes	1994 £	1993 £
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	6	100	100
Profit and loss account		(98)	(98)
Shareholders' funds	5	2	2

The accounts on pages 4 to 5 were approved by the directors on 20th January, 1995 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 the lower of cost or net realisable value.

2. Directors' emoluments

No emoluments were paid or are payable to the directors in respect of their services as directors in 1994 or 1993.

3. Auditors' remuneration

The remuneration of the auditors of the Company amounted to £3,000 *(1993 nil)*. The costs of auditing the Company's accounts are borne by a parent company.

4. Subsidiaries

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

5. Reconciliation of movement in shareholders' funds

	1994 £	1993 £
Shareholders' funds at 1st January	2	111,633
Interim dividend	-	(111,534)
Share capital issued	-	1
Loss attributable to shareholders	-	(98)
Shareholders' funds at 31st December	2	2

6. Share capital

	1994 £	1993 £
Authorised: Ordinary shares of £1 each	100	100
Allotted and fully paid: Ordinary shares of £1 each	100	100

7. 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.

Summary of Group Results

Premium income	1994 £m	1993 £m
General insurance	**3,413·7**	3,392·2
Long-term insurance	**1,237·1**	1,133·7
	4,650·8	4,525·9

Profit and loss account	1994 £m	1993 £m
General insurance underwriting result	**(127·2)**	(243·2)
Long-term insurance profits	**89·1**	95·8
Investment income	**385·0**	377·0
Other activities	**(31·4)**	(7·9)
Profit before taxation	**315·5**	221·7
Taxation	**(64·1)**	(28·9)
Minority interests	**(2·0)**	(11·5)
Profit attributable to shareholders	**249·4**	181·3
Dividends	**(136·7)**	(120·7)
Retained profits transfer	**112·7**	60·6
Earnings per ordinary share	**29·7p**	22·3p
Dividend per ordinary share	**15·75p**	14·75p

Territorial analysis

	1994		1993	
General insurance	Premium income £m	Underwriting result £m	Premium income £m	Underwriting result £m
United Kingdom	**1,705·9**	**(16·4)**	1,854·9	(133·5)
Rest of Europe	**796·5**	**(78·5)**	656·2	(104·7)
USA	**363·5**	**(11·2)**	351·9	1·4
Australia	**266·3**	**(21·7)**	242·2	(8·1)
Other overseas	**281·5**	**0·6**	287·0	1·7
	3,413·7	**(127·2)**	3,392·2	(243·2)
Long-term insurance	Premium income £m	Shareholders' profits £m	Premium income £m	Shareholders' profits £m
United Kingdom	**711·3**	**57·5**	740·0	54·6
Rest of Europe	**368·5**	**27·1**	297·2	35·6
Australia	**75·9**	–	47·2	1·3
Other overseas	**81·4**	**4·5**	49·3	4·3
	1,237·1	**89·1**	1,133·7	95·8

CHAIRMAN'S STATEMENT

Sir Christopher Benson

I am pleased to report a continuing recovery in our operating results and a satisfactory profit performance. This was achieved despite a further provision of £100m associated with the move to recognise mortgage indemnity losses on an arrears basis. We expect that the making of this additional provision should – in the absence of a significant deterioration in the housing market – ensure that the losses from business written in the years 1988 to 1990 are largely behind us.

After a sustained period of appreciation, our investment portfolios have on this occasion suffered a setback following a difficult year in the capital markets. However, during this period our property portfolio has stood us in good stead. It is the continuing strength of the Group's financial position which enables us to maintain a well-diversified investment portfolio so that we can withstand stock market fluctuations with some confidence.

In the UK general insurance market our commercial business recovered strongly and produced an underwriting profit. Excluding the domestic mortgage indemnity account, our personal lines business remains profitable. However, it is only realistic to recognise that the profitability of household insurance will from time to time suffer the direct impact of severe weather conditions.

Our life and general business outside the UK continues to show satisfactory growth. I look forward to our overseas earnings making an increasingly important contribution to the Group's results, consistent with our continuing strategy to achieve a wider spread of activity and risk away from our home market. Half of the Group's worldwide non-life premium income now comes from outside the UK. As part of our strategy for expansion in the Far East, where we already have a number of flourishing operations, we have opened a second representative office in China. We are also keenly watching the moves in India towards the privatisation of insurance.

The Group's UK life business made sound progress, particularly in the group life and permanent health insurance accounts, at a difficult time for the industry. At the end of the year new computer systems and new flexible life and pension products were in place to comply with the latest round of marketing regulations made under the Financial Services Act.

Against this background, I believe it is timely to emphasise the central importance of insurance to the economy through its primary function of protecting persons, property and business, providing the bedrock of economic and personal security without which other businesses cannot flourish, as well as its major contribution to the balance of international trade. In 1993 (the latest year for which these figures are available) the insurance sector contributed a net £4·6bn to the balance of payments, overtaking all other financial service sectors. The insurance industry's position in the City and the UK economy as a whole deserves wider recognition, and the Group and the industry must take a higher profile position on the major issues of the day. I was therefore honoured to be one of a delegation invited by the Prime Minister to accompany him to the Middle East and South Africa, where I also had the opportunity to see the Group's activities at first hand, and to accompany the President of the Board of Trade to Saudi Arabia for the "Partners in Progress" exhibition.

Chairman's Statement

It is arguable, as a general principle of government, that the State should restrict its activities to those functions which cannot by their nature be discharged by the citizens individually or by private enterprise. Where the State takes on a wider range of functions, loss of efficiency and economic distortion is the usual result. On that basis, insurance has a part to play in relieving the State of the cost of certain burdens for which cover can be made available on competitive terms in the private sector. The provision of pensions is a case in point. After a number of unsuccessful attempts, a sound basis for a state and private sector partnership was established in the 1970s with the introduction of the State Earnings Related Pension Scheme (SERPS), while leaving to employers the option of establishing – to the considerable benefit of their employees – their own occupational schemes on a contracted-out basis.

The concept of "personal pensions", introduced in 1988 as a flexible alternative to SERPS and as an option for those who did not want to be constrained by membership of an occupational scheme, was – and remains – sound. The merits of individually purchased pensions should not be forgotten, even while this year the life insurance industry tackles the serious problem relating to pension transfers and opt-outs. This problem has arisen as a result of allegations that some pension contracts were sold in the late 1980s without the stringent standards of care now required, and in the context of Government advertising and fiscal incentives which have turned out to be misjudged.

I am firmly of the view that those who advise on investments are under an onerous duty to their clients and in the event of shortcoming, the client should be compensated for any loss. What is, however, quite unreasonable – on the part of the individual investor or any regulatory authority – is the application of the wisdom of hindsight, judging past transactions made under other conditions on the basis of either present knowledge or today's enhanced regulatory standards, rather than in the context of the time.

I hope that insurers and regulators will learn from this experience and ensure that a sensible balance is struck between proper consumer protection and unnecessary and expensive over-regulation.

The insurance market is surrounded by other uncertainties in addition to these. It is not yet clear how fast or how successfully regulators and markets within the various states of the European Union are adapting to the freedoms conferred by the insurance framework directives. We must, in any case, ensure that the UK industry is not handicapped by tax or regulatory treatment less favourable than that enjoyed by its continental competitors. I therefore welcome the support of both Government and Opposition for current proposals to establish equalisation reserves.

Some major threats, such as that of terrorist attack in the UK, have been reduced although by no means removed. On the other hand, the increasingly volatile nature of weather related risks strengthens the case for equalisation reserves.

Against this background the Group is concentrating on its core activities of general insurance and the protection aspect of life insurance, together with the provision of pensions and fund management services. In this last connection we have cemented a long-standing relationship with Rothschilds by

CHAIRMAN'S STATEMENT

extending our investment in their holding company, Rothschilds Continuation Holdings AG, to just over 20%. This will enable us to explore together new opportunities in a rapidly-changing savings market.

Our technical experts, using increasingly sophisticated techniques, are now able to deliver greatly enhanced risk analyses in many lines of business which assist us to underwrite on a competitive basis. But neither these, nor the making of strong alliances with corporate partners, are enough in themselves. There is a continuing need to sharpen our competitive edge by controlling expenses firmly, while making the necessary investment in new technology and staff training.

I have already mentioned the importance of insurance to the national economy. At a more immediate level it reaches every home, shop, office and factory, and has a key part to play in the community. We are therefore encouraging the Group's staff to play their part through our Community Investment Programme. Our charitable donations are being firmly directed towards crime prevention, particularly among the young; this benefits both our business and the wider community, upon whose well-being and prosperity we recognise our dependence.

In the year under review Sir Roger Neville retired as Group Chief Executive and has been succeeded by Mr Roger Taylor. I am pleased that Sir Roger has agreed to remain on the board and contribute the benefit of his experience and judgement. During his seven years as Chief Executive, Sir Roger faced the unprecedented challenge of a radically altered insurance environment, through which he led the Group back to profitability and laid foundations upon which I am confident that the new team will build and develop its worldwide strategy. Management is committed to making changes and converting opportunities into practical success, thereby delivering due returns to shareholders. Another high priority is education and staff training with the aim of enhancing customer care and professional standards of service. This is a testing time for management and staff alike, which I am sure that they will face valiantly and with success.

Following our Annual General Meeting on 3rd May, Mr Leopold de Rothschild, from whose active contribution and sound advice the board has benefited in so many ways since 1982, will be retiring as a director. Mr de Rothschild is well known throughout the Group, having visited many of its establishments throughout the world. He has made many friends and leaves with our warmest gratitude and affection.

Last year I invited shareholders who were unable to attend the Annual General Meeting to write to me in advance with any points they might wish to raise. I believe this offer was well received by shareholders and I am happy to repeat the same invitation this year.

8th March, 1995

Group Chief Executive's Review

Group Operations

The Group's 1994 results represent another important year of progress in the recovery from our past heavy losses. General insurance operations throughout the UK had a much better year, with a major turnaround in Sun Alliance International producing an underwriting profit, and the result from Sun Alliance UK, excluding domestic mortgage indemnity business continued at a good level, due in part to the absence of bad weather.

Overseas operations now represent 50% of our general insurance premium income, and we had some first class performances from a number of territories. The results from the USA derived from our partnership with the Chubb Corporation were particularly encouraging, given the cost of the earthquake and the winter storms in the first quarter. Reserve strengthening in Denmark and Australia led to disappointing results; but both these operations have a significant presence in their local markets and are therefore well placed to increase their profitability.

Roger Taylor

Another major feature is the continuing importance of our worldwide life activities and their profit contribution of £89m. Worldwide annual and single new business premiums were both up on 1993.

Investment returns in 1994 were disappointing, but it was a better year for property investment in the UK and in some of our overseas territories. After three consecutive years of notable gains in our investment portfolios, there was some overall reduction in net assets, but the solvency margin remains strong at 58%.

We have established a sound platform for the future, and look to improve our performance by the quality of our products and the skill of our staff, supported by continuing investment in technology.

Customer service to a high standard is our priority. With this in mind, we have brought together our UK life and personal lines general business direct operations in one building in Horsham, and opened there our national quotations centre, incorporating the latest equipment for processing telephone sales.

This has been made possible by the completion of our new Parkside office in Horsham, replacing an unattractive office block which we originally rented, with a modern building more in keeping with its surroundings. Consistent with the Group's positive policy regarding the environment the building has been constructed to high standards and was awarded one of the highest ever ratings in an environmental assessment from the Building Research Establishment. The occupation of Parkside completes the development of the Group's new offices in Horsham.

Group Chief Executive's Review

Sun Alliance UK

The result of the personal lines business in the United Kingdom has again been seriously impacted by the effect of historic mortgage indemnity losses. In 1994, these totalled £167m, of which £100m arose from a change whereby the improved information now available has been used to recognise likely losses at an earlier stage when mortgage payments fall into arrears. Previously our practice was to allow for the loss when the property was taken into possession.

General Insurance	1994 £m	1993 £m
Premium income	862	996
Underwriting result	(29)	3

The current portfolio of personal insurance businesses achieved an underwriting profit. Rate reductions made in response to market conditions have been justified, within continuing sound underwriting policies, by the improved claims experience. Partly as a result of these moves, there was a reduction in premium volume.

During the year, good progress was made in strengthening the direct portfolio, with increased promotion both at a product and corporate level of the key attributes of Sun Alliance as a highly supportive and competitive personal insurer.

At the same time, the changing future needs of our key corporate partnerships were carefully studied. As a consequence, the business approach has been fundamentally refashioned to ensure that, through the closest business alignment, our clients are able to offer the widest range of insurance products tailor-made for them by Sun Alliance.

As a result of major changes in the retail broker market, both our broker businesses, Sun Alliance Broker and Bradford Pennine Insurance, have concentrated their focus on intermediaries and customers willing and able to meet the required administrative and insurance standards; at the same time substantial reductions in the cost base have been achieved.

In Swinton Insurance, an investment and branch closure programme has been implemented at an overall cost of £19m. These measures will restore the competitive ability of this major insurance retail organisation, and enable it to extend sales from the current base of one million customers.

At the product level, an underwriting profit was achieved in all major business classes except health insurance. In the household account, a further year of favourable weather conditions, and continued attention to claims and underwriting management, produced a substantial underwriting profit. But it is still essential to build up reserves in anticipation of the return of more normal weather losses than have been experienced in recent years.

Motor business produced a small underwriting profit, and good underwriting profits were reported on creditor and personal accident lines.

Group Chief Executive's Review

Sun Alliance International

The achievement of an underwriting profit in 1994 for UK-written commercial risks contrasted with the substantial losses reported in recent years. The absence of major bombing incidents and exceptional weather, together with a reduced level of large claims contributed to the improvement. Even so, a profit would not have been achieved without the commitment of management and staff to the maintenance of underwriting standards and the achievement of necessary rate increases. Main contributions came from our regional and London Market businesses. Underwriting performance was supported by an increased focus on customer service throughout the company, while maintaining tight control over expenditure. Business written in earlier years on the marine account continued to produce losses, but at a reduced level for the second successive year.

General Insurance	1994 £m	1993 £m
Premium income	**844**	859
Underwriting result	**13**	(136)

As the year progressed competition intensified in some markets with consequent pressures on rating levels. Some of our regional business, motor and packages in particular, was affected and where we considered rating levels to be inadequate the business was not renewed. Substantial rating increases were achieved on liability and engineering contingency, and levels of deductibles were increased on many lines of business. These factors, combined with changes in some of our reinsurance arrangements, had an adverse impact on net premium growth. Underlying growth of 3% was in line with inflation.

Regional operations produced a substantial underwriting profit with positive results from both property and packages. The casualty account showed a significant improvement in the year, although it still sustained an underwriting loss.

All sectors of London Market Division performed better in 1994. An increased profit from home foreign business, together with much reduced losses elsewhere, combined to produce an overall profit. Strong premium growth was achieved in international risks business, reflecting both rating increases and targeted new business acquisition.

The underwriting loss on marine business was reduced to £30m, reflecting further reserve strengthening but at a lower level than previously. Present indications are that the two open underwriting years will produce profits.

National Vulcan, which is responsible for engineering business, was close to breakeven. The transformation in the way it processes its business, reported last year, continues to bring benefits in efficiency and customer service.

Group Chief Executive's Review

Sun Alliance Overseas

Premium income in the general classes increased by over 10% in local currency terms. The figures this year were affected by the acquisition of Royal Insurance (NZ) Ltd on 1st January 1994, the inclusion of a full four quarters of business from the Hafnia in Denmark for which only three quarters were included in 1993, and by the reduction in premiums arising from the sale of our Canadian company, also effective from the beginning of 1994.

General Insurance	1994 £m	1993 £m
Premium income	**1,708**	1,537
Underwriting result	**(111)**	(110)

Long-term Insurance	1994 £m	1993 £m
Premium income	**526**	394
Shareholders' profits	**32**	41

Europe

In Scandinavia, Codan completed the integration of Hafnia but the need for further reserve strengthening against the background of an unsettled market gave rise to a disappointing result. Signficiant rate increases have been carried during the year and there is an expectation that results will improve in 1995.

Elsewhere there was much that was encouraging. Another particularly fine performance from the Republic of Ireland was accompanied by the achievement of insurance profits in Germany, the Netherlands and Spain. Italy reported solid progress as planned, although we did not escape losses from the severe floods in November.

Deregulation in most of the European markets has created a climate of some uncertainty as to their future development, but we are confident of our ability to share in and continue to improve our position in this important business area.

USA

Results of the business under the management of Chubb were significantly affected by catastrophe losses arising from the Northridge earthquake in California and the severe winter storms in the eastern and mid-western states, costing £22m. Even so, the overall outcome for the year represented once again a very good trading performance.

Australia

In its second year of operation Sun Alliance and Royal Insurance Australia produced a disappointing result, although an insurance profit was still achieved. It proved necessary to strengthen prior year long-tail claims reserves, largely because of an expectation of a rising trend in inflation in future years. Storm and bush fire losses in the domestic account were an adverse feature of current business, although in other respects this ran satisfactorily.

Group Chief Executive's Review

Other Overseas

The integration of the Royal was successfully achieved in New Zealand and another outstanding underwriting profit was recorded by the much enlarged company. In South Africa the deterioration noted in the final quarter of 1993 continued throughout 1994. There was a significant increase in large fire losses, and rising crime claims seriously affected the results in several classes. Our small company in Zimbabwe, on the other hand, had another profitable year.

Excellent underwriting profits were again achieved in the Caribbean, South America and the Middle East. Japan produced a poor result due in part to significantly increased costs of reinsurance protection, but our growing businesses in Hong Kong and the ASEAN region recorded very good profits. We are actively pursuing opportunities to establish the Group in China and India if circumstances permit.

Life Assurance

Life premium income rose by almost 23% in currency terms, reflecting continued good progress in our nine overseas life operations despite difficult economic conditions in a number of markets. As in the general classes, the figures are affected by the consolidation of a full year for Hafnia in Denmark and by our withdrawal from Canada with the sale, effective 30th September 1994, of Sun Alliance and London Assurance Company (Canada) to the North American Life Assurance Company, a substantial Canadian mutual. Although well run, our Canadian life company had struggled through lack of size to make progress in a highly competitive environment.

The new business trend of previous years continued with faster growth of 46% in single premiums, while new annual premiums advanced by just below 17%. Total life funds under management approached £5·3bn, and the embedded value rose from £113m to £127m, a 20% increase after allowing for our withdrawal from Canada. The profit transfer of £32m represents a continuation of the increasing trend of recent years after allowing for the exceptional level of transfer associated with the Hafnia, which Codan acquired in 1993.

Our young companies in Holland and Italy are building up a good momentum, especially in single premium business as they become established in their markets. The offshore company based in Guernsey had another excellent year and achieved a profit transfer for the first time. In Australia and New Zealand our life companies continued to build their share of target markets.

Group Chief Executive's Review

Sun Alliance Life

Shareholders' profits from our UK Life and Pensions business increased by 5% compared with 1993. The change in investment conditions during the year resulted in a reduction in the embedded value of the business to £605m. This takes account only of business in force, with no allowance for profits from future new business, and no part of the value is included in the Group's shareholders' funds.

The market for both regular and single premium business remained both difficult and competitive. Although our new regular premium business decreased by 6%, our market share increased for the third year in succession.

Long-term Insurance	1994 £m	1993 £m
Premium income	711	740
Shareholders' profits	57	55

Early in the year we launched Universal Protection Plan, the first of a new generation of products, and this was enthusiastically received in the market place. In the last few months of the year we completed a major redevelopment of our individual pensions and mortgage-related products in time for the new disclosure regime effective from 1st January 1995. Among the important changes was the introduction of a level commission basis which allows more favourable benefits for policyholders who do not complete the full term of their policies.

During the year we have been an active participant in the development of the new electronic trading exchange for the independent financial adviser market. When fully developed, this initiative will significantly improve the quality of service that can be offered to IFAs and customers.

Group life and permanent health insurance business was again very successful, with a 15% increase in new premiums.Our expertise in this field is acknowledged by the majority of intermediaries and consultants who transact this business.

The SIB Report published in October on pensions transfers and opt-outs introduced an unacceptable element of applying retrospectively standards for 'best advice' which the industry is challenging. Sun Alliance has a limited exposure to this market, and has made appropriate provision for compensation payments; the amount is small in relation to the size of its life funds.

During the year the Group reduced its shareholding in Woolwich Life (the joint venture company with Woolwich Building Society) from 49% to 10% for a consideration of £25·5m representing a return over the past four years of more than 20% per annum. In addition to retaining a 10% interest in Woolwich Life, the Group also continues to provide that company's administration service.

GROUP CHIEF EXECUTIVE'S REVIEW

INVESTMENT

Investment returns in 1994 proved disappointing, and our portfolios worldwide suffered accordingly. The optimism widely felt at the start of the year was soon to evaporate when, in February, the Federal Reserve took action to tighten monetary policy by raising interest rates, with widespread repercussions.

Rising interest rates and the fear of inflation were sufficient to prompt many investors to realise the substantial profits enjoyed in the previous year. Bond markets around the world suffered a sharp reaction, almost regardless of the state of their domestic economies, and equities were soon to follow the downward path.

In the United Kingdom strong export growth was an important contributor to buoyant economic growth. Meanwhile inflation remained subdued, even if the lowest point may now have past. In the light of events in the United States it came as no great surprise when, in September, base rates were raised in this country.

Our UK investments in both fixed interest securities and equities suffered falls to reflect general stockmarket conditions. In overseas markets fixed interest securities also provided disappointing returns. Equities in the United States were little changed over the year, but currency moves depressed returns to the sterling investor.

Elsewhere Europe followed the generally negative tone, although falls in Denmark were offset by currency gains. Many markets in the Pacific Basin lost much of the spectacular gains of a year earlier. On a brighter note, Japanese equities enjoyed a better year and investments held in South Africa moved ahead in the wake of an improved political situation.

Group investment income was £385m (1993 £377m), an increase of 2% after adjusting for currency movements.

In the year ahead overall investment policy for both life and general funds will continue to be framed with regard to insurance liabilities. New investments in 1995 will include additions to fixed interest securities and equities in the UK and overseas.

In spite of the falls in most stock markets total assets under management at the end of 1994 remained in the order of £23 billion.

GROUP CHIEF EXECUTIVE'S REVIEW

PROPERTY

The year started with a great deal of activity in the UK market, largely as a result of low interest rates and the prospect of future rental growth following improved levels of economic activity. However, the market fell back in the autumn as the Chancellor of the Exchequer took steps to forestall inflation in the UK economy. Values at the year end were higher for the first time in four years marking, it is hoped, a turning point in the long term prospects for property investment. The increase in values overall, combined with steady rental income, made a worthwhile contribution to the Group's overall results.

The picture for overseas property was mixed, with increases in the value of our properties in Australia and Denmark balanced by decreases in France, Germany and Canada which was particularly badly hit by a weak investment market and general over-supply in the office sector. The overall effect of the exchange rate movements was mildly positive.

The life fund portfolio benefited from the sale in March of our long leasehold interest in the Harlequin shopping development in Watford to Capital Shopping Centres Plc for £162m. The proceeds from this disposal have been re-invested in a number of first class properties, giving a better portfolio balance and higher income return than would have been achieved otherwise.

Opportunities for selling other properties in both the Shareholders' Fund and the Life Fund at advantageous prices were taken during the early part of the year, with the objective of providing resources for new property developments to be undertaken to meet tenant demand as the economy continues to recover.

THE FUTURE

We have conducted a thorough review of our business, and are concentrating on our core activities of general insurance, life insurance, pensions and fund management. The Group is being restructured into eight divisions which will embrace our insurance activities throughout the world. Within those divisions, individual operations will place their emphasis on customers and markets, with their management focused sharply on the core businesses.

The emphasis for these new divisions will be the generation of additional profits so that our policy of seeking to achieve real growth in dividends can be sustained.

Directors

Chairman
SIR CHRISTOPHER BENSON†‡
Age 61. 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 Ltd. Member of Takeover Panel.

Deputy Chairman
HENRY KESWICK‡
Age 56. 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 48. Director of Sun Alliance since 1993. Group Managing Director of British Airways Plc. Former Under Secretary at the Department of Trade.

MICHAEL DEW*
Age 60. Director of Sun Alliance since 1989. Managing Director of Sun Alliance Group Properties.

SIR EWEN FERGUSSON, GCMG, GCVO
Age 62. 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.

ARTHUR HAYES*
Age 52. Director of Sun Alliance since 1992. Group Executive Director.

JOHN KEMP-WELCH
Age 59. Director of Sun Alliance since June, 1994. Chairman of the International Stock Exchange of the United Kingdom and the Republic of Ireland Ltd. Former Senior Partner of Cazenove & Co.

LORD KINDERSLEY†
Age 65. 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 56. Director of Sun Alliance since 1991. Group Finance Director.

SIR ROGER NEVILLE, VRD†
Age 63. Director of Sun Alliance since 1979. Former Group Chief Executive.

RALPH PETTY*
Age 59. Director of Sun Alliance since 1989. Managing Director of Sun Alliance Insurance Overseas.

LEOPOLD DE ROTHSCHILD, CBE†‡
Age 67. Director of Sun Alliance since 1982. Director of N. M. Rothschild & Sons Limited.

PETER TAYLOR*
Age 55. Director of Sun Alliance since 1992. Group Marketing Director.

ROGER TAYLOR*
Age 53. Director of Sun Alliance since 1986. Group Chief Executive.

THE DUKE OF WESTMINSTER, OBE, TD, DL
Age 43. Director of Sun Alliance since February, 1995. Chairman of Grosvenor Estate Holdings. Director of Business in the Community. 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

SUN ALLIANCE GROUP PLC	
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
Group Secretary	D. J. MILLER, BARRISTER

PRINCIPAL SUBSIDIARIES

SUN ALLIANCE INSURANCE UK LTD	
Managing Director	J. ROCHELLE, MBCS
SUN ALLIANCE INSURANCE INTERNATIONAL LTD	
Managing Director	P. F. FOREMAN, FCII
SUN ALLIANCE INSURANCE OVERSEAS LTD	
Managing Director	R. PETTY, ACII
SUN ALLIANCE LIFE LTD	
Managing Director	R. H. W. WINCH
SUN ALLIANCE INVESTMENT MANAGEMENT LTD	
Managing Director	I. M. TROTTER, FCIS
SUN ALLIANCE GROUP PROPERTIES LTD	
Managing Director	M. L. DEW, FRICS
SUN ALLIANCE MANAGEMENT SERVICES LTD	
Managing Director	P. E. CROUCHER, FIA

Directors' Report

The directors of Sun Alliance Group plc submit their report and the accounts of the Group for the year ended 31st December, 1994.

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 2,172,598 shares of 25p were issued on the exercise of employee share options for a total consideration of £5,312,638 and 563,863 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 5 to 12. The Group profit, appropriations and financial position are shown on pages 22 and 23.

Dividends
The directors recommend a final dividend of 10·25p per share for payment on 3rd July, 1995 to ordinary shareholders on the register at the close of business on 30th March, 1995. This, together with the interim dividend of 5·5p per share paid on 1st December, 1994 will make a total dividend for the year of 15·75p 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, 1994 to 31st March, 1995 is to be paid on 3rd April, 1995 to preference shareholders on the register at the close of business on 9th March, 1995.

Directors
The Duke of Westminster was appointed a director on 1st February, 1995. The other directors named on page 13 served during the year together with Mr. G. Bowler and Mr. G. E. Gilchrist who, as indicated in last year's report, retired at the conclusion of the Annual General Meeting on 18th May, 1994.

Mr. L. D. de Rothschild will retire at the conclusion of the Annual General Meeting. The Board records its sincere gratitude for his invaluable service to the Group over the last thirteen years.

Mr. J. Kemp-Welch, who was appointed a director on 1st June, 1994, will retire at the forthcoming Annual General Meeting and will be proposed for re-election together with The Duke of Westminster and the following directors who will retire by rotation:

Sir Christopher Benson
Sir Ewen Fergusson
Mr. T. A. Hayes
The Lord Kindersley

Of the directors being proposed for re-election, Mr. T. A. Hayes has a service contract which is terminable by the Company subject to two years' notice and provides for normal retirement at age 62.

A statement of directors' interests in shares appears on pages 40 and 41.

DIRECTORS' REPORT

Corporate Governance
The Group supports the objectives of the Cadbury Committee on the Financial Aspects of Corporate Governance. Throughout 1994, and in the preparation of the report and accounts, the Company complied with the provisions of the Code published in December 1992 by that Committee, apart from the requirement to report upon the effectiveness of internal control. Definitive guidance on such reporting was published in December 1994, and will apply to the 1995 report and 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.

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.

Employees
The average number of persons employed by the Company's subsidiaries in the United Kingdom in 1994 was 16,987. The aggregate remuneration for the year was £273,000,000.

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 operating companies. 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, a Profit-Related Pay Scheme for UK Staff was introduced in 1994. 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 1994 pre-tax profits is estimated to amount to £4·4m.

A savings related share option scheme was first introduced in 1984 and an executive share option scheme in 1988. During 1994 options to subscribe for 2,628,589 shares of 25p in the Company at 276p each were granted to 2,942 employees under the Sun Alliance Group 1989 Savings Related Share Option Scheme; options to subscribe for 1,076,824 shares at 344p each were granted to 232 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 7th March, 1995:

TransAtlantic Holdings plc, TAI Investments Limited, Conduit Insurance Holdings Limited, First International Trust Limited, Liberty Life Association of Africa Limited, Liberty Holdings Limited, Liblife Controlling Corporation (Proprietary) Limited, Liberty Investors Limited, Mr. Donald Gordon and Standard Bank Investment Corporation Limited were interested in 24,362,514 shares of 25p, representing 3% of the Company's issued ordinary share capital; and

S.G. Warburg Group plc was interested in 85,041,264 shares of 25p, representing 10% of the Company's issued ordinary share capital, including interests of its subsidiaries S.G. Warburg Asset Management Holdings Limited, Mercury Asset Management Group plc and Mercury Asset Management plc in 84,032,528 shares of 25p, of which 84,022,028 shares of 25p are held non-beneficially by virtue of discretionary management arrangements.

DIRECTORS' REPORT

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 share of 25p 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 £339,000 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

8th March, 1995

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 16 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 corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion
With respect to the directors' statement on going concern on page 16, in our opinion the directors have provided the disclosures required by paragraph 4.6 of the Code (as supplemented by the related guidance for directors) and their statement is 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 16 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

COOPERS & LYBRAND
Chartered Accountants
and Registered Auditors

London
8th March, 1995

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 subject to statutory exemptions applicable to insurance companies.

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, 1994. 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 19 to 39.

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 balance sheet of the Company gives a true and fair view of the state of affairs of the Company at 31st December, 1994 and has been properly prepared in accordance with the Companies Act 1985 and the consolidated accounts have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to insurance companies.

COOPERS & LYBRAND
Chartered Accountants
and Registered Auditors

London
8th March, 1995

Accounting Policies

The principal accounting policies of the Group as set out below comply with UK accounting standards, to the extent that they are applicable to insurance companies, and the statement of recommended practice on accounting for insurance business issued by the Association of British Insurers. Certain 1993 comparative figures have been restated as follows:

(i) Reinsurance balances have been grossed up on the face of the balance sheet to reflect the requirements of Financial Reporting Standard 5 regarding offset.
(ii) Preference share capital and convertible debt have been re-presented in accordance with Financial Reporting Standard 4.
(iii) Other activities have been separated from investment income in the profit and loss account.

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

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

Associated companies are accounted for by the equity method in the consolidated accounts.

Goodwill arising on the acquisition of subsidiary companies, associated companies and other interests is written off against consolidated retained profits in the year of purchase.

(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 which the risks are assumed. The unearned proportions of the premiums and the commission and other acquisition costs incurred in writing the business relating to periods of risk extending beyond the end of the financial year are deferred to subsequent accounting periods. 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. The results of London market marine and aviation business are determined at the end of the second year following the year of account, after providing for the estimated cost of all outstanding claims, whether notifed or not.

(ii) Insurance funds
Unearned premiums are calculated on a time apportionment basis using principally the daily pro-rata method.

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. 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 has been discounted at the average interest rate applicable to the investment funds specifically held to meet the liability.

Insurance funds include provisions, as necessary, for any estimated future underwriting losses relating to unexpired risks at the balance sheet date, after taking account of future investment income on insurance funds, and for underwriting losses expected to arise on open years' accounts.

(c) Long-term insurance business
The profits on long-term insurance business are determined annually by actuarial valuation. The shareholders' proportion of these profits is grossed up in the consolidated profit and loss account by the estimated UK and overseas tax in the long-term insurance funds attributable to such profits.

ACCOUNTING POLICIES

(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 insurance funds at the beginning of the year at year-end rates, and gains and losses on the conversion of remittances are taken, in the case of general insurance business, to revaluation reserve.

(e) Expenses
Expenditure on motor cars and computer and office equipment is capitalised and depreciated by equal annual instalments over the estimated useful lives of the assets.

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.

(f) Investment income
Interest and dividends on investments other than ordinary shares are included on an accruals basis. Investment income is grossed up to include related tax credits on dividend income and is shown after deduction of interest payable and investment management expenses.

(g) Taxation
Taxation in the consolidated profit and loss account is based on the profits and income of the year and includes deferred taxation on timing differences other than those considered likely to continue in the foreseeable future.

The taxation charge in the consolidated long-term insurance revenue account is based on the income and realised investment profits less losses of the year, less reliefs.

Provision for deferred taxation on unrealised appreciation of investments is made only where realisations giving rise to a taxation liability are anticipated in the foreseeable future.

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

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, less taxation and the amount attributable to minority interests, are taken to retained profits.

In the long-term insurance accounts unrealised appreciation and profits and losses on the realisation of investments are dealt with in the revenue account and included in long-term insurance funds.

CONSOLIDATED REVENUE ACCOUNTS

for the year ended 31st December, 1994

GENERAL INSURANCE	Notes	1994 £m	1993 £m
Premiums written less reinsurance	2(a)	**3,413·7**	3,392·2
Premiums earned	2(b)	**3,452·9**	3,398·0
Claims incurred	2(c)	**(2,511·7)**	(2,558·6)
Commission		**(491·7)**	(519·7)
Expenses		**(576·7)**	(562·9)
Underwriting result		**(127·2)**	(243·2)

LONG-TERM INSURANCE	Notes	1994 £m	1993 £m
Premiums less reassurance	3(a)	**1,237·1**	1,133·7
Investment income	4	**808·3**	763·9
Realised and unrealised appreciation on investments and foreign exchange adjustments		**(985·4)**	1,878·4
Development finance transfer		**20·7**	5·6
		1,080·7	3,781·6
Claims and surrenders	3(b)	**(979·9)**	(932·2)
Annuities		**(304·1)**	(258·3)
Commission		**(90·2)**	(90·8)
Expenses		**(200·1)**	(176·4)
Taxation	5	**(66·1)**	(170·2)
Transfer to profit and loss account	3(d)	**(56·3)**	(67·2)
		(616·0)	2,086·5
Fund movements arising from acquisitions/transfers		**8·2**	2,461·9
Increase (decrease) in funds		**(607·8)**	4,548·4

Consolidated Profit and Loss Account

for the year ended 31st December, 1994

	Notes	**1994 £m**	1993 £m
General insurance underwriting result		**(127·2)**	(243·2)
Long-term insurance profits	3(d)	**89·1**	95·8
Investment income	4	**385·0**	377·0
Other activities		**(31·4)**	(7·9)
Profit before taxation	7	**315·5**	221·7
Taxation	5	**(64·1)**	(28·9)
Profit after taxation		**251·4**	192·8
Minority interests		**(2·0)**	(11·5)
Profit attributable to shareholders	17	**249·4**	181·3
Dividends	8	**(136·7)**	(120·7)
Retained profits transfer	10	**112·7**	60·6
Earnings per ordinary share	9	**29·7p**	22·3p

Statement of Total Recognised Gains and Losses

for the year ended 31st December, 1994

	1994 £m	1993 £m
Profit attributable to shareholders	**249·4**	181·3
Realised investment profits less losses, after taxation	**31·9**	92·4
Unrealised appreciation (depreciation) of investments and foreign exchange gains less losses	**(372·1)**	270·2
Development finance for long-term insurance	**(20·7)**	(5·6)
Total recognised gains (losses)	**(111·5)**	538·3

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st December, 1994

	Notes	**1994 £m**	1993 £m
Shareholders' funds at 1st January		**2,012·3**	1,547·7
Share capital issued	11 & 15	**7·1**	131·3
Total recognised gains (losses)		**(111·5)**	538·3
Goodwill written off	12	**(15·6)**	(84·3)
Dividends		**(136·7)**	(120·7)
Shareholders' funds at 31st December		**1,755·6**	2,012·3

Consolidated Balance Sheet

at 31st December, 1994

	Notes	1994 £m	1993 £m
Ordinary share capital	11 & 15	**202·4**	201·7
Reserves			
Share premium account	11 & 15	**34·0**	27·6
Retained profits	10	**339·7**	231·4
Revaluation reserve	10	**1,054·5**	1,426·6
Equity shareholders' funds		**1,630·6**	1,887·3
Preference share capital	11 & 15	**125·0**	125·0
Shareholders' funds		**1,755·6**	2,012·3
Interests of minority shareholders	15	**216·9**	222·0
Shareholders' funds including minority interests	7	**1,972·5**	2,234·3
Insurance funds including reserves	2(d)	**7,222·8**	6,996·8
Other liabilities including reserve			
Convertible debt	13 & 15	**152·5**	151·7
Borrowings	14 & 15	**306·1**	232·0
Creditors		**855·7**	821·1
Proposed ordinary dividend		**83·1**	76·7
		10,592·7	10,512·6
Long-term insurance accounts (see separate balance sheet on page 24)		**14,870·5**	15,290·8
		25,463·2	25,803·4

	Notes	1994 £m	1993 £m
Investments			
British Government and municipal securities		**611·7**	669·8
Overseas government and municipal securities		**1,325·4**	1,405·6
Debentures		**946·8**	850·5
Preference stocks and shares		**42·2**	62·0
Ordinary stocks and shares		**2,442·7**	2,542·7
Property		**852·9**	826·0
Mortgages and loans		**94·5**	148·7
Deposits at interest		**799·1**	689·1
		7,115·3	7,194·4
Reinsurers' share of insurance funds	2(e)	**1,226·0**	1,051·8
Other assets			
Deferred acquisition costs		**411·5**	378·4
Agents' balances and debtors		**1,481·9**	1,546·0
Capitalised equipment		**151·6**	161·2
Due from long-term insurance fund		**98·6**	80·2
Bank balances and cash		**107·8**	100·6
		10,592·7	10,512·6
Long-term insurance accounts (see separate balance sheet on page 24)		**14,870·5**	15,290·8
		25,463·2	25,803·4

Consolidated Long-term Insurance Balance Sheet

at 31st December, 1994

	Notes	1994 £m	1993 £m
Long-term insurance funds including reserves		**13,876·2**	14,484·0
Other liabilities including reserves			
Outstanding claims		**42·5**	45·3
Borrowings	14	**33·2**	94·1
Creditors		**268·7**	311·0
Banking liabilities	16	**551·3**	276·2
Due to general fund		**98·6**	80·2
		14,870·5	15,290·8

	Notes	1994 £m	1993 £m
Investments			
British Government and municipal securities		**1,939·8**	2,205·0
Overseas government and municipal securities		**616·4**	718·1
Debentures		**3,621·8**	3,791·6
Preference stocks and shares		**38·3**	33·3
Ordinary stocks and shares		**5,646·8**	5,815·1
Property		**1,290·6**	1,315·0
Mortgages and loans		**201·0**	199·1
Deposits at interest		**515·8**	506·3
		13,870·5	14,583·5
Other assets			
Debtors		**343·6**	348·5
Banking assets	16	**645·0**	344·8
Bank balances and cash		**11·4**	14·0
		14,870·5	15,290·8

This balance sheet forms part of the balance sheet appearing on page 23.

Parent Company Balance Sheet

at 31st December, 1994

	Notes	1994 £m	1993 £m
Fixed assets			
Investments in subsidiaries	12 & 17	**1,912·3**	2,195·9
Current assets			
Amounts due from subsidiaries		**360·4**	235·0
Cash at bank		–	1·4
		360·4	236·4
Creditors – amounts falling due within one year			
Borrowings	14	**(100·4)**	(17·6)
Amounts due to subsidiaries		**(6·4)**	(5·9)
Taxation		**(6·4)**	(2·8)
Accrued interest		**(14·3)**	(14·3)
Proposed ordinary dividend		**(83·1)**	(76·7)
Other creditors		**(4·5)**	(1·7)
Net current assets		**145·3**	117·4
Total assets less current liabilities		**2,057·6**	2,313·3
Creditors – amounts falling due after more than one year			
Convertible debt	13	**(152·5)**	(151·7)
Borrowings	14	**(149·5)**	(149·3)
Net assets		**1,755·6**	2,012·3

Capital and reserves			
Called-up share capital	11	**327·4**	326·7
Share premium account	11	**34·0**	27·6
Revaluation reserve	17	**1,312·4**	1,577·8
Profit and loss account	17	**81·8**	80·2
Shareholders' funds including non-equity interests		**1,755·6**	2,012·3

The accounts on pages 19 to 39 were approved by the directors on 8th March, 1995 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, 1994 (excluding long-term insurance business)

	Notes	1994 £m	1993 £m
Operating activities			
Net cash inflow from operating activities		**397·9**	351·8
Servicing of finance			
Ordinary dividends paid		**(127·9)**	(112·9)
Dividends paid to minority shareholders		**(7·1)**	(2·4)
Taxation			
Tax recovered (paid)		**44·6**	(55·4)
Investing activities			
Net (purchases) sales of:			
Fixed interest investments		**(337·7)**	(291·1)
Stocks and shares		**(9·5)**	(60·5)
Property		**(5·7)**	14·7
		(352·9)	(336·9)
Subsidiaries	12	**32·0**	(64·3)
Capitalised equipment		**(50·9)**	(44·7)
Development finance		**(20·7)**	(5·6)
Net cash outflow from investing activities		**(392·5)**	(451·5)
Net cash outflow before financing activities		**(85·0)**	(270·4)
Financing activities	15(a)		
Issue of ordinary share capital		**5·3**	4·8
Issue of preference share capital		–	124·7
Increase (decrease) in net borrowings		**72·4**	(28·5)
Decrease in cash and cash equivalents	15(b)	**(7·3)**	(169·4)

Note to the cash flow statement	1994 £m	1993 £m
Reconciliation between profit before taxation and net cash inflow from operating activities:		
Profit before taxation	**315·5**	221·7
Adjustments to convert revenue and expenditure to a cash basis:		
Depreciation	**62·3**	57·7
Decrease (increase) in debtors and amounts due from long-term funds	**5·2**	(16·1)
Increase in insurance funds	**46·4**	84·0
Increase in creditors	**33·0**	56·7
Taxation	**(64·5)**	(52·2)
Net cash inflow from operating activities	**397·9**	351·8

The above statement is considered to be potentially misleading in 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 cashflow is set out within note 18 on page 34.

NOTES ON THE ACCOUNTS

1 ACCOUNTING AND DISCLOSURE REQUIREMENTS

The consolidated accounts of the Group are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to insurance groups. 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 GENERAL INSURANCE BUSINESS

	1994 **£m**	1993 £m
In the consolidated revenue account, premiums and claims comprise:		
(a) Premiums written –		
Gross of reinsurance	**4,309·9**	4,182·5
Reinsurance ceded	**(896·2)**	(790·3)
	3,413·7	3,392·2
(b) Premiums earned –		
Premiums written less reinsurance	**3,413·7**	3,392·2
Decrease in unearned premiums	**7·0**	15·8
Increase (decrease) in deferred acquisition costs	**32·2**	(10·0)
	3,452·9	3,398·0
(c) Claims incurred –		
Gross of reinsurance	**3,001·5**	3,166·9
Reinsurance recoveries	**(489·8)**	(608·3)
	2,511·7	2,558·6

Mortgage indemnity claims are recognised as incurred based on those mortgages that are in arrears and which are projected to become repossessions; in previous years claims were recognised when properties were taken into possession. The impact of mortgage indemnity claims on the Group's results is dealt with in the Chairman's Statement and Group Chief Executive's Review.

	1994 **£m**	1993 £m
In the consolidated balance sheet, insurance funds comprise:		
(d) Gross of reinsurance –		
Unearned premiums	**1,949·5**	1,950·9
Outstanding claims	**5,273·3**	5,045·9
	7,222·8	6,996·8
(e) Reinsurers' share –		
Unearned premiums	**253·7**	232·9
Outstanding claims	**972·3**	818·9
	1,226·0	1,051·8

Notes on the Accounts

3 Long-term insurance business

	1994 £m	1993 £m
(a) In the consolidated revenue account, premiums comprise:		
Gross of reassurance	**1,275·7**	1,175·2
Reassurance ceded	**(38·6)**	(41·5)
	1,237·1	1,133·7
(b) In the consolidated revenue account, claims and surrenders comprise:		
Gross of reassurance	**996·7**	953·8
Reassurance recoveries	**(16·8)**	(21·6)
	979·9	932·2

(c) New business written during the year, net of reassurance, was as follows:

	1994			1993		
	Life £m	**Pensions £m**	**Total £m**	Life £m	Pensions £m	Total £m
Annual premiums –						
Conventional	**101·8**	**26·0**	**127·8**	96·4	22·9	119·3
Linked	**13·4**	**11·8**	**25·2**	12·8	8·2	21·0
	115·2	**37·8**	**153·0**	109·2	31·1	140·3
Single premiums –						
Conventional	**32·9**	**141·3**	**174·2**	23·8	151·3	175·1
Linked	**101·5**	**84·7**	**186·2**	106·1	71·0	177·1
	134·4	**226·0**	**360·4**	129·9	222·3	352·2

(d) The long-term insurance profits dealt with in the consolidated profit and loss account comprise:

	1994 £m	1993 £m
Transfer from revenue account	**56·3**	67·2
Attributable taxation	**32·8**	28·6
	89·1	95·8

4 Investment income

Investment income is shown after the following deductions:

	Consolidated profit and loss account		Consolidated long-term insurance revenue account	
	1994 £m	1993 £m	**1994 £m**	1993 £m
(a) Interest payable				
On bank loans and overdrafts repayable within 5 years	**1·6**	3·0	**0·2**	0·1
On other loans	**34·0**	35·8	**8·7**	6·7
	35·6	38·8	**8·9**	6·8
(b) Investment management expenses	**15·6**	17·7	**18·0**	15·8

NOTES ON THE ACCOUNTS

5 TAXATION

The charges (credits) for taxation comprise:

	Consolidated profit and loss account		Consolidated long-term insurance revenue account	
	1994	1993	**1994**	1993
	£m	£m	**£m**	£m
United Kingdom taxation –				
Corporation tax	**8·6**	14·9	**32·5**	22·2
Tax attributable to UK dividend income and to UK long-term insurance transfers	**33·0**	27·5	**14·7**	13·5
Prior year adjustments	**(16·2)**	(19·8)	**(0·7)**	–
Advance corporation tax	**14·8**	(4·8)	**–**	–
	40·2	17·8	**46·5**	35·7
Double taxation relief	**(16·2)**	(29·2)	**(1·7)**	(0·8)
	24·0	(11·4)	**44·8**	34·9
Overseas taxation on profits	**40·1**	40·3	**21·3**	135·3
	64·1	28·9	**66·1**	170·2

UK corporation tax in the consolidated profit and loss account has been calculated at 33% *(1993 33%)*.

The taxation charge in the consolidated profit and loss account includes a deferred taxation charge of £1·4m *(1993 credit £0·4m)*.

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:

	General funds		Long-term insurance funds	
	1994	1993	**1994**	1993
	£m	£m	**£m**	£m
On unrealised appreciation of investments	**420·0**	550·0	**134·0**	280·0
Tax losses carried forward and continuing timing differences	**(154·0)**	(164·0)	**–**	–
	266·0	386·0	**134·0**	280·0

6 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 in Denmark where a defined contribution scheme is operated. The total pension cost for the Group was £35·4m *(1993 £39·1m)* of which £22·3m *(1993 £21·3m)* 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, 1994 is an amount of £30·9m *(1993 £45·8m)* 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 is a provision amounting to £29·1m *(1993 £25·0m)* relating to unfunded overseas schemes.

Notes on the Accounts

7 Segmental analysis

An analysis of the result and net assets of the Group is provided below in compliance with statement of standard accounting practice number 25. An analysis of premium income and long-term shareholders' profits is included in the summary of group results on page 1.

	Result		Net Assets	
	1994 £m	1993 £m	**1994 £m**	1993 £m
General insurance				
United Kingdom	**181·6**	55·2	**560·8**	741·9
Rest of Europe	**(19·0)**	(59·6)	**318·6**	262·5
USA	**32·1**	43·6	**145·4**	140·8
Australia	**12·4**	25·7	**84·7**	96·9
Other overseas	**14·3**	17·9	**112·6**	114·8
	221·4	82·8	**1,222·1**	1,356·9
Long-term insurance	**89·1**	95·8	**–**	–
Investment/borrowings	**5·0**	43·1	**750·4**	877·4
Profit before taxation	**315·5**	221·7		
Shareholders' funds including minority interests			**1,972·5**	2,234·3

Net assets 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 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 result represents the shareholders' profits transfers. 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. The 1993 United Kingdom result has been amended to reflect changes in the treatment of interest on intra-group borrowings.

8 Dividends

	1994 £m	1993 £m
Ordinary		
Interim dividend of 5·5p *(1993 5·25p)*	**44·4**	42·3
Final dividend of 10·25p *(1993 9·5p)*	**83·1**	76·7
	127·5	119·0
Preference	**9·2**	1·7
Total dividends	**136·7**	120·7

9 Earnings per ordinary share

Earnings per share is based on the profit attributable to ordinary shareholders of £240·2m *(1993 profit £179·6m)* and on the weighted average of 808,050,410 shares of 25p *(1993 805,341,340)*.

10 CONSOLIDATED RETAINED PROFITS AND REVALUATION RESERVE

	Retained profits		Revaluation reserve	
	1994	1993	**1994**	1993
	£m	£m	**£m**	£m
Balance at 1st January	**231·4**	168·3	**1,426·6**	1,156·4
Profit and loss account transfer	**112·7**	60·6	–	–
Realised investment profits less losses, after taxation	**31·9**	92·4	–	–
Unrealised appreciation (depreciation) of investments and foreign exchange gains and losses	–	–	**(372·1)**	270·2
Goodwill written off	**(15·6)**	(84·3)	–	–
Development finance for long-term insurance	**(20·7)**	(5·6)	–	–
Balance at 31st December	**339·7**	231·4	**1,054·5**	1,426·6

11 SHARE CAPITAL

	1994	1993
	£m	£m
Ordinary share capital		
Authorised:		
1,200,000,000 *(1993 1,200,000,000)* shares of 25p each	**300·0**	300·0
Issued and fully paid:		
809,659,036 *(1993 806,922,575)* shares of 25p each	**202·4**	201·7
Preference share capital		
Authorised:		
300,000,000 *(1993 300,000,000)* preference shares of £1 each	**300·0**	300·0
Issued and fully paid:		
125,000,000 *(1993 125,000,000)* preference shares of £1 each	**125·0**	125·0

During the year 2,172,598 shares of 25p were issued on the exercise of employee share options for a total consideration of £5·3m and 563,863 shares of 25p were issued pursuant to scrip dividend offers. As a consequence the issued share capital increased by £0·7m and share premium account by £6·4m.

At 31st December, 1994 under employee savings related share option schemes, employees held options to subscribe for 18,388,665 shares of 25p at prices ranging from 186·00p to 307·00p per share. The options are normally exercisable within 6 months of the respective exercise dates which are between 1st August, 1994 and 1st August, 2001.

Under executive share option schemes, options to subscribe for 9,281,110 shares of 25p were outstanding at 31st December, 1994 as follows:

Number of shares	Option price per share	Exercise date
2,103,848	232·25p	6th May, 1991
1,403,062	282·50p	5th May, 1992
1,306,319	303·00p	20th April, 1993
1,081,894	384·00p	17th April, 1994
857,999	232·00p	14th April, 1995
1,038,961	337·00p	21st April, 1996
412,203	369·00p	13th September, 1996
1,076,824	344·00p	14th April, 1997

The options are normally exercisable within 7 years of the exercise date.

Details of the 7·25% Convertible Subordinated Bonds 2008 are shown in note 13.

NOTES ON THE ACCOUNTS

12 SUBSIDIARIES

A list of subsidiaries appears on pages 38 and 39.

On 1st January, 1994 the Group acquired Royal Insurance (NZ) Ltd. 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 Royal Insurance (NZ) Ltd, comprised cash of £7·7m. The provisional book and fair values of the net assets acquired were £7·3m and £3·1m respectively. Goodwill in respect of these acquisitions amounted to £4·6m and together with an adjustment to the fair value of the assets of A/S Forsikringsselskabet Hafnia, acquired in 1993, gave rise to total goodwill of £20·5m. The Group shareholders' proportion of £15·6m has been written off to retained profits, the balance of £4·9m being charged to minority interests.

The aggregate proceeds from disposals during the year, principally the Group's Canadian insurance companies, Sun Alliance Insurance Company and Sun Alliance and London Assurance Co. (Canada), amounted to £50·0m. The disposals gave rise to a net gain of £3·9m.

The cash and cash equivalents of the subsidiaries acquired and disposed of amounted to £0·3m and £10·6m respectively.

Since 1984 the cumulative goodwill charged against the Group's reserves arising on acquisitions of subsidiaries that are still part of the Group amounted to £305·7m at 31st December, 1994.

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.

13 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 shares of 25p, at the option of the holders, at any time until 23rd November, 2008.

14 BORROWINGS

Bank borrowings and other loans were as follows:

	Parent Company balance sheet		Consolidated balance sheet		Consolidated long-term insurance balance sheet	
	1994 £m	1993 £m	**1994 £m**	1993 £m	**1994 £m**	1993 £m
Bank loans and overdrafts repayable –						
Within one year, or on demand						
Unsecured	–	–	**34·7**	42·7	**7·6**	2·3
Other unsecured loans, at interest rates ranging from 5% to 11%, repayable –						
Within one year	**100·4**	17·6	**118·4**	35·6	**22·9**	10·8
Between two and five years	**149·5**	149·3	**149·5**	149·3	–	–
Loans secured on properties, most of which are at interest rates ranging from 6% to 10%, repayable –						
Within one year, or on demand	–	–	–	–	**0·8**	27·5
Between two and five years	–	–	–	–	**0·2**	6·5
After five years	–	–	**3·5**	4·4	**1·7**	47·0
	249·9	166·9	**306·1**	232·0	**33·2**	94·1

The other unsecured loans of £22·9m *(1993 £10·8m)* in long-term insurance borrowings are due to the general fund.

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.

15 CHANGES IN FINANCING AND CASH & CASH EQUIVALENTS

(a) Changes in financing:

	Share capital and share premium		Minority shareholders		Borrowings	
	1994 £m	1993 £m	**1994 £m**	1993 £m	**1994 £m**	1993 £m
Balance at 1st January	**354·3**	223·0	**222·0**	197·4	**383·7**	369·7
Activities involving the movement of cash:						
Shares issued	**5·3**	129·5	–	–	–	–
Shares & loan notes redeemed	–	–	–	–	–	(4·0)
Dividends paid to minority shareholders	–	–	**(7·1)**	(2·4)	–	–
Increase (decrease) in other net borrowings	–	–	–	–	**72·4**	(24·5)
	5·3	129·5	**(7·1)**	(2·4)	**72·4**	(28·5)
Activities not involving the movement of cash:						
Shares & loan notes issued	**1·8**	1·8	–	–	–	7·7
Share of results for the year	–	–	**2·0**	11·5	–	–
Borrowings assumed through acquisitions	–	–	–	–	–	35·6
Other	–	–	–	15·5	**2·5**	(0·8)
	361·4	354·3	**216·9**	222·0	**458·6**	383·7

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, decreased from £567·5m to £559·6m *(1993 £739·6m to £567·5m)*. This movement includes a decrease of £0·6m *(1993 £2·7m)* in respect of foreign exchange.

16 BANKING ACTIVITIES

The Danish long-term funds and the Danish general funds own 65% and 35% respectively of Codan Bank A/S.

The assets and liabilities of the Bank at 31st December comprise:

	1994 £m	1993 £m
Assets –		
Investments		
Bonds	**125·6**	97·0
Shares	**45·9**	51·1
Loans to customers	**456·8**	185·7
Other banking assets	**16·7**	11·0
	645·0	344·8
Liabilities –		
Bank customer accounts	**451·3**	229·4
Other banking liabilities	**100·0**	46·8
	551·3	276·2

The primary function of the bank is to provide support to the activities of the Danish long-term and general business operations. During the year, Codan Bank made a pre-tax profit of £4·4m *(1993 loss £4·9m)*. No dividends were paid or declared in the year.

NOTES ON THE ACCOUNTS

17 PARENT COMPANY ACCOUNTS

The profit attributable to shareholders amounted to £138·3m *(1993 £110·8m)*. After dividends of £136·7m *(1993 £120·7m)* the balance of the profit and loss account at 31st December, 1994 amounted to £81·8m *(31st December, 1993 £80·2m)*.

Investments in subsidiaries are stated at net asset value. The excess over book value of £1,312·4m is taken to revaluation reserve. The decrease in net asset value during the year of £283·6m *(1993 increase £561·2m)* comprises a revaluation decrease of £265·4m *(1993 increase £333·2m)* and net disposals of £18·2m *(1993 additions £228·0m)* after increases in loans to subsidiaries of £15·0m *(1993 £55·9m)*. Loans to subsidiaries at 31st December, 1994 amounted to £111·6m *(31st December, 1993 £96·6m)*.

18 FUNDS FLOW STATEMENT

The following statement sets out the Group's cashflows reflecting management's view of a more appropriate format than that prescribed by Financial Reporting Standard 1. The principal change is to avoid the artificial distinction of cash and cash equivalents required by Financial Reporting Standard 1.

Funds flow for the year ended 31st December, 1994

	Notes	**1994 £m**	1993 £m
Operating activities			
Net cash inflow from operating activities		**397·9**	351·8
Servicing of finance			
Ordinary dividends paid		**(127·9)**	(112·9)
Dividends paid to minority shareholders		**(7·1)**	(2·4)
Taxation			
Tax recovered (paid)		**44·6**	(55·4)
Capitalised equipment		**(50·9)**	(44·7)
Development finance		**(20·7)**	(5·6)
Net cash inflow before financing activities		**235·9**	130·8
Financing activities	15(a)		
Issue of ordinary share capital		**5·3**	4·8
Issue of preference share capital		–	124·7
Total Cash Flow		**241·2**	260·3
Net (purchases) sales of subsidiaries	12	**32·0**	(64·3)
Cash available for investment		**273·2**	196·0
Applied to:			
Investments:			
Fixed interest investments		**325·1**	89·0
Stocks and shares		**9·5**	60·5
Property		**5·7**	(14·7)
Borrowings		**(72·4)**	28·5
Cash		**5·3**	32·7
		273·2	196·0

19 DIRECTORS AND OFFICERS

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

	1994 £000	1993 £000
Executive directors – remuneration	**1,512**	1,294
– pension contributions	**167**	–
Fees to non-executive directors	**236**	206
	1,915	1,500

Seven executive directors waived fees amounting to £130,000 *(1993 seven directors –£87,500).*

The executive directors are members of the main UK staff pension scheme. No contributions were paid to that scheme in 1993 but payments recommenced from 1st January, 1994. In previous accounts, contributions were shown on the basis of a standard contribution rate attributed to the scheme, which for 1993 amounted to £217,000.

The emoluments of the Chairman were £80,000. In 1993 the office of Chairman was held in succession by two directors and aggregate emoluments amounted to £71,019. No pension contributions were made on behalf of the Chairman in 1994 or 1993. The emoluments of the highest paid director excluding pension fund contributions, were £304,027 *(1993 £308,139).* Pension contributions of £23,449 *(1993 £Nil)* were paid on his behalf.

In 1995 payments will be made for the first time under the Profit-Related Pay Scheme, details of which are provided on page 16 and the Managers Performance Incentive Bonus Scheme under which payments subject to a maximum of 10% of aggregate management salaries are determined each year by the Board having regard to the financial results of the Group.

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

£	1994	1993	£	1994	1993
0 – 5,000	–	1	150,001 – 155,000	–	2
5,001 – 10,000	**2**	3	160,001 – 165,000	–	2
10,001 – 15,000	**1**	–	175,001 – 180,000	**1**	–
15,001 – 20,000	**2**	3	180,001 – 185,000	**2**	–
20,001 – 25,000	**2**	3	185,001 – 190,000	**1**	–
35,001 – 40,000	**1**	–	205,001 – 210,000	**1**	1
60,001 – 65,000	–	1	275,001 – 280,000	**1**	–
75,001 – 80,000	**1**	–	300,001 – 305,000	**1**	–
140,001 – 145,000	–	1	305,001 – 310,000	–	1

No executive service contract has a notice period in excess of 2 years.

A pension payment of £17,493 *(1993 £17,364)* was made by a subsidiary to a former director in respect of services other than as a director.

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.

Particulars of transactions and arrangements:

Directors

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 £14,972 subsisted throughout the year.

There were amounts outstanding in respect of a loan under the staff season ticket scheme to Mr. P. G. Taylor of £2,708 during the year, nil at 1st January, 1994 and £902 at 31st December, 1994.

Officers

At 31st December, 1994 there was an amount outstanding of £36,990 in respect of one officer of the Company (who was not a director) by way of a guarantee to a building society.

Notes on the Accounts

20 Associated companies and other participating interests

The Group owned more than 10 per cent of the equity share capital of the following companies:

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

Name and country of incorporation and of principal operations unless otherwise indicated	Class of shares	Issued capital £m	Total reserves £m	Group Interest (held by subsidiaries) %
United Kingdom				
(registered in England and Wales)				
British Aviation Insurance Co. Ltd.	Ordinary	2·0	3·0	29·7
Switzerland				
Rothschilds Continuation Holdings AG *(merchant banking group)*	Ordinary	66·1	317·1	20·0
Jamaica				
West Indies Alliance Insurance Co. Ltd.	Ordinary	0·1	1·8	49·0
Malaysia				
Sun Alliance Insurance (Malaysia) Sdn. Bhd.	Ordinary	1·3	2·0	49·0
Philippines				
Federal Phoenix Assurance Co. Ltd.	Ordinary	0·3	2·9	40·0
Saudi Arabia				
Al-Alamiya Insurance Co. Ltd. (EC) *(incorporated in Bahrain)*	Ordinary	3·2	3·0	42·0

The above details are based on the latest available accounts.With effect from 1st July, 1994 the Group increased its equity investment in Rothschilds Continuation Holdings AG. The results of this associated undertaking will be included in the Group profit and loss account based upon the results reported for the preceding year ended 31st March. No accounts have been published since acquisition and appropriate adjustments will be made in the 1995 accounts when the first post-acquisition results will be available.

(b) Other companies in which the Group's interest in the equity capital exceeds 10 per cent:

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.

Notes on the Accounts

21 Capital commitments

Capital commitments in respect of office premises and equipment not provided for were:

	1994 £m	1993 £m
Contracted for at 31st December	**16·8**	8·5
Authorised but not contracted for at 31st December	**11·8**	6·0

22 Auditors' remuneration

The remuneration of the auditors of the Company and its subsidiaries, in respect of annual accounts, amounted to £3·726m *(1993 £3·322m)* of which £2·743m *(1993 £2·376m)* related to overseas. In the United Kingdom, Coopers & Lybrand also received fees of £0·716m *(1993 £0·567m)* in respect of other audit and non-audit services.

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	
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 Management Services Ltd.		100·0
Alliance Assurance Co. Ltd.		100·0
Bradford Insurance Co. Ltd.		100·0
Chancellors Holdings Ltd.		100·0
The Legal Protection Group 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 Linked Life Insurance Ltd.		100·0
Sun Alliance Mortgage Co. Ltd.	100·0	
Sun Alliance Pensions Life & Investment Services 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
Belgium		
Sun Alliance SA		100·0
Brazil		
Sun Alliance Seguradora SA		100·0
Canada		
Yonge Wellington Property Ltd.		100·0

Subsidiaries

Name and country of incorporation and of principal operations	Percentage of ordinary shares held By Parent Company	Through Subsidiaries
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		
Sun Alliance Assurance 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
Spain		
Sun Alliance SA		98·9
Sweden		
Försäkringsaktiebolaget Holmia		71·5
United States of America		
Alliance Assurance Company of America Inc.		100·0
London Guarantee & Accident Company of New York		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 Inc.		100·0
Wm. H. McGee & Co. Inc.		100·0
Zimbabwe		
Phoenix Prudential Assurance of 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.

Directors' Interests in Shares

The interests of directors in the 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, 1994 or on appointment	Shares held at 31st December, 1994
R. J. Ayling	600	600
Sir Christopher Benson	28,817	36,457
M. L. Dew	4,388	39,777
Sir Ewen Fergusson	494	494
T. A. Hayes	3,837	6,682
J. Kemp-Welch	10,000	10,000
J. Kemp-Welch (as Trustee)	–	50,000
H. N. L. Keswick	24,815	25,966
The Lord Kindersley	1,600	1,600
T. S. Nelson	1,162	1,114
Sir Roger Neville	13,361	191,166
R. Petty	8,600	10,248
L. D. de Rothschild	25,890	25,939
P. G. Taylor	7,541	7,796
R. J. Taylor	16,423	17,271

Mr. J. Kemp-Welch was also interested as Trustee in the 7·25% Convertible Subordinated Bonds 2008 of the Company. His holding was £50,000 on appointment and £250,000 at 31st December, 1994.

On 7th March, 1995 the holdings of Mr. R. Petty, Mr. P. G. Taylor and Mr. R. J. Taylor were 10,336, 7,896 and 17,481 shares respectively and the other directors' holdings were unchanged.

	Options to subscribe for shares					
		During 1994				
	Held at 1 January 1994	Granted	Exercised (see note 3)	Held at 31 December 1994	Option Price (see note 2) p	Range of Exercise Dates (see note 1)
M. L. Dew	236,716		103,468			
		11,626			344	14 April 1997
				86,420	331*	20 April 1993 to 14 April 1997
				58,454	280*	5 May 1992 to 14 April 1995
	8,098†			8,098†		
	244,814	11,626	103,468	152,972		
T. A. Hayes	173,156					
		55,231			344	14 April 1997
				158,193	343*	20 April 1993 to 14 April 1997
				70,194	258*	6 May 1991 to 14 April 1995
	8,893†		2,845†	6,048†		
	182,049	55,231	2,845	234,435		
T. S. Nelson	224,885					
		26,162			344	14 April 1997
				130,083	340*	20 April 1993 to 14 April 1997
				120,964	246*	6 May 1991 to 14 April 1995
	9,190†			9,190†		
	234,075	26,162		260,237		

Directors' Interests in Shares

	Options to subscribe for shares: Held at 1 January 1994	During 1994: Granted	During 1994: Exercised (see note 3)	Held at 31 December 1994	Option Price (see note 2) p	Range of Exercise Dates (see note 1)
Sir Roger Neville	435,074		175,000			
				74,333	321*	20 April 1993 & 17 April 1994
				185,741	254*	6 May 1991 to 14 April 1995
	8,358†		2,845†	5,513†		
	443,432		177,845	265,587		
R. Petty	232,083					
		8,720			344	14 April 1997
				73,429	350*	20 April 1993 to 14 April 1997
				167,374	241*	6 May 1991 to 14 April 1995
	8,416†		1,422†	6,994†		
	240,499	8,720	1,422	247,797		
P. G. Taylor	225,028					
		34,883			344	14 April 1997
				137,657	337*	20 April 1993 to 14 April 1997
				122,254	243*	6 May 1991 to 14 April 1995
	8,893†			8,893†		
	233,921	34,883		268,804		
R. J. Taylor	315,465					
		87,790			344	14 April 1997
				169,566	342*	20 April 1993 to 14 April 1997
				233,689	244*	6 May 1991 to 14 April 1995
	12,096†			12,096†		
	327,561	87,790		415,351		

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. All other options were granted under the executive share option schemes and are normally exercisable within seven years of the relevant exercise date.
2. Option prices marked * are the weighted average based on the number of shares under option.
3. The price at which Sir Roger Neville and Mr. M. L. Dew exercised executive options was 232·25p per share, the official closing middle market price at the respective dates of exercise being 285p and 389p per share.
4. During the year the highest official closing middle market price of the shares was 416p per share and the lowest was 285p per share; on the last dealing day of the year it was 288p per share.
5. Full details of all directors' shareholdings and options to subscribe for shares are recorded in the Company's Register of Directors' Interests which is open to inspection in accordance with the provisions of the Companies Act 1985.

TEN YEAR FINANCIAL SUMMARY

	1994 £m	1993 £m	1992 £m
PREMIUM INCOME			
General insurance	**3,414**	3,392	3,128
Long-term insurance	**1,237**	1,134	1,302
	4,651	4,526	4,430
CONSOLIDATED PROFIT AND LOSS ACCOUNT			
General insurance underwriting result	**(127)**	(243)	(548)
Long-term insurance profits	**89**	96	62
Investment income and other activities	**354**	369	356
Profit (loss) before taxation	**316**	222	(130)
Taxation, minority interests and other items	**(66)**	(41)	1
Profit (loss) attributable to shareholders	**250**	181	(129)
Dividends	**(137)**	(121)	(114)
Retained profits transfer	**113**	60	(243)
	p	p	p
Earnings (loss) per ordinary share	**29·7**	22·3	(16·1)
Dividend per ordinary share	**15·75**	14·75	14·25
	£m	£m	£m
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
Profit (loss) attributable to shareholders	**250**	181	(129)
Realised investment profits less losses	**32**	92	267
Unrealised investment appreciation and foreign exchange gains	**(372)**	270	(151)
Development finance for long-term insurance	**(21)**	(5)	(5)
Total recognised gains (losses)	**(111)**	538	(18)
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS			
Shareholders' funds at 1st January	**2,012**	1,548	1,684
Share capital issued	**7**	131	10
Total recognised gains (losses)	**(111)**	538	(18)
Goodwill written off	**(15)**	(84)	(14)
Dividends	**(137)**	(121)	(114)
Other items	–	–	–
Shareholders' funds at 31st December	**1,756**	2,012	1,548
LONG-TERM INSURANCE FUNDS	**13,876**	14,484	9,936
EFFECTS OF INFLATION – amounts restated at December 1994 £'s (c)			
Profit (loss) before taxation	**316**	228	(135)
Shareholders' funds at 31st December	**1,756**	2,070	1,623
	p	p	p
Earnings (loss) per ordinary share	**29·7**	22·9	(16·9)
Dividend per ordinary share	**15·75**	15·18	15·00

Notes

(a) Excludes the premium of £119m for medical malpractice reinsurance from The Chubb Corporation.

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

(c) Based on the change in the retail prices index since 1985.

Ten Year Financial Summary

1991 £m	1990 £m	1989 £m	1988 £m	1987 £m	1986 £m	1985 £m
2,678	2,513	2,475	2,252	1,990	1,994	(a) 1,659
1,018	861	811	860	765	705	577
3,696	3,374	3,286	3,112	2,755	2,699	2,236
(833)	(551)	(64)	58	(107)	(78)	(183)
54	48	40	34	30	27	21
313	322	342	280	249	231	200
(466)	(181)	318	372	172	180	38
(6)	75	(103)	(120)	(51)	(54)	(10)
(472)	(106)	215	252	121	126	28
(114)	(111)	(99)	(81)	(61)	(46)	(35)
(586)	(217)	116	171	60	80	(7)
p	p	p	p	p	p	p
(59·2)	(13·4)	27·3	31·9	15·3	16·0	3·5
14·25	14·00	12·50	10·25	7·75	5·88	4·38
£m	£m	£m	£m	£m	£m	£m
(472)	(106)	215	252	121	126	28
118	190	42	36	39	21	26
185	(855)	740	243	(81)	275	106
(8)	(9)	(9)	(5)	(4)	(2)	(4)
(177)	(780)	988	526	75	420	156
2,034	2,936	2,103	1,693	1,690	1,316	1,270
9	4	(b) 111	–	–	–	–
(177)	(780)	988	526	75	420	156
(68)	(39)	(58)	(35)	(11)	–	(49)
(114)	(111)	(99)	(81)	(61)	(46)	(35)
–	24	(b) (109)	–	–	–	(26)
1,684	2,034	2,936	2,103	1,693	1,690	1,316
8,459	7,416	7,866	6,408	5,713	5,275	4,279
(501)	(203)	391	493	242	264	57
1,811	2,285	3,608	2,783	2,392	2,478	2,001
p	p	p	p	p	p	p
(63·7)	(15·1)	33·6	42·2	21·6	23·6	5·4
15·39	15·71	15·39	13·56	10·97	8·61	6·67

Financial Calendar and Addresses

Financial calendar 1995

First 1995 preference dividend payment	3rd April
Annual General Meeting	3rd May
Final 1994 ordinary dividend payment	3rd July
Half-year results announced	7th September
Second 1995 preference dividend payment	2nd October
Interim 1995 ordinary dividend payment	1st December

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