SUN ALLIANCE
GROUP plc

Report and Accounts 1990

Contents

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

Registrar: Lloyds Bank Plc, Registrar's Department, Goring-by-Sea, Worthing, West Sussex BN12 6DA

SUN ALLIANCE GROUP plc

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at its registered office, 1 Bartholomew Lane, London EC2N 2AD, on Wednesday, 15th May, 1991, at 12 noon.

1. To receive and adopt the report of the directors and the accounts for the year 1990 and to declare a final dividend.
2. To elect directors.
3. To re-appoint Coopers & Lybrand Deloitte as auditors and to authorise the directors to fix their remuneration.
4. To consider and if thought fit pass the following resolution which will be proposed as a special resolution:—

   That the directors of the Company be and are hereby authorised generally and unconditionally for the purpose of section 80 of the Companies Act 1985 to allot from time to time up to 206,011,482 shares of 25p each and empowered pursuant to section 95 of the said Act to allot such shares for cash as if subsection (1) of section 89 of the Act did not apply to any such allotment provided that this power be limited to allotments—

   (a) in connection with a rights issue in favour of shareholders subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws of, or the requirements of, any regulatory body or any stock exchange;

   (b) pursuant to any scrip dividend offer; and

   (c) otherwise than pursuant to sub-paragraphs (a) and (b) above, of not more than 39,699,425 shares

   during the period up to the conclusion of the next Annual General Meeting of the Company save that the Company may before the expiry of that period make an offer or agreement which would or might require shares to be allotted after such expiry and the directors may allot shares in pursuance of such offer or agreement.

   Explanation:—

   The Companies Act 1985 restricts the power of the directors to allot unissued capital and requires issues of equity capital for cash (other than in pursuance of employees' share schemes) to be offered to existing shareholders in proportion to their holdings unless the shareholders resolve otherwise in general meeting. The above resolution renews the directors' power—

   (i) to allot unissued capital, subject to a slightly reduced limit, and

   (ii) to modify the pre-emption rights of shareholders in the event of a rights issue or other issue for cash, subject to certain restrictions and a slightly increased limit.

   No issue is in contemplation but it is felt prudent to have further capital readily available.

5. To consider and if thought fit pass the following resolution which will be proposed as an ordinary resolution:—

   That the directors of the Company be and are hereby authorised to amend the rules of the Sun Alliance Group 1989 Savings Related Share Option Scheme to increase the limit on monthly savings to £250, subject to approval by the Board of Inland Revenue, and to do all such acts and things as may be advisable or necessary to obtain such approval.

   Explanation:—

   The current limit on monthly savings of £150 is the maximum permitted under the Income and Corporation Taxes Act 1988 (as amended). The above resolution enables the limit to be increased to the new maximum, recently enacted, when it comes into force. Directors retain discretion to apply a lower limit if appropriate.

By order of the directors
H. SILVER
Secretary

22nd April, 1991

A member entitled to attend and vote at this Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote on his behalf. A proxy need not be a member of the Company. Members who return completed forms may nevertheless attend the Meeting instead of their proxies and vote in person. A form of proxy is enclosed for holders of the Company's shares.

Directors

Chairman

H. U. A. Lambert

Director of Sun Alliance since 1972; Vice-Chairman from 1978 to 1983; Deputy Chairman from 1983 to 1985 and Chairman since 1985. Chairman of The Agricultural Mortgage Corporation. Director of Barclays Bank.

Deputy Chairman

Sir Derrick Holden-Brown

Director of Sun Alliance since 1977; Vice-Chairman from 1983 to 1985 and Deputy Chairman since 1985. Chairman of Allied Lyons.

Vice-Chairman

The Earl of Crawford and Balcarres, PC

Director of Sun Alliance since 1975; Vice-Chairman since 1978. Former director of National Westminster Bank. Former Minister of State for Defence and Minister of State for Foreign and Commonwealth Affairs.

Vice-Chairman

J. N. C. James, CBE

Director of Sun Alliance since 1972; Vice-Chairman since 1988. Trustee of the Grosvenor Estate. Director of Royal Bank of Scotland.

A. R. C. Arbuthnot

Director of Sun Alliance since 1970 and of The London Assurance from 1963 to 1989. Former Chairman of Arbuthnot Latham Holdings.

Sir Christopher Benson

Director of Sun Alliance since 1988. Chairman of MEPC, of The Boots Company and of The Housing Corporation.

R. K. Bishop

Director of Sun Alliance since 1984 and of Phoenix Assurance from 1976 to 1989. Former Chief General Manager of Phoenix Assurance.

Geoffrey Bowler

Director of Sun Alliance since 1969. Former Chief General Manager. Director of Charles Church.

G. E. Browne

Director of Sun Alliance since 1988. Managing Director of Sun Alliance Investment Management.

E. G. Coward

Managing Director of Sun Alliance Insurance International.

M. L. Dew

Director of Sun Alliance since 1989. Managing Director of Sun Alliance Group Properties.

Graeme E. Gilchrist, TD

Deputy Chairman and Chief Executive of The Union Discount Company of London.

Henry Keswick

Director of Sun Alliance since 1975. Chairman of Jardine Matheson Holdings. Director of Robert Fleming, of Rothmans International and of The Daily Telegraph.

The Lord Kindersley

Director of Sun Alliance since 1965 and of The London Assurance from 1957 to 1989. Chairman of Brent Walker. Director of Maersk Company.

R. A. G. Neville, VRD

Director of Sun Alliance since 1979. Group Chief Executive.

W. G. Niven

Director of Sun Alliance since 1978. Former Group Finance Director.

R. Petty

Director of Sun Alliance since 1989 Managing Director of Sun Alliance Insurance Overseas.

Leopold de Rothschild, CBE

Director of Sun Alliance since 1982. Director of N. M. Rothschild & Sons.

R. J. Taylor

Director of Sun Alliance since 1986. Group Executive Director.

S. C. Whitbread

Director of Sun Alliance since 1989. Chairman of Whitbread.

B. A. Wright

Director of Sun Alliance since 1984. Group Executive Director.

Management

Holding Company

Sun Alliance Group plc

Group Chief Executive	— R. A. G. Neville, VRD, FCA
Group Executive Directors	— B. A. Wright, FIA
	— R. J. Taylor, FCII
General Managers	— T. A. Hayes, FCII, ACIS
	— T. S. Nelson, CA
Secretary	— H. Silver, Barrister

Principal Subsidiaries

Sun Alliance Insurance UK Ltd

Managing Director—W. C. Sclare, FCII

Sun Alliance Life Ltd

Managing Director—P. G. Taylor, FCII

Sun Alliance Insurance International Ltd

Managing Director—E. G. Coward, FCII

Sun Alliance Insurance Overseas Ltd

Managing Director—R. Petty, ACII

Sun Alliance Investment Management Ltd

Managing Director—G. E. Browne, FCII

Sun Alliance Group Properties Ltd

Managing Director—M. L. Dew, FRICS

Sun Alliance Management Services Ltd

Managing Director—J. Rochelle, MBCS

Summary of Group Results 1990

Premium income	1990 £m	1989 £m
General insurance	2,512·7	2,475·3
Long-term insurance	861·2	810·6
	3,373·9	3,285·9

Profit and loss account	1990 £m	1989 £m
General insurance underwriting result	(550·8)	(63·7)
Long-term insurance profits	47·7	40·5
Investment and other income	322·2	341·8
Profit (loss) before taxation	(180·9)	318·6
Taxation	(82·5)	90·9
Minority interests	7·8	12·3
Profit (loss) attributable to shareholders	(106·2)	215·4
Dividend	111·1	99·0
Retained profits transfer	(217·3)	116·4
Earnings (loss) per share	(13·4p)	27·3p
Dividend per share	14·0p	12·5p

Territorial analysis

General insurance	1990 Premium income £m	1990 Underwriting result £m	1989 Premium income £m	1989 Underwriting result £m
United Kingdom	1,631·4	(461·3)	1,569·0	1·2
Europe	378·9	(53·1)	365·3	(22·2)
U.S.A.	230·2	(0·8)	262·7	(6·2)
Canada	61·0	(7·3)	63·7	(5·2)
Australia	101·7	(16·1)	109·7	(21·5)
Other overseas	109·5	(12·2)	104·9	(9·8)
	2,512·7	(550·8)	2,475·3	(63·7)

Long-term insurance	1990 Premium income £m	1990 Shareholders' profits £m	1989 Premium income £m	1989 Shareholders' profits £m
United Kingdom	691·8	40·6	654·8	37·5
Europe	116·2	3·1	116·6	0·3
Australia	17·9	2·4	19·2	2·0
Other overseas	35·3	1·6	20·0	0·7
	861·2	47·7	810·6	40·5

Chairman's Statement

1990 for the UK insurance market was the worst year in this century. In January and February the country was hit by very strong gales, the peak of the storm being about as violent as the hurricane of October 1987, but much more widely spread and causing structural damage from the wind, the breaching of sea walls, flooding and consequential loss from the English Channel as far north as Scotland.

For the Group this unparalleled disaster involved more than half-a-million claims and underwriting losses of almost £200m after a reinsurance recovery of £110m. In the summer many weeks of hot dry weather for the second year running produced a spate of subsidence claims which cost £146m, or more than double the losses of 1989. These natural calamities, which with other weather losses cost over £410m, came at a time of severe economic recession when the market, after several reasonably good years, had entered a downward turn in the cycle, a tendency aggravated in the UK by very high interest rates.

While the climatologists may argue over differing prognoses for the development of weather patterns, there can be no doubt there will have to be further premium increases in commercial, household and motor business. In marine and aviation, and in several liability classes, rates do not match the risks covered. The fall in property values has also brought about a number of speculative professional indemnity claims which are clearly unacceptable. The one satisfactory feature of the year at home was the continued growth of our life business which produced record profits for the shareholders.

The northern part of continental Europe did not escape the turbulent winter and underwriting losses were widespread there. Losses were also considerable in Australia where competition is tough. On the other hand, the United States of America, where our business is managed by Chubb, against the trend produced very satisfactory results.

With this background of almost unrelieved gloom, I am sorry to have to report to shareholders a substantial loss amounting to no less than £181m. As I have said before, it is in the hardest times that policyholders and owners of shares in the Group can appreciate our strength in depth, which is unapproached by that of our competitors. Our solvency margin at the end of the year was still 81% and has since grown.

As part of our efforts to widen the base of our activities, the year has seen the Group's shareholding in the rapidly growing Swinton Group increased to 75%, while last autumn Sun Alliance (with nine other British insurance companies) formed British Aviation Insurance Group Limited. We hope that the combined resources which now constitute the world's biggest aviation pool will help to bring some stability to the aviation insurance market. Satisfactory progress in obtaining continental European business is being made in our joint venture with Lloyd's of London launched under the name "Eurosure", and we are pleased with the development of our co-operation in the UK and Japan with Taisho.

Chairman's Statement continued

I mentioned last year that we were building a second major computer centre at Bristol and this will be commissioned later in 1991. It will provide us with greater security as well as sustaining our aim to enlist the most advanced technology, which is needed to improve service to customers and intermediaries. Expert systems are already in place to improve underwriting quality in commercial business, to help the life sales force to assess the protection and savings needs of customers and to improve productivity. The probability that skilled staff will in future be in short supply is constantly in our minds.

For many years Life Assurance Premium Relief was a major inducement to long-term saving, from which the life companies benefited. This relief was withdrawn for new policies in 1984. In the years that followed, several new investment and savings schemes have been promoted by other institutions, based upon special tax concessions devised by the Government which have been quite complicated and do not always achieve the desired ends. They have served mainly to divert existing savings elsewhere, and it is time that Government gave more serious thought to a coherent tax strategy which encourages long-term saving in a form that is simple to understand and equitable to customers and the institutions which serve them.

A year away from 1992, in the wider European scene, we still have disadvantages. Life companies in the UK bear a higher tax burden. Much more serious is the ability of many continental insurers, denied to us, to strengthen themselves to meet the exceptional losses of years such as 1990 by setting aside tax-deductible catastrophe equalisation reserves in more prosperous times. If UK companies were to enjoy an equivalent relief there might also be a reduction in the need to purchase reinsurance from foreign reinsurers. Sadly the Budget increase in VAT will lead directly to an increase in the cost of providing insurance, particularly in the personal sector. Following the escalation in subsidence claims late last year the added VAT burden can only strengthen the case for some further increase in household insurance rates, particularly for properties with subsidence exposure.

In 1989 a jury rejected allegations against the Group's former Chairman, Lord Aldington, and awarded him record damages together with his legal costs. In 1990 he successfully resisted an appeal. The campaign of harassment against Lord Aldington arose directly from his duties as Chairman, as I reported at the last AGM. Distributing the libellous pamphlet was intended to put pressure on him (and hence upon the Group) to pay an insurance claim which had been declined some years earlier. Any employer must in fairness assist any official who is under pressure from a third party relating to his duties. The Group assisted Lord Aldington to terminate the defamatory campaign by an advance towards his legal costs of approximately £½m.

Chairman's Statement continued

Dividend

The Directors recommend a final dividend for 1990 of 9p per share, making a total dividend for the year of 14p.

Directors

During the year Mr. D. B. Money-Coutts resigned from the Board on his appointment as Chairman of the M&G Group. He had been Deputy Chairman of the Phoenix and we were sorry to lose him.

At the Annual General Meeting the Earl of Crawford and Balcarres, Mr. A. R. C. Arbuthnot and Mr. W. G. Niven will be retiring. Lord Crawford joined the Board in 1975 and was elected a Vice-Chairman in 1978. He brought to the Board a wide experience in business and public affairs at the centre of Government and in Scotland. Mr. Arbuthnot was one of our longest serving Directors, having been elected to the Court of The London Assurance in 1963. He has for many years been a busy Committee Chairman. Mr. Niven, who joined The London Assurance in 1951 and became a Director in 1978, was Group Finance Director until he retired in 1989. We offer to them all our warmest thanks for their important services over the years.

Mr. Eric Coward, Managing Director of Sun Alliance International, joined the Board in 1990 and Mr. Graeme Gilchrist, Deputy Chairman and Chief Executive of The Union Discount Company, did so early in 1991.

Conclusion

If 1990 was a hard year for the Company, it produced extraordinary pressures for our staff and especially people dealing with claims in unparalleled numbers, and shareholders and policyholders alike can be proud of the way in which they met the challenge, and grateful to them for their efforts.

Our aim in the coming year will continue to be to pursue sound underwriting practices rather than to seek market share at any price, and to bear down on our operating expenses. With the strong team that Mr. Roger Neville leads, and concentrating our efforts on the business we do best, I believe we are well placed to make the most of the recovery in the market place which is beginning, however haltingly, to appear.

3rd April, 1991

H. A. Lambert

Review of Operations 1990

Sun Alliance UK

Sun Alliance UK writes the Group's personal general insurance business in the United Kingdom.

General insurance	1990 £m	1989 £m
Premium income	929	877
Underwriting result	(267)	36

After two years of generally mild weather, a series of severe storms in January and February 1990 resulted in an unprecedented number of claims, which cost the company £230m gross and £143m net of reinsurance recoveries. Reinsurance protection was renewed at the year-end but cost substantially more than in 1989, in line with the hardening of the reinsurance market. In the summer, subsidence once more emerged as a serious problem, and on a much larger scale than in the previous year. We have made provision for payment of subsidence claims totalling £146m for 1990.

Household premium growth was again restrained by the downturn in the resid[illegible]al market. We also encountered increased competition from new entrants to the marke[illegible]racted by the results of earlier years. This delayed until January 1991 the introduction of premium rate adjustments necessary to reflect the emerging pattern of weather related claims.

Both Sun Alliance UK and our specialist subsidiary, Bradford Pennine, encountered fierce competition for motor business and reported increased underwriting losses. The total number of vehicles we insured fell, as the market failed to follow price increases which we had introduced at the end of 1989. Nevertheless, we increased motor premium rates by an average of 9% in the last quarter of 1990. We will continue raising prices throughout 1991 to restore profitability, rather than market share.

Personal accident, travel and creditor insurances continued to grow as a proportion of our total premiums. New health and legal expenses insurance products were introduced, tailored for particular market segments.

High interest rates and lower house prices caused an increase in the frequency and cost of mortgage guarantee claims. The account again suffered an underwriting loss.

Sun Alliance UK reorganised its sales force in order to focus marketing and distribution more precisely on specific customer groups. During 1991 we are implementing further phases of the reorganisation plan, enabling us to service policyholders and intermediaries more effectively, and to cut costs.

Review of Operations 1990 continued

Sun Alliance International

Business written in Sun Alliance International covers UK commercial insurances and London market business including marine, aviation and insurance programmes for multinational companies.

General insurance	1990 £m	1989 £m
Premium income	702	692
Underwriting result	(194)	(35)

All our business has been affected by the economic conditions and a market where severe competition and inadequate rating have continued. In addition, there was a significant contribution to the underwriting loss from the extreme weather conditions of January and February which is now estimated at £46m after reinsurance of £27m.

In 1990, liability insurance business again showed unsatisfactory results. Public liability suffered more than usually from large losses. In the last few months of the year, the professional indemnity account suffered a spate of claims arising from alleged errors and omissions on the part of chartered surveyors. In the employers' liability area, we have again added to our reserves for business written in prior years.

National Vulcan, our engineering insurance subsidiary, was not immune to price competition, weather or the recession. It did achieve some growth and a good underwriting result in the inspected classes.

In the marine market, trading conditions remained extremely difficult in 1990 and provisions for losses in the two open years contributed to an underwriting loss of £19m. Towards the end of the year however there were some positive signs. Some participants have withdrawn from the market and higher if not yet adequate rates are being applied.

There are now a few indications, in some classes, of business realism returning to the market. A great deal more requires to be done however if all classes are to be restored to a sound underwriting basis. Sun Alliance International is taking action to bring this about. We will continue to do so until proper levels of profitability have been restored.

As part of our policy to extend our range of activities we formed Sun Alliance Financial Risks, to develop our financial and special risks business. We have also created facilities for managing captive insurance companies, a service often required by major clients.

Review of Operations 1990 continued

Sun Alliance Overseas

The Overseas company is responsible for the Group's general and life business written by subsidiaries, branches and agencies overseas.

General insurance	1990 £m	1989 £m
Premium income	881	906
Underwriting result	(90)	(65)
Long-term insurance		
Premium income	169	156
Shareholders' profits	7	3

The increased underwriting loss was disappointing and reflected the impact of bad weather claims in Europe in the early part of the year costing £15m, storm losses in Australia amounting to £7m and a general decline in many markets. General business premium income grew in local currency terms by more than 11%.

There was a 17% increase in long-term premium income in local currencies reflecting in part the effect of acquisitions in Australia and New Zealand reported last year. Life profits from our Danish subsidiary have been included for the first time following changes in regulatory and accounting practices in that country.

Europe

Sun Alliance has continued to develop its European operations to meet the challenges of the single European insurance market and highly competitive trading conditions. We have expanded considerably our branch networks in Spain, Italy and France. Through Securitas we have entered what used to be East Germany.

Premium income grew strongly in local currency terms in targeted countries but was accompanied by a deterioration in the overall level of losses arising particularly from the severe weather in northern Europe and a high incidence of large fire claims in several territories.

Our smaller Danish subsidiary, the Fjerde Sø, was acquired by and merged into Codan which enjoyed another successful year.

We are expanding our life assurance business. A new life company was launched in Holland during the year, in addition to our long established life business in Denmark and Germany and our growing company in Spain.

Review of Operations 1990 continued

U.S.A.

Our business under Chubb's management continues to do better than that of US insurers generally. It produced an underwriting profit, in a year when much of the industry showed large underwriting losses. Results from commercial liability, and from the fidelity and surety insurance class were particularly good. Premium growth in dollar terms was slightly below inflation.

Canada

We achieved selective growth of nearly 15% in premiums, driven particularly by price increases for motor risks. However, heavy property losses in British Columbia, and the consequences of the political uncertainty surrounding the possible nationalisation of motor insurance in Ontario, contributed to a disappointing result. This was further influenced by a need to increase liability reserves from past years.

Australia

Australia had another poor year, with large weather losses including an exceptionally bad hail storm in Sydney. General insurance premium growth was nearly 14% in local terms, but this was mainly attributable to our share of the New South Wales compulsory third-party motor insurance scheme. During 1990, we integrated the business of AMEV Life Assurance purchased in 1989. Life new annual premium income advanced strongly in local currency terms and there was a valuable contribution to profit.

Other Overseas

Rising crime, weather damage and the effect of social unrest led to a heavy underwriting loss in South Africa. Although there was a further underwriting loss in New Zealand there were some encouraging signs of improvement in market rating levels during the year.

Good profits were achieved in many other territories, notably Curacao, Cyprus, Jamaica and Puerto Rico but individual large claims in some other countries eroded much of the gains.

Our New Zealand life subsidiary returned satisfactory results having regard to the serious recession and has increased its market share following the acquisitions reported last year.

Review of Operations 1990 *continued*

Sun Alliance Life

UK life and pensions business and related financial services are managed by Sun Alliance Life.

Long-term insurance	1990 £m	1989 £m
Premium income	692	655
Shareholders' profits	41	38

The increase in shareholders' profits was assisted by good results from group life and permanent health insurance business. In reporting net assets, Sun Alliance Group does not include the value of the shareholders' interest in its existing long-term business, known as the embedded value. The fall in share prices in 1990, coupled with declining property values, led to a drop in the embedded value, from over £550m at the end of 1989 to over £500m at the end of last year. This figure excludes any estimate of the present value of those profits that will flow to shareholders from business written in the future.

The economic environment during 1990 was unfavourable. The Gulf crisis and the recession compounded problems created by an already depressed housing market. Complying with new legislative requirements imposed a heavy burden on life companies in 1990, and even now the regulatory regime remains uncertain. Further taxation advantages were given to competing savings and investment vehicles in the Chancellor's budget.

The Group achieved record sales of new annual premium life policies, while single premiums were only marginally lower than in 1989. Group and individual risk business performed well, with sales rising by more than 30%. Sales of policies linked to house purchase also performed well despite market conditions. During the year we continued our policy of developing a broadly-based distribution system, using independent intermediaries, tied agents, direct sales and direct marketing techniques. Some 52% of our new business came from directly controlled outlets, with the remainder from independent intermediaries. We focused special attention on developing the direct salesforce, now 1,100 strong, an increase of 50% over 1989.

We have developed an expert financial planning system, Profile, which has helped improve and monitor the quality of advice given. It is being used successfully in direct sales and will be introduced to our tied agency network in 1991. In October, Woolwich Life, our joint venture with the Woolwich Building Society, was launched. We improved customer service by establishing regional administration units. Our new computer system, Client Contract Administration, now provides an enhanced customer and agent database and will be used for new products during 1991.

Review of Operations 1990 *continued*

Investment

As world economies either slowed down, or moved into recession, equity markets fell substantially from levels enjoyed a year previously. This was exacerbated by Iraq's invasion of Kuwait.

The UK pursued a tight monetary policy for most of the year, in an attempt to squeeze inflation out of the system. It began to achieve its objective in the final months of the year, but at some considerable cost. By the time inflation at last started falling, the economy and corporate profits were very depressed.

Entry into the European exchange rate mechanism in October was marked by a cut in base rates. This resulted in a recovery in British Government stocks, but the index of long-dated gilts still fell 5% over the year as a whole. The FT Actuaries All-Share Index fell 14%, its first annual fall since 1976.

The U.S.A. led the downturn in economic activity, but by the latter part of the year as inflationary fears subsided the Federal Reserve shifted its emphasis towards modest stimulation of the depressed economy and interest rates began easing. This policy weakened the dollar further on the foreign exchange markets, but enhanced the competitiveness of US industry and improved the prospects of export led growth. The Dow Jones Industrial Average fell 4% over the year, a 20% decline when translated into sterling.

Other main overseas markets fared little better. Japanese shares fell 39%, and in Germany the enormous costs of reunification and inevitable increase in government expenditure began to be fully appreciated.

Group investment and other income fell to £322m, as a result of exchange rate movements and losses in estate agency and other activities. The underlying increase of 4·6% was depressed by the sharp reduction in cash flow from our insurance operations.

The Group took the opportunity afforded by 1990 operating losses of realising substantial profits in its UK equity portfolio, thereby removing some of the constraints our tax position has placed upon investment policy.

Inevitably, in a year of depressed asset values and a rising pound, there was a drop in the Group's solvency margin, which fell to 81% at the end of December.

Investment by the Group's main life fund, Sun Alliance and London Assurance, maintained its emphasis on both UK and overseas equities and property, rather than fixed interest securities. The underlying growth in investment income was 17%.

Review of Operations 1990 continued

Property

Last year was a difficult one for the property industry. The factors already at work towards the end of 1989 gathered momentum. A decelerating economy, high interest rates, the growing level of bank lending to the property sector and the increasing surplus of commercial space all contributed to the market's decline.

In consequence, domestic and foreign investors tended to stay away from the market, leaving developers and their sources of finance, chiefly the banks, with buildings which were hard to let and even more difficult to sell. Inevitably, capital values declined across the market, though with considerable variations from one sector and one region to another.

The Group's development programme continued throughout the year, albeit at a reduced level. Several projects were successfully completed and let, including a new office building in St. James's Square and the first phase of our new Harlequin shopping centre in Watford. The John Lewis Partnership commenced trading in the latter in a new 200,000 square foot store in August. All but one of the other 24 units in the first phase had been let by the year-end.

A revaluation at 31st December showed that over the year, properties in the general fund had fallen in value by £120m and long-term fund properties by £131m.

Management Services

Progress was made with the projects scheduled to replace the Group's main computer systems, which have been in service for a decade or more. We continued to invest in our voice and data network, and achieved improved service and reduced costs. With over 11,000 terminals and 12,000 telephones, the network is one of the UK's largest, and is now actively used for electronic marketing of services. The implementation of expert systems continued during the year, both in complex underwriting for general insurance business and in personal financial planning for clients of Sun Alliance Life.

The new head office building for the Life company in Horsham, Sussex was topped out in September and is on schedule for occupation in the summer of 1991.

Directors' Report

The directors submit their report and the accounts of the Group for the year 1990.

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, other than industrial assurance, and related financial services business.

Share capital

During the year 1,573,824 shares of 25p each were issued on the exercise of employee share options for a total consideration of £1,759,789 and 816,524 shares were issued pursuant to scrip dividend offers.

Profit and loss account

The result of the Group for the year and the appropriations are shown in the consolidated profit and loss account on page 21.

Dividend

The directors recommend for payment on 1st July, 1991 a final dividend of 9p per share. This, together with the interim dividend of 5p per share paid on 1st December, 1990, will make a total dividend for the year of 14p per share. A scrip dividend offer is being made in respect of the final dividend.

Directors

The directors named on page 3 served during the year together with Mr. P. H. Bartrum and Mr. Peter Quaile who, as indicated in last year's Report, retired at the conclusion of the Annual General Meeting on 16th May, 1990 and Mr. D. B. Money-Coutts, who resigned on 3rd October, 1990.

The Earl of Crawford and Balcarres retires by rotation and is not seeking re-election. Mr. A. R. C. Arbuthnot and Mr. W. G. Niven will also retire at the conclusion of the Annual General Meeting. The Board records its sincere gratitude to each for his invaluable services to the Group over many years. Mr. E. G. Coward and Mr. G. E. Gilchrist, who were appointed to the Board on 1st August, 1990 and 2nd January, 1991 respectively, will retire and will be proposed for re-election together with the following directors who also retire by rotation:–

Mr. R. K. Bishop
Mr. G. E. Browne
Mr. H. U. A. Lambert
Mr. Leopold de Rothschild
Mr. B. A. Wright

Of the directors being proposed for re-election, Mr. Browne, Mr. Coward and Mr. Wright have service contracts which expire on 31st July, 1992, 30th June, 1994 and 30th April, 1992 respectively.

A statement of directors' interests appears on page 37.

Directors and officers

The Company has purchased and maintains for directors and officers insurance against liabilities in relation to the Company.

Directors' Report *continued*

Employees

The average number of persons employed by the Company's subsidiaries in the United Kingdom in 1990 was 19,858, of whom 3,916 were employed by companies which became subsidiaries during the year. Their aggregate remuneration for the year was £263,420,000.

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 general 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.

A savings related share option scheme was first introduced in 1984 and an executive share option scheme in 1988. During 1990 options to subscribe for 2,068,999 shares at 243p each in the Company were granted to 2,225 employees under the Sun Alliance Group 1989 Savings Related Share Option Scheme and options to subscribe for 1,700,806 shares at 303p each were granted to 220 employees under the Sun Alliance Group 1989 Executive Share Option Scheme.

Substantial shareholdings

The following interests in the shares of the Company on 22nd March, 1991 had been declared in accordance with Part VI of the Companies Act 1985 (as amended):—

	Shares of 25p each	% of share capital
The Chubb Corporation of New Jersey, U.S.A. and one of its subsidiaries	72,194,656	9·1
Guardian Royal Exchange plc	39,178,708	4·9
Prudential Portfolio Managers Ltd	36,735,556	4·6

Close company provisions

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

Charitable and political contributions

During the year the Company and its subsidiaries gave a total of £266,000 in the United Kingdom for charitable purposes. In addition, a contribution of £50,000 was made to the Conservative Party.

By order of the directors
H. SILVER
Secretary

3rd April, 1991

Accounting Policies

The principal accounting policies of the Group as set out below comply with UK statements of standard accounting practice, to the extent that they are appropriate to insurance companies, and the statement of recommended practice on accounting for insurance business issued by the Association of British Insurer .

(a) Group accounts

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

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

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

(b) Exchange rates

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.

(c) General insurance busine:

(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 notified 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. In the case of an excess of loss reinsurance agreement made with 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 losses relating to unexpired risks at the balance sheet date and for underwriting losses expected to arise on open years' accounts.

Accounting Policies *continued*

(d) 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.

(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

The taxation charge 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 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 excess of market values over 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. Prior to 1990 realised and unrealised appreciation on non-linked business investments were taken to investment reserves and transfers made to the revenue account as required; linked business investment appreciation was already dealt with directly in the revenue account. The comparatives for 1989 have been restated to reflect this change in presentation.

SUNALLIANCE
GROUP plc

Consolidated Revenue Accounts

for the year ended 31st December, 1990

	Notes	1990 £m	1989 £m
GENERAL INSURANCE			
Premiums written less reinsurance	2(a)	**2,512·7**	2,475·3
Premiums earned	2(b)	**2,452·9**	2,383·8
less:			
Claims incurred	2(c)	**2,154·4**	1,648·6
Commission		**387·6**	376·9
Expenses		**461·7**	422·0
		3,003·7	2,447·5
Underwriting result		**(550·8)**	(63·7)
LONG-TERM INSURANCE			
Premiums less reassurance	3(a)	**861·2**	810·6
Investment income	5	**525·8**	471·9
Realised and unrealised appreciation (depreciation) on investments and foreign exchange adjustments		**(868·9)**	1,030·2
		518·1	2,312·7
less:			
Claims and surrenders	3(b)	**574·1**	463·8
Annuities		**76·4**	75·7
Commission		**72·9**	73·3
Expenses		**183·0**	173·6
Taxation	6	**41·5**	45·4
Transfer to profit and loss account	3(d)	**33·6**	29·6
		981·5	861·4
		(463·4)	1,451·3
Adjustment to opening insurance funds	3(e)	**(31·5)**	—
Fund movements arising from acquisitions		**25·2**	26·7
Increase (decrease) in funds		**(469·7)**	1,478·0

Consolidated Profit and Loss Account

for the year ended 31st December, 1990

	Notes	1990 £m	1989 £m
General insurance underwriting result		(550·8)	(63·7)
Long-term insurance profits	3(d)	47·7	40·5
Investment and other income	5	322·2	341·8
Profit (loss) before taxation		(180·9)	318·6
Taxation	6	(82·5)	90·9
Profit (loss) after taxation		(98·4)	227·7
Minority interests		7·8	12·3
Profit (loss) attributable to shareholders	10	(106·2)	215·4
Dividend			
Interim 5·0p (4·5p)		39·6	35·6
Final 9·0p (8·0p)		71·5	63·4
		111·1	99·0
Retained profits transfer		(217·3)	116·4
Earnings (loss) per share	7	(13·4p)	27·3p

Movements in Reserves

for the year ended 31st December, 1990

	Notes	1990 £m	1989 £m
Retained profits			
Balance at 1st January		760·7	668·9
Opening adjustment for long-term insurance profits	3(e)	22·5	—
Profit and loss account transfer		(217·3)	116·4
Realised investment profits less losses, after taxation		190·3	41·6
Goodwill written off	11	(38·6)	(57·7)
Development finance for long-term insurance		(9·0)	(8·5)
Balance at 31st December		708·6	760·7
Revaluation reserve			
Balance at 1st January		1,976·6	1,346·3
Unrealised appreciation (depreciation) of investments and foreign exchange gains less losses		(854·9)	739·5
Capitalisation following Scheme of Arrangement		—	(109·2)
Balance at 31st December		1,121·7	1,976·6

Consolidated Balance Sheet

at 31st December, 1990

	Notes	1990 £m	1989 £m
Share capital	8	198·5	197·9
Reserves			
Share premium account	8	4·8	1·3
Retained profits		708·6	760·7
Revaluation reserve		1,121·7	1,976·6
		2,033·6	2,936·5
Interests of minority shareholders in subsidiaries		143·5	141·5
Insurance funds			
including provisions and reserves			
Unearned premiums	2(d)	972·7	951·1
Outstanding claims	2(e)	2,554·4	2,313·1
		3,527·1	3,264·2
Other liabilities			
including provisions and reserve			
Borrowings	9	304·1	162·4
Sundry creditors		342·3	370·0
Proposed dividend		71·5	63·4
		6,422·1	6,938·0
Long-term insurance accounts (see separate balance sheet on page 23)		7,694·5	8,153·5
		14,116·6	15,091·5
Investments			
British Government and municipal securities		280·4	258·3
Overseas government and municipal securities		662·0	759·0
Debentures		545·8	536·5
Preference stocks and shares		51·5	74·9
Ordinary stocks and shares		2,032·9	2,446·8
Property		1,063·4	1,155·6
Mortgages and loans		126·0	106·1
Deposits at interest		466·7	412·7
		5,228·7	5,749·9
Other assets			
Agents' balances and debtors		964·4	971·2
Capitalised equipment		120·4	102·9
Due from long-term insurance fund		49·8	35·4
Bank balances and cash		58·8	78·6
		6,422·1	6,938·0
Long-term insurance accounts (see separate balance sheet on page 23)		7,694·5	8,153·5
		14,116·6	15,091·5

Consolidated Long-term Insurance Balance Sheet

at 31st December, 1990

	Notes	1990 £m	1989 £m
Long-term insurance funds including reserves		7,416·4	7,886·1
Other liabilities including provisions			
Outstanding claims		36·7	39·7
Borrowings	9	102·5	89·8
Sundry creditors		89·1	102·5
Due to general fund		49·8	35·4
		7,694·5	8,153·5
Investments			
British Government and municipal securities		1,150·8	1,206·8
Overseas government and municipal securities		213·2	164·4
Debentures		905·3	941·6
Preference stocks and shares		52·2	64·4
Ordinary stocks and shares		2,883·3	3,453·8
Property		1,277·8	1,323·8
Mortgages and loans		184·5	197·1
Deposits at interest		776·0	556·5
		7,443·1	7,908·4
Other assets			
Debtors		243·9	237·9
Bank balances and cash		7·5	7·2
		7,694·5	8,153·5

This balance sheet forms part of the balance sheet appearing on page 22.

SUN ALLIANCE
GROUP plc

Parent Company Balance Sheet

at 31st December, 1990

	Notes	1990 £m	1989 £m
Fixed assets			
Shares in subsidiaries	10	1,957·2	2,900·6
Current assets			
Amounts due from subsidiaries		374·7	215·3
Other debtors		4·0	—
Bank balance		0·2	0·1
		378·9	215·4
Creditors – falling due within one year			
Borrowings	9	200·2	80·5
Amounts due to subsidiaries		7·1	4·6
Taxation		20·7	25·6
Other creditors		—	3·7
Accrued interest		3·0	1·7
Proposed dividend		71·5	63·4
		302·5	179·5
Net current assets		76·4	35·9
Total assets less current liabilities		2,033·6	2,936·5
Capital and reserves			
Called up share capital	8	198·5	197·9
Share premium account		4·8	1·3
Revaluation reserve		1,749·3	2,671·3
Profit and loss account	10	81·0	66·0
		2,033·6	2,936·5

The accounts on pages 18 to 35 were approved by the directors on 3rd April, 1991 and were signed on their behalf by:—

H. U. A. LAMBERT, *Chairman*

~~DERRICK~~ HOLDEN-BROWN, *Deputy Chairman*

R. A. G. NEVILLE, *Group Chief Executive*

Consolidated Statement of Source and Application of Funds

for the year ended 31st December, 1990 (excluding long-term insurance business)

	1990 £m	1989 £m
Source of funds		
Profit (loss) after taxation (per the profit and loss account)	(98·4)	227·7
Realised investment profits less losses, after taxation	190·3	41·6
Other movements in retained profits	13·5	(8·5)
Adjustments to convert revenue and expenditure onto a cash basis:—		
Increase in insurance funds	449·2	370·6
Increase in agents' and other balances	(41·0)	(72·3)
Depreciation of capitalised equipment	40·4	29·9
Funds generated from operations	554·0	589·0
Increase (decrease) in borrowings	143·7	(34·8)
Issue of shares	4·1	1·9
	701·8	556·1
Application of funds		
Dividends paid (including dividends to minority shareholders)	105·0	88·9
Net investment in subsidiary and associated companies	39·9	43·0
Purchase of capitalised equipment	60·4	49·4
Increase (decrease) in invested funds at cost:—		
Fixed interest securities	77·9	(50·2)
Ordinary stocks and shares	283·2	345·1
Property	43·7	58·8
Mortgages and loans	38·9	18·8
Short-term deposits	64·9	(34·6)
	508·6	337·9
Movement in bank balances	(12·1)	36·9
	701·8	556·1

NOTE

Exchange movements have been eliminated by translating foreign currency assets and liabilities existing at the beginning of the year at year-end rates of exchange.

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.

Certain supplementary information is given in notes 2 and 3 in conformity with the statement of recommended practice on accounting issued by the Association of British Insurers.

2. General insurance business

	1990 £m	1989 £m
In the consolidated revenue account premiums and claims are made up as follows:—		
(a) Premiums written—		
Gross of reinsurance	2,860·6	2,780·7
Reinsurance ceded	(347·9)	(305·4)
	2,512·7	2,475·3
(b) Premiums earned—		
Premiums written less reinsurance	2,512·7	2,475·3
Increase in unearned premiums	(77·2)	(121·8)
Increase in deferred acquisition costs	17·4	30·3
	2,452·9	2,383·8
(c) Claims incurred—		
Gross of reinsurance	2,648·2	1,933·5
Reinsurance recoveries	(493·8)	(284·9)
	2,154·4	1,648·6
In the consolidated balance sheet insurance funds are made up as follows:—		
(d) Unearned premiums—		
Gross of reinsurance	1,384·1	1,327·8
Reinsurance ceded	(120·3)	(93·3)
	1,263·8	1,234·5
Deferred acquisition costs	(291·1)	(283·4)
	972·7	951·1
(e) Outstanding claims—		
Gross of reinsurance	2,959·7	2,552·1
Reinsurance recoverable	(405·3)	(239·0)
	2,554·4	2,313·1

3. Long-term insurance business

	1990 £m	1989 £m
In the consolidated revenue account premiums and claims are made up as follows:—		
(a) Premiums—		
Gross of reassurance	907·8	858·0
Reassurance ceded	(46·6)	(47·4)
	861·2	810·6

Notes on the Accounts *continued*

3. *Long-term insurance business* *continued*

	1990 £m	1989 £m
(b) Claims and surrenders—		
Gross of reassurance	597·8	486·4
Reassurance recoveries	(23·7)	(22·6)
	574·1	463·8

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

	1990			1989		
	Life £m	Pensions £m	Total £m	Life £m	Pensions £m	Total £m
Annual premiums—						
Conventional	90·2	21·1	111·3	84·7	18·6	103·3
Linked	9·4	9·8	19·2	6·4	11·0	17·4
	99·6	30·9	130·5	91·1	29·6	120·7
Single premiums—						
Conventional	37·3	134·0	171·3	23·5	121·1	144·6
Linked	28·9	40·0	68·9	69·4	40·7	110·1
	66·2	174·0	240·2	92·9	161·8	254·7

(d) The amount of long-term insurance profits dealt with in the consolidated profit and loss account is made up as follows:—

	1990 £m	1989 £m
Transfer from revenue account	33·6	29·6
Attributable taxation	14·1	10·9
	47·7	40·5

(e) As a result of a change in local legislation, the Group's life subsidiary in Denmark is now able to recognise profits attributable to shareholders in respect of long-term insurance business. An adjustment for profits attributable to prior years amounting to £31·5m has been made to the opening insurance funds and a corresponding amount, after deduction of minority interests of £9·0m, has been taken directly to retained profits.

4. *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 exceptions are in Denmark and Germany where defined contribution schemes are operated. The total pension cost for the Group was £39·0m (1989 £37·7m) of which £9·4m (1989 £8·8m) related to overseas schemes.

The pension cost relating to the main scheme in the United Kingdom is assessed in accordance with the advice of the actuary to the scheme, who is an employee of the Group, using the attained age method. The last actuarial valuation of the scheme was made as at 31st March, 1988 for which purpose an investment return of 9·5% p.a. was assumed, with provision for pension increases of 6·0% p.a. and salary increases of 7·5% p.a. in conjunction with a graded salary scale. The market value of the assets of the scheme at 31st March, 1988 was £915m and their actuarial value was sufficient to cover 108% 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 debtors at 31st December, 1990 is an amount of £0·9m (1989 £2·9m) resulting from the difference between the amounts charged to revenue and the amounts contributed to the main scheme in the United Kingdom. Included in creditors is a provision amounting to £14·0m (1989 £14·3m) relating to unfunded overseas schemes.

Notes on the Accounts *continued*

5. Investment income

Investment income is shown after deduction of:—

	Consolidated profit and loss account		Consolidated long-term insurance revenue account	
	1990	1989	1990	1989
	£m	£m	£m	£m
Interest payable on bank loans and overdrafts repayable within 5 years	4·5	2·8	0·9	0·8
Interest payable on other loans	22·3	14·1	12·5	9·7
	26·8	16·9	13·4	10·5
Investment management expenses	12·3	10·7	13·2	10·6

6. Taxation

The charges (credit) for taxation, after adjustments in respect of previous years, comprise:—

	Consolidated profit and loss account		Consolidated long-term insurance revenue account	
	1990	1989	1990	1989
	£m	£m	£m	£m
United Kingdom taxation—				
Corporation tax	(104·5)	64·8	4·0	2·0
Tax attributable to UK dividend income and to UK long-term insurance transfers	29·7	25·1	14·6	13·8
	(74·8)	89·9	18·6	15·8
Less Double taxation relief	23·9	30·9	0·3	0·2
	(98·7)	59·0	18·3	15·6
Overseas taxation on profits	16·2	31·9	23·2	29·8
	(82·5)	90·9	41·5	45·4

UK corporation tax in the consolidated profit and loss account has been calculated at 34·25% (1989 35%).

The taxation charge (credit) in the consolidated profit and loss account includes a deferred taxation charge of £8·3m (1989 £4·1m). Included in debtors in the consolidated balance sheet and amounts due from subsidiaries in the Parent Company balance sheet is advance corporation tax recoverable of £20·7m (1989 £19·5m) in respect of the proposed final dividend.

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	
	1990	1989	1990	1989
	£m	£m	£m	£m
On unrealised appreciation of investments	405·0	685·0	136·0	276·0
On insurance funds and other continuing timing differences	(16·4)	(15·8)	—	—
	388·6	669·2	136·0	276·0

7. Earnings per share

The calculation of earnings (loss) per share is based on the loss of £106·2m (1989 profit £215·4m) on the weighted average of 792,473,813 shares (1989 783,992,954).

Notes on the Accounts continued

8. Share capital	**1990**	1989
	£m	£m
Authorised: 1,000,000,000 shares of 25p each	**250·0**	250·0
Issued and fully paid: 793,988,518 (1989 791,598,170) shares of 25p each	**198·5**	197·9

During the year 1,573,824 shares were issued on the exercise of employee share options for a total consideration of £1,759,789 and 816,524 shares were issued pursuant to scrip dividend offers.

Under employee savings related share option schemes, options to subscribe for 13,179,897 shares of 25p each in the Company were outstanding at 31st December, 1990 as follows:—

Number of shares	Option price per share	Exercise date
152,001	103·25p	1st August, 1990
1,947,852	84·25p	1st August, 1991
690,212	147·00p	1st August, 1991
1,138,856	103·25p	1st August, 1992
619,600	218·00p	1st August, 1992
488,316	147·00p	1st August, 1993
772,136	208·25p	1st August, 1993
412,004	218·00p	1st August, 1994
3,290,758	253·00p	1st December, 1994
467,112	208·25p	1st August, 1995
1,548,998	243·00p	1st August, 1995
1,162,454	253·00p	1st December, 1996
489,598	243·00p	1st August, 1997

The options are exercisable within 6 months after the exercise date or earlier, or up to 12 months later, in the circumstances provided for in the rules of the schemes.

Under executive share option schemes, options to subscribe for 9,431,388 shares of 25p each in the Company were outstanding at 31st December, 1990 as follows:—

Number of shares	Option price per share	Exercise date
5,749,580	232·25p	6th May, 1991
1,992,252	282·50p	5th May, 1992
1,689,556	303·00p	20th April, 1993

The options are exercisable within 7 years after the exercise date or earlier, or up to 12 months later, in the circumstances provided for in the rules of the scheme.

9. Borrowings

Bank borrowings and other loans are as follows:—

	Consolidated balance sheet		Consolidated long-term insurance balance sheet	
	1990	1989	**1990**	1989
	£m	£m	**£m**	£m
Bank loans and overdrafts repayable within one year, or on demand	**70·4**	60·0	**10·0**	19·1
Other loans, at commercial rates of interest, repayable —				
Within one year (including Parent Company £200·2m (1989 £80·5m))	**228·1**	95·1	**91·5**	69·6
Between one and two years	**0·1**	0·2	**—**	—
Between two and five years	**0·5**	0·1	**—**	—
In five years or more	**—**	0·7	**—**	—
Loans secured on properties, most of which are at interest rates ranging from 7% to 10% p.a. and are repayable after 1995	**5·0**	6·3	**1·0**	1·1
	304·1	162·4	**102·5**	89·8

In the consolidated long-term insurance balance sheet other loans of £91·5m (1989 £69·6m) are due to general fund.

Notes on the Accounts *continued*

10. Parent Company accounts

The profit attributable to shareholders amounted to £126·1m (1989 £165·0m). After the dividend of £111·1m (1989 £99·0m) the balance of profit and loss account at 31st December, 1990 amounted to £81·0m (1989 £66·0m).

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

11. Subsidiaries

A list of subsidiaries appears on pages 32 to 34.

During the year the Group made acquisitions for which the aggregate consideration was £40·4m. Goodwill amounting to £38·6m arising on these acquisitions has been written off to retained profits. The total book value and fair value of the net assets acquired amounted to £2·8m and £1·8m respectively.

These acquisitions include a further 19% interest in Swinton (Holdings) Limited, taking the total interest of the Group in that company's issued share capital to 49%. The company is a subsidiary by virtue of the Group's right to appoint directors holding a majority of the voting rights at meetings of the board.

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 £126·7m at 31st December, 1990.

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.

12. Associated companies and other participating interests

A list of the principal investments in associated companies and in companies in which the shareholdings of the Group exceeded 10% of their equity share capitals appears on page 35.

13. Capital commitments

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

	1990	1989
	£m	[illegible]
Contracted for at 31st December	42·8	63·8
Authorised but not contracted for at 31st December	44·2	9·6

14. Directors and officers

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

	1990	1989
	£	£
For services as directors	228,378	243,811
Other emoluments (including pension fund contributions)	1,266,612	1,227,993
	1,494,990	1,471,804

Pension payments totalling £15,218 (1989 £14,439) were made by subsidiaries to two directors, of which £731 (1989 £975) was for services as a director. In addition in 1990 a retirement payment of £10,500 was made to a former director for services as a director.

Seven executive directors waived fees amounting to £64,192 (1989 eight directors — £55,623).

The emoluments of the Chairman were £45,0[illegible] (1989 £45,000). The emoluments, excluding pension fund contributions, of the highest paid director were £259,477 (1989 £230,842).

Notes on the Accounts *continued*

14. Directors and officers continued

The following table shows the number of directors of the Company whose emoluments were within the ranges stated.

Emoluments (excluding pension fund contributions) £	1990	1989
0 — 5,000	2	4
5,001 — 10,000	3	5
10,001 — 15,000	7	5
15,001 — 20,000	2	2
25,001 — 30,000	1	1
40,001 — 45,000	1	1
55,001 — 60,000	1	—
60,001 — 65,000	—	2
120,001 — 125,000	—	1
135,001 — 140,000	2	—
140,001 — 145,000	1	—
150,001 — 155,000	—	3
160,001 — 165,000	—	1
170,001 — 175,000	2	—
230,001 — 235,000	—	1
255,001 — 260,000	1	—

Particulars of transactions and arrangements:—

Directors

Loan under staff house purchase scheme repayable out of the proceeds of collaterally charged life assurance policies: Mr. P. Quaile £15,000, on which interest was charged at 4¼% p.a., throughout 1990.

Guarantees to a building society in respect of mortgage advances under a staff house purchase scheme: Mr. G. E. Browne £14,990 and Mr. M. L. Dew £15,050 throughout 1990; Mr. R. A. G. Neville £8,500 repaid during 1990.

Officers

At 31st December, 1990 there were aggregate amounts outstanding of £80,382 in respect of two officers of the Company (other than directors) for loans and by way of guarantee to a building society.

15. Auditors' remuneration

The remuneration of the auditors of the Company and its subsidiaries amounted to £2,100,000 (1989 £1,872,000) of which £1,252,000 (1989 £1,074,000) related to overseas.

Subsidiaries

Name and country of incorporation and of principal operations	*Percentage of ordinary shares held*	
	By Parent Company	*By subsidiaries*
United Kingdom		
(registered in England and Wales unless indicated)		
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
The Century Insurance Co. Ltd. *(registered in Scotland)*		100·0
Chancellors Holdings Ltd.	75·0	
Guildhall Insurance Co. Ltd.		100·0
The Legal Protection Group Ltd.		100·0
The London Assurance		100·0
London Guarantee & Reinsurance Co. Ltd.		100·0
National Vulcan Engineering Insurance Group Ltd.		100·0
The Pennine Insurance Co. 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 Pensions Life & Investment Services Ltd.		100·0
Sun Alliance Pensions 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. *(see note 11)*		49·0
Antigua		
Caribbean Alliance Insurance Co. Ltd.		75·0
Australia		
Sun Alliance Holdings Ltd.		100·0
Sun Alliance Australia Ltd.		100·0
Sun Alliance Life Assurance Ltd.		100·0

Subsidiaries continued

Name and country of incorporation and of principal operations	Percentage of ordinary shares held By Parent Company	By subsidiaries
Belgium		
Sun Alliance SA *(formerly Sun Alliance Phoenix SA)*		100·0
Brazil		
London Seguradora SA		100·0
Canada		
Sun Alliance Insurance Company		100·0
Sun Alliance and London Assurance Co. (Canada)		100·0
Yonge Wellington Property Ltd.		100·0
Channel Islands (Guernsey)		
Sun Alliance International Life Assurance Co. Ltd.		100·0
Denmark		
A/S Forsikringsselskabet Codan		71·5
A/S Forsikringsselskabet Codan Liv		71·5
Fjerde Søforsikringsselskab A/S		71·5
France		
Sun Alliance SA *(formerly Groupe Barthélémy SA)*		100·0
Sun Alliance Immobilier SA		100·0
Sun Alliance Vie SA		100·0
Germany		
Securitas Bremer Allgemeine Versicherungs AG		99·3
Securitas-Gilde Lebensversicherung AG		99·6
Greece		
Sun Alliance Insurance (Hellas) SA		100·0
Holland		
Sun Alliance Verzekering NV *(formerly Hollandsche Verzekering Societeit van 1808 NV)*		100·0
Sun Alliance Levensverzekering NV		100·0

Subsidiaries continued

Name and country of incorporation and of principal operations	*Percentage of ordinary shares held* — *By Parent Company*	*By subsidiaries*
Italy		
Sun Alliance Vita S.p.A.		100·0
Kenya		
Sun Alliance Insurance Ltd. *(formerly Phoenix of East Africa Assurance Co. Ltd.)*		61·4
Malaysia		
Sun Alliance Insurance (Malaysia) Sdn. Bhd		60·0
New Zealand		
Sun Alliance Insurance Ltd.		100·0
Sun Alliance Life Ltd.		100·0
Puerto Rico		
Sun Alliance Insurance Co. of Puerto Rico Inc.		97·1
Republic of South Africa		
Protea Assurance Co. Ltd.		79·7
Singapore		
Sun Alliance Insurance (Singapore) Ltd.		100·0
Spain		
Sun Alliance SA		94·6
United States of America		
Sun Alliance USA Inc.		100·0
Wm. H. McGee & Co. Inc.		100·0
London Guarantee & Accident Co. of New York		100·0
Phoenix Assurance Co. of New York		100·0
Sun Insurance Co. of New York		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 profits or assets of the Group.

Interests in Associated Companies and other Participating Interests

Companies in which the Group's interest in the equity capital amounts to 20 per cent or more

Name and country of incorporation and of principal operations unless otherwise indicated	*Class of shares*	*Issued capital*	*Total reserves*	*Group interest (held by subsidiaries)*
Associated companies		£m	£m	%
United Kingdom *(registered in England and Wales)*				
British Aviation Insurance Co. Ltd.	Ordinary	2·0	20·9	29·6
Mynshul Group PLC	Ordinary	8·7	(0·2)	30·0
Woolwich Life Assurance Co. Ltd.	Ordinary	30·0	—	49·0
Argentina				
Los Andes Compania De Seguros S.A.	Ordinary	2·0	1·6	25·0
Colombia				
Compania De Seguros La Fenix De Colombia S.A.	Ordinary	0·1	3·9	48·7
Jamaica				
West Indies Alliance Insurance Co. Ltd.	Ordinary	0·1	1·3	49·0
Philippines				
Federal Phoenix Assurance Co. Ltd.	Ordinary	0·3	0·6	40·0
Saudi Arabia				
Al-Alamiya Insurance Co. Ltd. *(incorporated in United Kingdom and registered in England and Wales)*	Ordinary	1·3	1·8	42·0

The above details are based on the latest available accounts.

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)*		%
Commercial Union Assurance Company plc	Ordinary	14·8
	Preference	7·0
The Fleming Universal Investment Trust P.L.C.	Ordinary	10·1
	Preference	15·5
Germany		
Victoria Krankenversicherung AG	Ordinary	12·5

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 profits or assets of the Group.

SUNALLIANCE
GROUP plc

Auditors' Report

Report of the auditors to the members of Sun Alliance Group plc

We have audited the accounts on pages 18 to 35 in accordance with Auditing Standards.

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, 1990 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.

London

3rd April, 1991

Coopers & Lybrand Deloitte
COOPERS & LYBRAND DELOITTE

Chartered Accountants

Directors' Interests

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

	Shares held at 1st January, 1990 or on appointment	Shares held at 31st December, 1990
A. R. C. Arbuthnot	17,756	17,756
Sir Christopher Benson	1,622	1,694
R. K. Bishop	5,000	5,000
Geoffrey Bowler	24,000	25,078
G. E. Browne	2,234	2,284
E. G. Coward	—	3,645
The Earl of Crawford and Balcarres	3,200	3,200
M. L. Dew	—	4,388
Sir Derrick Holden-Brown	16,000	16,000
J. N. C. James	2,157	2,253
Henry Keswick	20,800	21,735
The Lord Kindersley	1,600	1,600
H. U. A. Lambert	2,128	2,750
R. A. G. Neville	2,519	3,980
	1,600 (T)	— (T)
W. G. Niven	12,000	12,000
R. Petty	400	7,701
Leopold de Rothschild	24,337	24,419
R. J. Taylor	8,994	12,967
S. C. Whitbread	2,000	2,000
B. A. Wright	2,886	6,491

(T) indicates trustee holding.

	Options to subscribe for shares			
	Held at 1st January, 1990 or on appointment	During 1990 or since appointment — Granted	During 1990 or since appointment — Exercised	Held at 31st December, 1990
G. E. Browne	200,373	33,297	—	233,670
E. G. Coward	184,899	—	3,580	181,319
M. L. Dew	168,649	48,708	4,388	212,969
R. A. G. Neville	367,245	59,564	—	426,809
R. Petty	173,414	22,139	7,164	188,389
R. J. Taylor	236,784	40,801	3,580	274,005
B. A. Wright	243,161	40,554	3,580	280,135

Between 31st December, 1990 and 22nd March, 1991: Mr. G. E. Gilchrist acquired 1,000 shares following his appointment to the Board; the holdings of Mr. E. G. Coward, M Petty and Mr. R. J. Taylor became 5,374, 7,609 and 14,333 shares respectively.

Copies of directors' service contracts required to be available for inspection may be seen at the Company's registered office during usual business hours from 22nd April, 1991 to 15th May, 1991 inclusive.

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.

Ten Years' Financial Summary

	1990	1989	1988	1987
	£m	£m	£m	£m
Premium income				
General insurance	2,512·7	2,475·3	2,252·2	1,990·2
Long-term insurance	861·2	810·6	859·6	764·7
	3,373·9	3,285·9	3,111·8	2,754·9
Profit and loss account				
General insurance underwriting result	(550·8)	(63·7)	58·7	(107·7)
Long-term insurance profits	47·7	40·5	34·0	30·0
Investment and other income	322·2	341·8	279·7	249·2
Profit (loss) before taxation	**(180·9)**	**318·6**	**372·4**	**171·5**
Taxation	(82·5)	90·9	110·3	40·9
Minority interests and other adjustments	7·8	12·3	10·4	9·7
Profit (loss) attributable to shareholders	**(106·2)**	**215·4**	**251·7**	**120·9**
Dividend	**111·1**	**99·0**	**80·9**	**61·2**
Retained profits transfer	(217·3)	116·4	170·8	59·7
	p	p	p	p
Earnings (loss) per share	**(13·4)**	**27·3**	**31·9**	**15·3**
Dividend per share	**14·0**	**12·5**	**10·3**	**7·8**
	£m	£m	£m	£m
Shareholders' funds				
Share capital and retained profits	911·9	959·9 *(c)*	756·8	590·2
Revaluation reserve *(d)*	1,121·7	1,976·6	1,346·3	1,102·6
	2,033·6	2,936·5	2,103·1	1,692·8
Long-term insurance funds				
(with investments at market value) *(d)*	7,416·4	7,886·1	6,408·1	5,712·7
Effects of inflation				
Amounts restated at December 1990 £'s *(e)* —	£m	£m	£m	£m
Profit (loss) before taxation	(180·9)	348·4	438·6	215·5
Shareholders' funds	2,033·6	3,210·9	2,476·9	2,128·5
	p	p	p	p
Earnings (loss) per share	(13·4)	29·8	37·6	19·3
Dividend per share	14·0	13·7	12·1	9·7

Notes

(a) Includes the figures of the Phoenix for the whole year with an adjustment to exclude the loss of £4·0m incurred prior to acquisition of the company in August 1984.

(b) Excludes the premium of £119·0m on medical malpractice reinsurance from Chubb Corporation.

(c) Includes capitalisation of revaluation reserve £109·2m.

(d) Includes property values at full professional valuation.

(e) Based on the change in the retail prices index since 1981

1986	1985	1984	1983	1982	1981
£m	£m	£m (a)	£m	£m	£m
1,994·4	1,659·5(b)	1,606·7	884·8	789·9	703·6
704·5	576·6	505·1	294·3	208·0	173·3
2,698·9	2,236·1	2,111·8	1,179·1	997·9	876·9
(78·3)	(183·4)	(198·7)	(67·4)	(70·9)	(36·8)
27·3	20·9	18·4	8·5	7·0	6·1
231·4	200·2	227·9	132·3	120·7	101·6
180·4	37·7	47·6	73·4	56·8	70·9
43·3	2·8	4·1	26·3	20·3	28·7
10·5	7·2	2·5(a)	1·1	0·5	0·4
126·6	27·7	41·0	46·0	36·0	41·8
46·4	34·5	30·6	27·6	23·7	21·2
80·2	(6·8)	10·4	18·4	12·3	20·6
p	p	p	p	p	p
16·0	3·5	5·2	5·8	4·6	5·3
5·9	4·4	3·9	3·5	3·0	2·7
£m	£m	£m	£m	£m	£m
506·8	407·4	417·6	368·8	312·4	274·6
1,183·8	909·0	852·1	740·7	570·9	371·3
1,690·6	1,316·4	1,269·7	1,109·5	883·3	645·9
5,275·0	4,278·6	3,720·8	1,956·9	1,582·4	1,221·8
£m	£m	£m	£m	£m	£m
235·3	51·1	68·0	109·8	89·4	117·5
2,204·8	1,781·1	1,814·4	1,658·4	1,390·7	1,071·4
p	p	p	p	p	p
20·9	4·8	7·4	8·7	7·3	8·8
7·7	5·9	5·5	5·2	4·7	4·3

SUN ALLIANCE
GROUP plc

Financial calendar 1991

Results for year announced	3rd April
Annual report and accounts issued	22nd April
Annual General Meeting	15th May
Final 1990 dividend payment	1st July
Half-year results to be announced	4th September
Interim 1991 dividend payment	2nd December

Capital gains tax

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

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