

SC 3234.

THE BRITISH LIFE OFFICE LIMITED

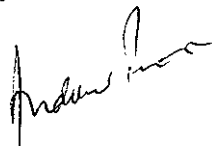
Notice of Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of The British Life Office Limited will be held at Reliance House, Mount Ephraim, Tunbridge Wells, Kent on Thursday 16 May 1996 for the following purposes:

1. To receive the Directors' Report and Accounts for the year ended 31 December 1995 and the Auditors' Report thereon.
2. To elect directors.
3. To appoint auditors and to fix their remuneration.

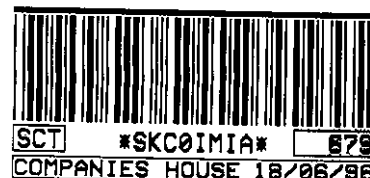
Dated this 28th day of March 1996.

By Order of the Board



A PRIOR  
Secretary

A Member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him and such person need not be a Member of the company.



# THE BRITISH LIFE OFFICE LIMITED

## REPORT OF THE DIRECTORS

Directors:           S C James                               (Chairman)  
                      J B Bateup, FIA               (Chief Executive)  
                      L M Etheridge, BSc, FIA   (Actuary)  
                      P E Oldham, MA  
                      C B Russell, FFA, FTII  
                      G A Slater, BA, LLB

Secretary:           A Prior, LLB, ACIS

The directors present their report and the audited accounts for the year ended 31 December 1995.

### Principal Activities

The principal activity of the company continues to be the transaction of long term insurance business.

### Review of Business

New regular premium business written during the year fell by 7.9% to £2.1m compared with 1994 with single premium business falling by 37% to £7.8m.

The decline in new business was largely a consequence of the ever-increasing regulatory pressures on the industry as a whole, together with a difficult economic climate discouraging long term commitments by individuals. Stock market values increased markedly during the year contributing to an increase in the value of the investments of 25% to £169m. Detailed accounts are set out on pages 6 to 22.

Profits for the year after taxation amounted to £1.067m (1994 : loss £0.887m) and have been dealt with as shown in the profit and loss account on pages 6 and 7. The directors do not recommend payment of a dividend. In 1994 an interim dividend of 5.75p per share was paid.

## **Changes in Presentation and Accounting Policies**

The accounts have been prepared in accordance with Schedule 1, Part 1 of the Companies Act 1985 (Insurance Companies' Accounts) Regulations 1993 (which amend section 255 and Schedule 9A of the Companies Act 1985) which came into effect for periods commencing on or after 23 December 1994. The prior year figures have been restated to comply with the changes in presentation of the accounts introduced by the Regulations. Where changes in accounting policies have been made the effect is explained in Note 1 to the accounts.

## **Directors**

The directors listed on page 2 served throughout the year together with Mr G J Titford who retired on 18 May 1995.

Mr P E Oldham retires by rotation and, being eligible, offers himself for re-election.

## **Liability Insurance**

During the year liability insurance for the directors was provided by the parent company.

## **Political and Charitable Contributions.**

The company made no political or charitable contributions during the year. (1994 - nil).

## **Statement of Directors' Responsibilities**

Company law requires the directors to be responsible for the preparation of accounts for each financial year which give a true and fair view of the state of affairs of the company and of the result of the company for that period. In preparing these accounts, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on a going concern basis unless it is inappropriate to assume the company will continue in business.

The directors confirm that the accounts comply with these requirements subject to the changes in accounting policy disclosed in Note 1 to the accounts.

The directors are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Auditors**

Fraser Russell are willing to continue in office as auditors and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board



A Prior  
Secretary

28 March 1996

**REPORT OF THE AUDITORS**  
**to the Shareholders of**  
**THE BRITISH LIFE OFFICE LIMITED**

We have audited the accounts of the company on pages 6 to 22 which have been prepared on the basis of the accounting policies set out on pages 12 to 14.

**Respective Responsibilities of Directors and Auditors**

As described on pages 3 and 4 the company's directors are responsible for the preparation of the 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 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 consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

**Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1995 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

28 March 1996

4 London Wall Buildings  
London  
EC2M 5NT

*Fraser Russell*  
**FRASER RUSSELL**  
Chartered Accountants  
and Registered Auditors

# THE BRITISH LIFE OFFICE LIMITED

## PROFIT AND LOSS ACCOUNT for the year ended 31 December 1995

	Notes	1995 £000	1994 £000
<b><u>Technical Account - Long Term Business</u></b>			
<b>TECHNICAL INCOME</b>			
Gross premiums written	2	18,060	22,074
Outward reinsurance premiums		430	530
		-----	-----
Earned premiums, net of reinsurance		17,630	21,544
Investment income and realised gains	3	14,173	9,841
Unrealised gains on investments		9,966	-
		-----	-----
Total income		41,769	31,385
		=====	=====
<b>CLAIMS INCURRED</b>			
Claims paid - gross amount		2,715	1,793
- reinsurers' share		-	5
		-----	-----
- net of reinsurance		2,715	1,788
		-----	-----
Change in provision for claims			
- gross amount		111	127
- reinsurers' share		2	-
		-----	-----
- net of reinsurance		109	127
		-----	-----
Claims incurred, net of reinsurance		2,824	1,915
		=====	=====

# THE BRITISH LIFE OFFICE LIMITED

## PROFIT AND LOSS ACCOUNT (continued) for the year ended 31 December 1995

	Notes	1995 £000	1994 £000
<b>CHANGE IN OTHER TECHNICAL PROVISIONS</b>			
Long term business provision	12		
- gross amount		(1,749)	2,682
- reinsurer's share		117	(3,868)
		-----	-----
- net of reinsurance		(1,866)	(1,186)
Provision for unit linked liabilities, net of reinsurance		(30,738)	(1,164)
		-----	-----
		(32,604)	(2,350)
		=====	=====
<b>TECHNICAL CHARGES</b>			
Net operating expenses	4	5,169	5,609
Investment expenses and charges	5	341	248
Unrealised losses on investments		-	21,879
		-----	-----
		5,510	27,736
		=====	=====
BALANCE on the technical account		831	(616)
		=====	=====
<b><u>Non-Technical Account</u></b>			
Balance on the technical account		831	(616)
Investment income and gains	3	2,272	223
Unrealised losses on investments		(1,706)	(477)
Other charges	6	(10)	(17)
		-----	-----
Profit (loss) on ordinary activities before tax		1,387	(887)
Tax on profit on ordinary activities	9	320	-
		-----	-----
Profit (loss) for the financial year		1,067	(887)
Dividends paid		-	115
		-----	-----
Retained profit (loss) for the year	15	1,067	(1,002)
		-----	-----

# THE BRITISH LIFE OFFICE LIMITED

## BALANCE SHEET

at 31 December 1995

	Notes	1995 £000	1994 £000
<u>Assets</u>			
INVESTMENTS			
Other financial investments	11	18,513	10,290
		-----	-----
ASSETS HELD TO COVER LINKED LIABILITIES		158,413	127,675
		-----	-----
REASSURERS' SHARE OF TECHNICAL PROVISIONS			
Long term business provision	12	2,100	2,217
Provision for linked liabilities		40,206	37,463
Claims outstanding		2	-
		-----	-----
		42,308	39,680
		-----	-----
DEBTORS			
Debtors arising out of direct insurance operations		280	280
Due from parent undertaking		-	897
Other debtors		423	451
		-----	-----
		703	1,628
		-----	-----
PREPAYMENTS AND ACCRUED INCOME			
Accrued investment income		241	59
Deferred acquisition costs	13	1,703	2,002
		-----	-----
		1,944	2,061
		-----	-----
TOTAL ASSETS		221,881	181,334
		=====	=====

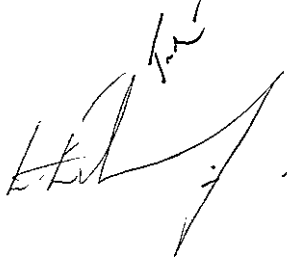


THE BRITISH LIFE OFFICE LIMITED

BALANCE SHEET (continued)  
at 31 December 1995

	Notes	1995 £000	1994 £000
<b><u>Liabilities</u></b>			
CAPITAL AND RESERVES			
Called up share capital	14	5,000	2,000
Profit and loss account	15	5,670	4,603
		-----	-----
Shareholders' funds - equity interests	18	10,670	6,603
		-----	-----
TECHNICAL PROVISIONS			
Long term business provision	12	10,417	8,668
Claims outstanding		430	320
		-----	-----
		10,847	8,988
		-----	-----
TECHNICAL PROVISION FOR LINKED LIABILITIES		198,619	165,138
		-----	-----
CREDITORS			
Creditors arising out of direct insurance operations		349	395
Creditors arising out of reinsurance operations		6	16
Bank overdraft		124	29
Other creditors including taxation and social security	17	1,266	165
		-----	-----
		1,745	605
		-----	-----
TOTAL LIABILITIES		221,881	181,334
		=====	=====

Approved by the Board of Directors on 28 March 1996

 J B Bateup Director

L M Etheridge Director

# THE BRITISH LIFE OFFICE LIMITED

## CASH FLOW STATEMENT for the year ended 31 December 1995

	1995 £000	1994 £000
<b>OPERATING ACTIVITIES</b>		
Profit (loss) on ordinary activities before tax	(1,387)	(887)
Unrealised losses on investments	1,706	477
Investment income and gains	(2,272)	(223)
Profit (loss) arising from life business	(831)	616
	<hr/>	<hr/>
Net cash outflow from operating activities	(10)	(17)
	<hr/>	<hr/>
<b>RETURN ON INVESTMENTS AND SERVICING OF FINANCE</b>		
Interest received on non-operating investments	53	20
Dividends received on non-operating investments	109	124
Dividends paid	-	(115)
	<hr/>	<hr/>
Net cash inflow from return on investments and servicing of finance	162	29
	<hr/>	<hr/>
<b>TAXATION</b>		
Tax and tax credits repaid by Revenue	-	3
Group payments for losses surrendered	33	-
	<hr/>	<hr/>
	33	3
	<hr/>	<hr/>
<b>INVESTING ACTIVITIES</b>		
Capital injections to life fund	(3,950)	(300)
Purchases of liquid investments	(4,868)	(34)
Sales of liquid investments	5,434	188
	<hr/>	<hr/>
Net cash outflow from investing activities	(3,384)	(146)
	<hr/>	<hr/>

THE BRITISH LIFE OFFICE LIMITED

CASH FLOW STATEMENT (continued)  
for the year ended 31 December 1995

	1995 £000	1994 £000
NET CASH OUTFLOW BEFORE FINANCING	(3,199)	(131)
FINANCING		
Issue of ordinary shares	3,000	-
	-----	-----
DECREASE IN CASH AND CASH EQUIVALENTS	(199)	(131)
	=====	=====

ANALYSIS OF BALANCES OF CASH EQUIVALENTS

Short term deposits at 31 December	7	206
Short term deposits at 1 January	206	337
	-----	-----
	(199)	(131)
	=====	=====

# THE BRITISH LIFE OFFICE LIMITED

## NOTES TO THE ACCOUNTS at 31 December 1995

### 1. ACCOUNTING POLICIES

#### **Basis of presentation and restatement of prior amounts**

The accounts are prepared on the basis of the accounting policies set out below. The accounts have been prepared in compliance with the provisions relating to insurance companies of section 255A of, and Schedule 9A to, the Companies Act 1985. Schedule 9A is a new schedule introduced by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. In implementing these requirements the company has adopted a modified statutory solvency basis for determining technical provisions in place of the statutory solvency basis used in previous years. Amounts relating to prior years have been restated accordingly. An analysis of the changes to reserves and policyholder liabilities is given in Note 18.

The accounts comply with applicable accounting standards. In addition, the company has had regard to the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers and the revised guidance issued in December 1995.

#### **Premiums**

Premiums are accounted for when they become due for payment. Reinsurance premiums are charged when they become payable. For linked business the due date for payment is taken as the date when the associated units are created.

#### **Claims**

Death claims are recognised on the basis of notifications received. Maturities and annuity payments are recognised when due for payment. Surrenders are accounted for at the earlier of the date when paid or when the policy ceases to be included within the long term business provision and/or the technical provision for linked liabilities. Reinsurance recoveries are credited to match the relevant gross amounts.

Claims incurred include the direct and indirect cost of settlement. This represents a change in policy from previous years, the effects of which are (£000):

	1994 as published	1994 as restated
Claims incurred	1,907	1,915

## **Investment income and expenses**

Investment income and expenses includes dividends, interest, gains and losses on the realisation of investments and related expenses. Dividends are included as investment income on the date that shares become quoted ex-dividend and are grossed up for applicable tax credits. Interest and expenses are included on an accruals basis. Realised gains and losses on investments are calculated as the difference between net sales proceeds and original cost. Unrealised gains and losses on investments backing policyholders' liabilities are reported in the technical account. Other unrealised gains and losses are reported in the non-technical account.

This represents a change from previous policy where both realised and unrealised gains and losses on investments other than those backing linked business were taken to investment reserves. Net losses taken to investment reserve in 1994 totalled £1.63m.

## **Investments**

Investments consist of listed investments, units in authorised unit trusts and deposits.

Listed investments held to cover linked liabilities are valued at offer price plus buying expenses on the last pricing date of the financial year. Accrued income on fixed interest securities is excluded. This is consistent with the method of valuation of the liabilities.

Other listed investments are valued at mid market price excluding accrued income on fixed interest holdings. Unit trust holdings are valued at bid price and deposits are stated at par.

## **Long term business provision**

The mathematical reserves are determined by the Actuary following the annual investigation of the long term business.

The long term business provision is determined by the Actuary and involves making modifications to the mathematical reserves calculated for solvency purposes as follows:

- any resilience, close-down and other contingency reserves required under the Insurance Companies Regulations have been deducted from the mathematical reserves;
- in cases where the valuation method makes use of a zillmer adjustment to allow for deferral of acquisition costs, the effect of this is removed and deferred acquisition costs shown as an asset in the balance sheet.

### **Deferred acquisition costs**

Deferred acquisition costs are assessed by the actuary taking account of the costs incurred in the sale of existing contracts and the potential for recovery of these costs out of margins available over the remaining life of the policies concerned. No acquisition costs are deferred in respect of single premium contracts.

### **Deferred taxation**

No provision is made for deferred taxation as the directors do not consider that any liability will arise in the foreseeable future. Over 90% of the liabilities relate to pension business which is exempt from tax on investment income and gains.

No allowance is made in the long term business provision or the technical provision for linked liabilities for deferred taxation.

### **Foreign currencies**

Assets and liabilities held in foreign currencies are translated to sterling at rates of exchange ruling at the end of the year. Income and expenditure denominated in foreign currencies are translated at the appropriate rates prevailing during the year.

## **2 GROSS PREMIUMS WRITTEN**

All business is written in the UK in respect of continuing operations and relates solely to individual assurance contracts.

Gross premiums written comprise:	1995	1994
	£000	£000
Direct Insurance	18,059	22,072
Reassurance inward	1	2
	<hr/>	<hr/>
	18,060	22,074
	<hr/>	<hr/>

Gross premiums written by way of direct insurance can be analysed as follows:

	1995 £000	1994 £000
Periodic premiums	10,211	9,607
Single premiums	7,848	12,465
	<hr/>	<hr/>
	18,059	22,072
	<hr/>	<hr/>
Ordinary branch life assurance	367	407
Pensions	17,692	21,665
	<hr/>	<hr/>
	18,059	22,072
	<hr/>	<hr/>
Investment linked contracts	17,763	21,826
Non linked contracts	296	246
	<hr/>	<hr/>
	18,059	22,072
	<hr/>	<hr/>

Inwards reinsurance consists of pensions business reassured from the parent company.

#### **New Business Premiums**

All business derives from contracts concluded in the United Kingdom and relates to pensions business. No material amounts of business were reassured other than on a risk premium basis. No new inwards reinsurance was accepted.

	1995 £000	1994 £000
Periodic premiums:		
Investment linked contracts	2,029	2,225
Non linked contracts	71	56
	<hr/>	<hr/>
	2,100	2,281
	<hr/>	<hr/>
Single premiums:		
Investment linked contracts	7,758	12,413
Non linked contracts	47	-
	<hr/>	<hr/>
	7,805	12,413
	<hr/>	<hr/>

### 3 INVESTMENT INCOME AND GAINS

	1995 £000	1994 £000
a) <u>Technical account</u>		
Investment income		
Income from listed investments	6,722	4,925
Income from other investments	694	432
	-----	-----
	7,416	5,357
Net gains on realisation of investments	6,757	4,484
	-----	-----
	14,173	9,841
	-----	-----
b) <u>Non Technical account</u>		
Investment income		
Income from listed investments	123	162
Income from other investments	53	20
	-----	-----
	176	182
Net gains on realisation of investments	2,096	41
	-----	-----
	2,272	223
	-----	-----

### 4 NET OPERATING EXPENSES

	1995 £000	1994 £000
Acquisition costs	4,367	4,679
Change in deferred acquisition costs	299	463
Administrative expenses	540	488
Reassurance commissions and profit participation	(37)	(21)
	-----	-----
	5,169	5,609
	-----	-----



5 INVESTMENT EXPENSES AND CHARGES

	1995 £000	1994 £000
Investment expenses	180	139
Value re-adjustments on investments	109	67
Overseas tax irrecoverable	52	42
	<hr/>	<hr/>
	341	248
	<hr/>	<hr/>

6. OTHER CHARGES

Other charges comprise management expenses not charged to the technical account and include:

	1995 £	1994 £
Audit fees	7,500	7,429
Directors emoluments	2,511	10,043

7. DIRECTORS' EMOLUMENTS

Directors received emoluments as follows:

Emoluments	Number of Directors	
	1995	1994
Nil	3	3
£1 - £5,000	4	4

The chairman received no emoluments but the firm of which he is a partner was paid £811 (1994 - £3,243) including VAT for his services during the year. The highest paid director received emoluments totalling £425 (1994 - £1,700).

With effect from 1 April 1995, directors' remuneration ceased to be paid by the Company. From that date the parent undertaking assumed responsibility for directors' remuneration for the group.

8. EMPLOYEES

All staff are employed by the parent undertaking to whom an assessed contribution is made towards staff costs.

9. TAXATION

(a) Technical Account

All UK tax deducted from investment income brought into the technical account will be recovered. Overseas tax is irrecoverable and is shown as an investment charge in Note 5.

(b) Non Technical Account

	1995 £000	1994 £000
The charge to taxation comprises:		
UK corporation tax at 25%	277	-
Tax credits irrecoverable	16	-
Prior year adjustment	27	-
	<hr/>	<hr/>
	320	-
	<hr/>	<hr/>

10. HISTORICAL COST ACCOUNTING BASIS

There are no recognised gains or losses for 1995 or 1994 other than the balance on the profit and loss account. The inclusion of unrealised gains and losses in the profit and loss account to reflect the valuation of investments in accordance with the accounting policies stated in Note 1 in the balance sheet is not considered to be a departure from the historical cost basis of accounting and a separate note of historical cost profits and losses is therefore unnecessary.

# 11. OTHER FINANCIAL INVESTMENTS

	1995		1994	
	Market Value	Cost	Market Value	Cost
	£000	£000	£000	£000
Shares and other variable yield securities and units in unit trusts	4,613	4,033	4,303	2,022
Debt securities and other fixed income securities	7,505	7,031	4,425	4,399
Deposits with credit institutions	6,395	6,395	1,562	1,562
	-----	-----	-----	-----
	18,513	17,459	10,290	7,983
	-----	-----	-----	-----

All the above investments other than deposits are listed investments. The debt and fixed income securities are listed on recognised investment exchanges. Shares and other variable yield securities and units in unit trusts are listed as follows:

	1995	1994
	£000	£000
On recognised investment exchanges	2,311	3,401
Other	2,302	902

# 12 LONG TERM BUSINESS PROVISION

This provision represents the mathematical reserves determined by the Actuary. The mathematical reserves contained no zillmer adjustments or other contingency reserves and therefore no adjustments are necessary.

	1995	1994
	£000	£000
Gross amount	10,417	8,668
Reassurance amount	2,100	2,217
	-----	-----
Long term business provision	8,317	6,451
	-----	-----

The mathematical reserves were calculated on the net premium method using the following assumptions for both 1995 and 1994.

	Mortality (ultimate tables)	Interest
With profit assurances	AM/AF80	2.75%
Without profit assurances	AM/AF80	4.25%
Life annuities in payment	IM/IF80 (C = 2010)	6.00%
Pension annuities in payment	PMA/PFA80 (C = 2010)	6.00%

### 13 DEFERRED ACQUISITION COSTS

Life assurance contracts have not been written by the company since 1982. Deferred acquisition costs relate entirely to pensions business and, therefore, no provision for deferred taxation on the deferred acquisition cost asset is necessary.

Deferred acquisition costs comprise:

	1995 £000	1994 £000
Gross amount	1,747	2,036
Reassurance amount	44	34
	<hr/>	<hr/>
Net amount	1,703	2,002
	<hr/>	<hr/>

### 14 SHARE CAPITAL

	1995 £000	1994 £000
Authorised	10,000	10,000
Issued, called up and fully paid	5,000	2,000

On 20 December 1995 the company issued a further 3,000,000 ordinary shares of £1 each at par on the basis of 3 shares for every two held in order to provide the company with additional working capital.

15 PROFIT AND LOSS ACCOUNT

	1995 £000	1994 £000
Opening balance	4,603	5,605
Retained profit (loss) for the year	1,067	(1,002)
	<hr/>	<hr/>
Closing balance	5,670	4,603
	<hr/>	<hr/>

16 REALISED AND UNREALISED RESERVES

	1995 £000	1994 £000
Realised reserves	5,382	2,609
Unrealised reserves	288	1,994
	<hr/>	<hr/>
	5,670	4,603
	<hr/>	<hr/>

17 OTHER CREDITORS

	1995 £000	1994 £000
Due to parent undertaking	1,237	-
Taxation and social security	5	1
Other creditors	24	164
	<hr/>	<hr/>
	1,266	165
	<hr/>	<hr/>

18 ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking is Reliance Mutual Insurance Society Limited, incorporated in England, who beneficially holds all the shares in the company.

## 19 CHANGES IN PRESENTATION OF ACCOUNTS

The changes in presentation of the accounts have the following significant effects:

- all investment gains are reported in the profit and loss account, rather than some gains being taken directly to reserves
- acquisition costs are explicitly deferred and the associated liability is held within the profit and loss account
- technical provisions for in force contracts are established to replace the concept of a long term business fund.

	1994 as restated £000	1994 as presented £000
Mathematical reserves		
net of reinsurance (Note 12)	6,451	-
Provision for linked liabilities		
net of reinsurance	127,675	-
Long term business fund	-	134,214
Policyholders' investment reserve	-	740
Share capital	2,000	2,000
Profit and loss account (Note 15)	4,603	245
Shareholders' investment reserve	-	1,528
Deferred acquisition costs	(2,002)	-
	<hr/>	<hr/>
Net assets as previously presented	138,727	138,727
	<hr/>	<hr/>

Had the previous presentation been adopted in 1995 the effect of the changes would be similar to those above.

## 20 MOVEMENT IN SHAREHOLDERS' FUNDS

	1995 £000	1994 £000
Opening shareholders' funds	6,603	7,605
Retained profit (loss) for year	1,067	(1,002)
Share capital issued during year	3,000	-
	<hr/>	<hr/>
Closing shareholders' funds	10,670	6,603
	<hr/>	<hr/>