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# Winterthur Life UK Limited

## Directors' Report

### Report for the year ended 31 December 1996

The directors present their annual report together with the audited financial statements for the one hundred and nineteenth year of the company's business.

### Principal activity

The principal activity of the company is the transaction of long term insurance business and associated investment activities in the United Kingdom.

The company has two wholly owned subsidiaries, Winterthur Pension Trustees UK Limited and Personal Pension Management Limited, and has a 4.2% investment in Winterthur Properties Limited.

### Business review

During 1996, the company remained one of the UK market leaders in the provision of self invested personal pensions and as an innovative provider of flexible group products.

In the estate agency division the company recorded an increase in annualised new business premiums.

Details of the gross premiums written and of the annualised new business premiums can be found in note 3 to the financial statements.

During 1996 the entire issued share capital of the company was acquired by our new, intermediate holding company, Winterthur Life UK Holdings Limited.

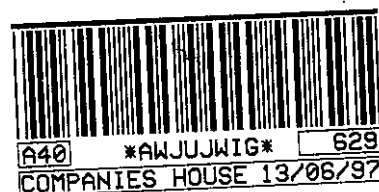
The company has continued to operate exclusively in the UK market. The directors believe that the company is well placed to meet the challenges which will face the UK insurance industry in the coming years.

### Tangible assets

The changes in tangible assets are set out in note 19 to the financial statements.

### Dividends and transfers to reserves

The directors recommend the payment of a dividend of £1,254,000 (4.75 pence per share) for the year. After payment of the above dividend, £697,000 of the profit for the year will be transferred to reserves.



### **Directors and directors' interests**

The directors who held office during the year were as follows:

JC Finan (Chairman and Managing Director)

W N Hood CBE

Baroness Hooper

R A F Ostime FIA

T E Popp

Dr S C Sarbach

According to the Register of Directors' Interests:

- a) none of the Directors had any interest in the shares of group companies at 31 December 1996 and
- b) no rights to subscribe for shares in the company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

### **Liability insurance**

During the year, the company maintained liability insurance for its directors and other officers.

### **Employees**

The directors recognise the importance of human resources. Throughout 1996, the company continued its policy of employee involvement by providing information on matters of concern to them as employees, by meeting their trade union representatives and by encouraging employees to be aware of the financial and economic factors affecting the company's performance. Practices to promote good communications and relations with employees include the use of briefing groups, company newsletters and the annual publication of financial reports to all employees.

It is the company's policy to give full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities; to continue, as appropriate, the employment of staff who have become disabled and to provide equal opportunities for the training and career development of disabled employees.

### **Political and charitable contribution**

The company made no political contributions during the year. Donations to UK charities amounted to £6,469.

# Winterthur Life UK Limited

## Directors' Report

### Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for the period. In preparing those financial statements, the directors are required to:

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

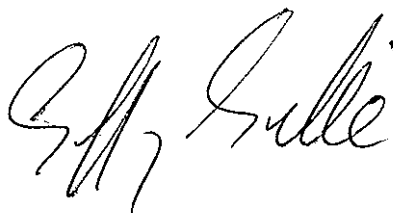
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

### Elective resolutions

Under the provisions of the Companies Act 1985, the company has elected:

- a) to dispense with the holding of Annual General Meetings;
- b) to dispense with the laying of report and accounts before the company in general meeting; and
- c) to dispense with the obligation to appoint auditors annually.

By order of the board



**G J Boutle Secretary**  
30 April 1997 Basingstoke RG21 6SZ

# Winterthur Life UK Limited

## Report of the Auditors

### Report of the auditors to the members of Winterthur Life UK Limited

We have audited the financial statements on pages 28 to 57.

### Respective responsibility of directors and auditors

As described on page 26 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

London  
30 April 1997

**Winterthur Life UK Limited**  
**Profit and Loss Account**

**For the year ended 31 December 1996**

**Technical Account**

	<b>Note</b>	<b>1996</b>		<b>1995</b>	
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Earned premiums, net of reinsurance:</b>					
Gross premiums written	3	244,449		246,222	
Outward reinsurance premiums		(9,692)		(1,335)	
			234,757		244,887
Investment income	4	51,779		36,940	
Unrealised gains on investments		49,476		64,039	
			101,255		100,979
			336,012		345,866
Other technical income, net of reinsurance			2,122		1,278
			338,134		347,144
<b>Claims incurred, net of reinsurance:</b>					
Claims paid:					
Gross amount		(71,244)		(52,763)	
Reinsurers' share		22,376		370	
			(48,868)		(52,393)
Change in the provision for claims:					
Gross amount		(2,003)		250	
Reinsurers' share		3,019		737	
			1,016		987
			(47,852)		(51,406)

## For the year ended 31 December 1996

### Technical Account (continued)

	Note	1996		1995	
		£000	£000	£000	£000
<b>Change in other technical provisions, net of reinsurance:</b>					
Long term business provision, net of reinsurance:					
Gross amount		(14,849)		(18,560)	
Reinsurers' share		(156)		534	
		(15,005)		(18,026)	
Other technical provisions, net of reinsurance					
		(202,004)		(219,097)	
			(217,009)		(237,123)
			(264,861)		(288,529)
Net operating expenses	6	(52,797)		(38,330)	
Investment expenses and charges	7	(5,881)		(9,331)	
Tax attributable to the long term business	11	(4,595)		2,647	
Transfers to the fund for future appropriations	25	(5,437)		(13,391)	
			(68,710)		(58,405)
Sub-total (balance on the technical account for long term business)			4,563		210

Winterthur Life UK Limited  
 Profit and Loss Account

For the year ended 31 December 1996

Non-technical account

	Note	1996		1995	
		£000	£000	£000	£000
Balance on the long term business technical account			4,563		210
Tax attributable to shareholders' profit on long term business	11		2,248		103
Profit arising on long term business			6,811		313
Investment income	4	2,117		1,835	
Unrealised gains on investments			-	478	
Investment expenses and charges	7	(249)		(405)	
Unrealised losses on investments			(737)		-
			1,131		1,908
Operating profit on continuing operations			7,942		2,221
Other charges, including value adjustments			(3,207)		(197)
Profit on ordinary activities before tax	8		4,735		2,024
Tax on profit on ordinary activities	11		(2,784)		(646)
Profit for the financial year after tax			1,951		1,378
Dividends	12		(1,254)		(845)
Retained profit for the financial year transferred to reserves	22		697		533

**Winterthur Life UK Limited**  
**Statement of Total Recognised Gains & Losses**  
**For the year ended 31 December 1996**

	<b>Note</b>	<b>1996</b>	<b>1995</b>
		<b>£000</b>	<b>£000</b>
Profit for the financial year		1,951	1,378
Increase/(decrease) in revaluation reserve:			
Land and buildings	22	817	(1,983)
Group undertakings	22	2,708	-
Total recognised gains and losses relating to the year		5,476	(605)
Prior year adjustment		-	1,168
Total gains and losses recognised since the last annual report		5,476	563



Winterthur Life UK Limited  
Statement of Historical Cost Profits & Losses

For the year ended 31 December 1996

	<u>1996</u>	<u>1995</u>
	<u>£000</u>	<u>£000</u>
Profit on ordinary activities before taxation	4,735	2,024
Realisation of revaluation gains/(losses) of previous years	384	(336)
Net unrealised losses/(gains)	737	(478)
Historical cost profit on ordinary activities before taxation	5,856	1,210
Historical cost profit/(loss) retained for the year	1,818	(281)

**Winterthur Life UK Limited**  
**Reconciliation of movements in shareholders' funds**  
**For the year ended 31 December 1996**

	<b>Note</b>	<b>1996</b>	<b>1995</b>
		<b>£000</b>	<b>£000</b>
Profit for the financial year		1,951	1,378
Dividends	12	(1,254)	(845)
Retained profit for the financial year		697	533
Capital contribution	22	25,000	-
Other gains and losses relating to the year (net)	22	3,525	(1,983)
Net increase/(reduction) in shareholders' funds		29,222	(1,450)
Opening shareholders' funds		28,524	29,974
Closing shareholders' funds		57,746	28,524

# Winterthur Life UK Limited

## Balance Sheet

As at 31 December 1996

	Note	1996	
		£000	£000
<b>Assets Investments:</b>			
Land and buildings	13	16,141	15,730
Investments in group undertakings and participating interests	14	2,708	-
Other financial investments	15	421,385	351,722
		440,234	367,452
<b>Assets held to cover linked liabilities:</b>			
	16	800,386	592,295
		1,240,620	959,747
<b>Reinsurers' share of technical provisions:</b>			
Long term business provision	26	1,371	1,527
Claims outstanding		3,891	872
Technical provisions for unit-linked liabilities		6,903	6,458
		12,165	8,857
<b>Debtors:</b>			
Debtors arising out of direct insurance operations	17	2,645	3,024
Other debtors	18	15,041	19,832
		17,686	22,856
<b>Other assets:</b>			
Tangible assets	19	1,870	2,036
Cash at bank and in hand		2,494	7,915
Other	21	15,000	-
		19,364	9,951
<b>Prepayments and accrued income:</b>			
Accrued interest and rent		4,593	4,529
Deferred acquisition costs		7,465	21,681
Other prepayments and accrued income		518	4,318
		12,576	30,528
<b>Total assets</b>		<b>1,302,411</b>	<b>1,031,939</b>

## As at 31 December 1996

	Note	1996		1995	
		£000	£000	£000	£000
<b>Liabilities</b>					
<b>Capital and reserves:</b>					
Called up share capital	20		26,400		26,400
Capital contribution	22		25,000		-
Revaluation reserve	22		1,006		(2,519)
Profit and loss account	22		5,340		4,643
Shareholders' funds attributable to equity interests			57,746		28,524
<b>Fund for future appropriations</b>	25		73,932		50,495
<b>Technical provisions:</b>					
Long term business provision	26	305,112		290,263	
Claims outstanding		4,641		2,638	
		309,753		292,901	
<b>Technical provisions for linked liabilities</b>		765,484		563,035	
		1,075,237		855,936	
<b>Creditors:</b>					
Creditors arising out of direct insurance operations		2,827		2,696	
Amount owed to credit institutions	28	63,698		57,625	
Other creditors including taxation and social security	28	6,014		10,006	
		72,539		70,327	
Accruals and deferred income		22,957		26,657	
<b>Total liabilities</b>		1,302,411		1,031,939	

Included in capital and reserves are 1996: £44,370,000 (1995: £26,783,000) which are not distributable.

These financial statements were approved by the board of directors on 30 April 1997 and were signed on its behalf by:

J C Finan



Chairman

# Winterthur Life UK Limited

## Notes to the Financial Statements

### **1 Basis of preparation**

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985 as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993.

The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments.

As a wholly owned subsidiary of another company incorporated in Great Britain, the company is exempt from preparing group accounts under Section 228 of the Companies Act 1985.

### **2 Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material to the company's financial statements.

#### **Basis of accounting for long term insurance business**

The company has adopted a modified statutory solvency basis for determining technical provisions and deferred acquisition costs.

#### **Premiums**

Premiums are accounted for on a receivable basis excluding any taxes or duties levied with premiums. Outward reinsurance premiums are accounted for on a payable basis.

#### **Acquisition costs and deferred acquisition costs**

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs comprise the costs of acquiring insurance policies which are incurred during a financial year but relate to a subsequent financial year.

For both linked and non-linked business, an explicit deferred acquisition costs asset has been established in the balance sheet. The basis of amortisation of the deferred acquisition costs is proportional to margins in respect of the related policies. Deferral of costs has been limited to the extent that there are available margins. Costs have not been deferred after appropriate margins have been materially received.

#### **Claims**

Death claims and surrenders represent those notified to the company up to the balance sheet date. Maturities and annuities are recognised as they fall due for payment.

## **2 Accounting policies (continued)**

### **Long term business provision**

The long term business provision has been computed, having due regard to the principles laid down in Council Directive 92/96/EEC. In particular, a prospective net premium valuation method has been adopted for all major classes of business, with the exception of linked contracts where the provisions are based on the market value of the related assets.

### **Fund for future appropriations**

Surpluses arising from with-profits and other participating business, as a result of actuarial valuations of the long term business assets and liabilities, are appropriated by the directors for the purpose of preparing financial statements:

- to participating policyholders by way of bonuses, and
- to shareholders by way of transfers to the non-technical account.

Any unappropriated surplus is carried forward in the fund for future appropriations.

### **Investment income, expenses and charges**

Investment income is accounted for on a receivable basis, including where appropriate, the imputed tax credit. Dividends are recognised on the date on which the related investment goes ex-dividend. Interest is accrued up to the balance sheet date.

Investment income, realised gains and losses, expenses and charges are included in the long term business technical account to the extent that they relate to the long term fund. Other investment income, realised gains and losses, expenses and charges are included in the non-technical account.

Realised gains and losses represent the difference between net sales proceeds and purchase price or if the investments have been previously valued, their valuation at the last balance sheet date.

### **Unrealised gains and losses on investments**

Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price or valuation at the last balance sheet date. Unrealised gains and losses on shareholders' land and buildings, group undertakings and participating interests are taken directly to the revaluation reserve. Unrealised gains and losses on other investments which are attributed to the long term fund or held to cover linked liabilities are included in the long term business technical account. Unrealised gains and losses on all other investments are included in the non-technical account.

# Winterthur Life UK Limited

## Notes to the Financial Statements

### 2 Accounting policies (continued)

#### Investments

All investments, including those classified under assets held to cover linked liabilities, are stated at their current value.

Land and buildings, other than those occupied by the company for its own use, are treated as investment properties and valued at open market valuation by independent professionally qualified valuers every three years; in the intervening years, these valuations are reviewed by directors on the basis of independent professional advice as required, and any decrease in values accounted for as value adjustments in the profit and loss account. Land and buildings occupied by the company for its own activities are stated at market value, less accumulated depreciation.

The aggregate surplus or deficit on valuation rather than on directors' assessments is transferred to the revaluation reserve except where the deficit is considered to be permanent in nature, when the diminution in value is charged to the profit and loss account, with a corresponding transfer from the revaluation reserve to profit and loss reserve, if appropriate.

Listed investments are stated at mid-market value. Unlisted investments, for which a market exists, are valued at the average price at which they were traded on the balance sheet date, or on the last trading day before that date. Other unlisted investments are valued by the directors on a prudent basis with regard to their likely realisable values.

Investments in group undertakings and participating interests are stated at current value, based on the most recently available information.

#### Depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible assets by equal instalments over their estimated useful economic lives as follows:

Motor vehicles	3 years
Computer equipment	3 years
Fixtures, fittings and equipment	5 years
Buildings occupied by the company for its own purposes	50 years

## **2 Accounting policies (continued)**

No depreciation or amortisation is provided in respect of land, freehold investment properties and leasehold investment properties with over 20 years to run. This treatment, as regards the company's investment properties, is a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are held for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view.

### **Foreign currencies**

Transactions in foreign currencies are translated into sterling using the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the long term business technical account or the non-technical account as appropriate.

### **Pension costs**

Pension contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

### **Taxation**

The charge for taxation is based on the result of the application of the rules for the taxation of life assurance companies to the items included in the profit and loss account for the year. It also takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that a liability will crystallise.

The transfer from the long term business technical account to the non-technical account is grossed up, where appropriate, at the underlying rate of corporation tax applicable to the period.

### **Bonuses**

All bonuses have been dealt with through the change in other technical provisions.



Winterthur Life UK Limited  
Notes to the Financial Statements

**3 Gross premiums written**

Gross premiums, all of which relate to direct insurance, can be analysed as follows:

	<b>Regular</b>	<b>Regular</b>	<b>Single</b>	<b>Single</b>
	<b>1996</b>	<b>1995</b>	<b>1996</b>	<b>1995</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Non Participating:</b>				
Life	4,439	4,257	-	-
Pensions	1,224	841	1,796	1,383
Permanent Health	2,194	1,420	-	-
	<b>7,857</b>	<b>6,518</b>	<b>1,796</b>	<b>1,383</b>
<b>Participating:</b>				
Life	7,138	7,344	-	-
Pensions	969	863	165	2
	<b>8,107</b>	<b>8,207</b>	<b>165</b>	<b>2</b>
<b>Unit Linked:</b>				
Life	60,847	51,049	97	52,385
Pensions	11,086	9,302	154,494	117,376
	<b>71,933</b>	<b>60,351</b>	<b>154,591</b>	<b>169,761</b>
<b>Total</b>	<b>87,897</b>	<b>75,076</b>	<b>156,552</b>	<b>171,146</b>
<b>Comprising:</b>				
Individual	86,725	73,984	156,552	171,146
Group	1,172	1,092	-	-
	<b>87,897</b>	<b>75,076</b>	<b>156,552</b>	<b>171,146</b>

All premiums are derived from contracts concluded in the United Kingdom. Commissions payable in respect of direct insurance amounted to £17,584,000 (1995: £18,820,000).

### 3 Gross premiums written (continued)

Annualised new business premiums can be analysed as follows:

	Regular Premiums		Single Premiums	
	1996 £000	1995 £000	1996 £000	1995 £000
<b>Non participating:</b>				
Life	489	828	-	-
Pensions	-	-	1,796	1,383
Permanent Health	396	384	-	-
	885	1,212	1,796	1,383
<b>Participating:</b>				
Life	111	88	-	-
Pensions	12	23	165	2
	123	111	165	2
<b>Unit Linked:</b>				
Life	14,633	13,624	97	52,385
Pensions	5,376	3,352	154,494	117,376
	20,009	16,976	154,591	169,761
<b>Total</b>	<b>21,017</b>	<b>18,299</b>	<b>156,552</b>	<b>171,146</b>
<b>Comprising:</b>				
Individual	21,017	18,299	156,552	171,146
Group	-	-	-	-
	21,017	18,299	156,552	171,146

**In classifying new business premiums, the basis of recognition adopted is as follows:**

- New recurrent single premium contracts are classified as periodic where they are deemed likely to renew at or above the amount of initial premium. Incremental increases on existing policies are classified as new business premiums.
- Rebates from the Department of Social Security are classified as new single premiums.
- Funds at retirement under individual pension contracts left with the company and transfers from group to individual contracts are classified as new business single premiums and for accounting purposes are included in both claims incurred and as single premiums within gross premiums written.
- Increments under existing group pension schemes are classified as new business premiums.
- Where periodic premiums are received other than annually the regular new business premiums are on an annualised basis.

Winterthur Life UK Limited  
Notes to the Financial Statements

**4 Investment income**

	Technical account		Non-technical account	
	1996	1995	1996	1995
	£000	£000	£000	£000
<b>Income from investments:</b>				
Land and buildings	4,050	2,889	-	-
Other investments	42,729	34,051	2,117	1,835
Gains on the realisation of investments	5,000	-	-	-
	<b>51,779</b>	<b>36,940</b>	<b>2,117</b>	<b>1,835</b>

**5 Bonuses**

Claims and the change in other technical provisions include bonuses paid and bonuses declared but not paid, respectively. The charge incurred for bonuses in respect of the current year is as follows:

	1996	1995
	£000	£000
<b>Participating contracts:</b>		
Terminal bonus paid	2,733	2,237
Reversionary and other bonus added to technical provisions	8,860	8,370
	<b>11,593</b>	<b>10,607</b>
<b>Linked contracts:</b>		
Bonus added to with-profit unit values	926	979
Interim bonus paid	313	64
	<b>1,239</b>	<b>1,043</b>
	<b>12,832</b>	<b>11,650</b>

**6 Net operating expenses**

	1996	1995
	£000	£000
Acquisition costs	(24,554)	(27,766)
Change in deferred acquisition costs	(14,216)	1,810
	<b>(38,770)</b>	<b>(25,956)</b>
Administrative expenses	(14,038)	(12,398)
Reinsurance commissions and profit participation	11	24
	<b>(52,797)</b>	<b>(38,330)</b>

## 7 Investment expenses and charges

	Technical account		Non-technical account	
	1996	1995	1996	1995
	£000	£000	£000	£000
Investment management expenses, including interest	(5,135)	(4,084)	-	-
Interest payable on bank loan repayable by instalments	(746)	(911)	-	-
Value adjustments on investments	-	(397)	-	-
Losses on the realisation of investments	-	(3,939)	(249)	(405)
	(5,881)	(9,331)	(249)	(405)

## 8 Profit on ordinary activities before tax

	1996	1995
	£000	£000
<b>Profit on ordinary activities before tax is stated after crediting:</b>		
Income from listed investments	40,572	31,484
<b>after charging:</b>		
Depreciation	422	1,287
<b>Auditors' remuneration:</b>		
Audit	67	69
Other services	112	54

## 9 Remuneration of directors

	1996	1995
	£000	£000
<b>Directors' emoluments:</b>		
As directors	55	59
Remuneration as executives	361	355
Pensions paid to former directors or their widows	34	32
	450	446

# Winterthur Life UK Limited

## Notes to the Financial Statements

### 9 Remuneration of directors (continued)

The emoluments, excluding pension contributions, of the highest paid director and current Chairman were £242,000 (1995: £230,000).

The emoluments, excluding pensions contributions, of the directors (including the Chairman and highest paid director) were within the following ranges:

Number of directors	1996	1995
Up to £5,000	-	1
£10,001-£15,000	5	5
£230,001 - £235,000	-	1
£240,001 - £245,000	1	-

### 10 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was as follows:

Number of employees	1996	1995
Administration	388	378
Sales	80	80
	468	458

The aggregate payroll costs of these persons were as follows:

	1996	1995
	£000	£000
Wages and salaries	10,596	10,546
Social security costs	867	868
Other pension costs	1,002	991
	12,465	12,405

## 11 Taxation

	<u>Technical account</u>		<u>Non-technical account</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
UK corporation tax at 33% (1995: 33%)	-	-	(400)	(239)
Tax credit on franked investment income	(679)	-	(136)	-
Tax attributable to shareholders' profit on long term business	-	-	(2,248)	(103)
Payments in respect of loss relief	-	147	-	(147)
	(679)	147	(2,784)	(489)
Deferred taxation (see note 27)	(3,916)	2,500	-	(157)
	(4,595)	2,647	(2,784)	(646)

## 12 Proposed dividend

The directors recommend a final dividend of 4.75 pence per ordinary share (1995: 3.2p).

This amounts to a total payment of £1,254,000 (1995: £844,800).

Winterthur Life UK Limited  
Notes to the Financial Statements

13 Land and buildings

	Investment Properties	Properties	Total
	properties for own use		
	£000	£000	£000
<b>Cost or valuation:</b>			
At beginning of year	11,331	4,850	16,181
Additions	19	-	19
Revaluations	570	-	570
Value adjustments	(65)	-	(65)
<b>At end of year</b>	<b>11,855</b>	<b>4,850</b>	<b>16,705</b>
<b>Depreciation:</b>			
At beginning of year	-	451	451
Charge for year	-	113	113
<b>At end of year</b>	<b>-</b>	<b>564</b>	<b>564</b>
<b>Net book value:</b>			
At 31 December 1996	11,855	4,286	16,141
At 31 December 1995	11,331	4,399	15,730

Land and buildings on an historical cost basis can be analysed as follows:

	Investment Properties		Properties for own use		Total	Total
	1996	1995	1996	1995	1996	1995
	£000	£000	£000	£000	£000	£000
Cost	13,586	13,214	15,860	15,860	29,446	29,074
Depreciation based on cost	3,069	2,637	3,809	3,489	6,878	6,126
Net book value Total	10,517	10,577	12,051	12,371	22,568	22,948

All land and buildings were held as freehold and were valued on an open market basis at 31 December 1996 by Weatherall, Green and Smith, Chartered Surveyors. Depreciation on investment properties which would otherwise have been charged amounted to £273,000 for the year (1995: £266,000).

## 14 Investments in group undertakings and participating interests

	Current	Current	Cost	Cost
	value	value		
	1996	1995	1996	1995
	£000	£000	£000	£000
Shares in group undertakings	2,708	-	248	248
	2,708	-	248	248

Shares in group undertakings represents the company's investment in the ordinary share capital of its wholly owned subsidiary undertakings, Winterthur Pension Trustees UK Limited and Personal Pension Management Limited, and its 42% investment, consisting of 5 ordinary shares of £1 each, in Winterthur Properties Limited. All of the above companies are registered in England and Wales. Winterthur Pension Trustees UK Limited and Personal Pension Management Limited undertake and discharge the office of trustee of pension schemes and carry out all the duties arising out of such trusteeships; Winterthur Properties Limited undertakes property investment and management. Consolidated accounts have not been prepared because the company is a wholly owned subsidiary of Winterthur Life UK Holdings Limited, which is itself a wholly owned subsidiary of Winterthur (UK) Holdings Limited. The Company's financial statements are consolidated in the financial statements of Winterthur (UK) Holdings Limited, a company registered in England and Wales.

## 15 Other financial investments

	Market	Market	Cost	Cost
	value	value		
	1996	1995	1996	1995
	£000	£000	£000	£000
Shares and other variable-yield securities and units in unit trusts	158,914	128,973	122,586	98,201
Debt securities and other fixed-income securities	210,654	178,778	206,601	174,534
Loans secured by mortgages	12,315	31,028	12,315	31,028
Loans secured by insurance policies	310	378	310	378
Other secured loans	10,000	-	10,000	-
Other unsecured loans	8,967	1,879	8,967	1,879
Deposits with credit institutions	20,225	10,686	20,225	10,686
	421,385	351,722	381,004	316,706
<b>Included in the above were investments:</b>				
Listed on the UK Stock Exchange	309,827	239,345	272,085	231,295
Unlisted	2,103	1,845	914	1,424
	311,930	241,190	272,999	232,719



Winterthur Life UK Limited  
Notes to the Financial Statements

**16 Assets held to cover linked liabilities**

	<b>1996</b>	<b>1995</b>
	<b>£000</b>	<b>£000</b>
Purchase price of investments included under assets held to cover linked liabilities	710,965	532,784

Included within this class of asset are freehold and leasehold properties that have been valued by independent professionally qualified valuers within the following years of account:

<b>Year of account</b>	<b>Value of properties valued during year of account</b>
	<b>£000</b>
1992	1,295
1993	2,038
1994	4,701
1995	11,737
1996	5,612

Properties not re-valued during the current year have been valued by directors on the basis of current market conditions.

**17 Debtors arising out of direct insurance operations**

	<b>1996</b>	<b>1995</b>
	<b>£000</b>	<b>£000</b>
Amounts owed by policyholders	945	881
Amounts owed by intermediaries	1,700	2,143
	<b>2,645</b>	<b>3,024</b>

**18 Other debtors**

	<b>1996</b>	<b>1995</b>
	<b>£000</b>	<b>£000</b>
Investments sold for subsequent settlement	21	7,578
Owed by group undertakings	3,726	2,926
Other debtors	542	923
Tax recoverable	10,752	8,405
	<b>15,041</b>	<b>19,832</b>

## 19 Tangible assets

	Fixtures, fittings and equipment	Motor vehicles	Total
	£000	£000	£000
<b>Cost:</b>			
At beginning of year	7,361	2,107	9,468
Additions	555	342	897
Disposals	(175)	(579)	(754)
At end of year	7,741	1,870	9,611
<b>Depreciation:</b>			
At beginning of year	6,425	1,007	7,432
Charge for year	630	231	861
On disposals	(175)	(377)	(552)
At end of year	6,880	861	7,741
<b>Net book value:</b>			
At 31 December 1996	861	1,009	1,870
At 31 December 1995	936	1,100	2,036

## 20 Called up equity share capital

	1996	1995
	£000	£000
<b>Authorised, allotted, called up and fully paid:</b>		
1,400,000 ordinary shares of £1 each	1,400	1,400
25,000,000 ordinary shares of £1 each-non-voting	25,000	25,000
	26,400	26,400

Winterthur Life UK Limited  
Notes to the Financial Statements

**21 Other assets - other**

Included within other assets - other is an amount of £15,000,000 (1995: £nil), which represents the value to be attributed to the shareholders' interest in the long term fund arising from the internal transfer of business within the long term fund. This amount is not recoverable within one year.

**22 Reserves**

	Capital contribution	Revaluation reserve	Profit and loss account	Total
	£000	£000	£000	£000
At beginning of year	-	(2,519)	4,643	2,124
Retained profit for year	-	-	697	697
Capital contribution	25,000	-	-	25,000
Revaluation of group undertakings	-	2,708	-	2,708
Revaluation of land and buildings	-	817	-	817
At end of year	25,000	1,006	5,340	31,346

**23 Related party transactions**

i) The directors and key management of Winterthur Life UK Limited and its parent undertakings paid premiums totalling £7,659 during 1996 in respect of life assurance policies with the Company. These contracts were established under the Company's normal terms of business for such contracts.

ii) As explained in note 32, the Company is a wholly owned subsidiary of "Winterthur" Schweizerische Versicherungs-Gesellschaft AG. As the Company's financial statements are consolidated in the financial statements of "Winterthur" Schweizerische Versicherungs-Gesellschaft AG, the Company has taken advantage of the exemption contained in Financial Reporting Standard 8 in respect of transactions with group companies, which are also related parties.

## 24 Financial reinsurance treaty

During the year, the Company entered into a financial reinsurance treaty with its ultimate holding company, "Winterthur" Schweizerische Versicherungs-Gesellschaft AG. The economic substance of this treaty is to provide finance to the Company, with repayment being made out of future loadings from policies. Under the agreement, the reinsurer will seek repayment of the finance, as to both interest and principal, only to the extent that sufficient funds are generated from the loadings. The Company has no obligation to make good any losses that might be sustained by the reinsurer under the treaty and does not intend to do so. The effect of this contract on the Company's financial statements for the current year is as shown in note 28 and will also reduce the deferred acquisition costs asset as shown on the face of the balance sheet as follows:

	1996	1995
	£000	£000
Deferred acquisition cost gross of financial reinsurance	23,183	21,681
Deferred acquisition costs already recovered under financial reinsurance treaty	(15,718)	-
Deferred acquisition costs per balance sheet	7,465	21,681

## 25 Fund for future appropriations

	1996	1995
	£000	£000
At beginning of year	50,495	37,104
Transfer from technical account - long term business	5,437	13,391
Other transfers	18,000	-
At end of year	73,932	50,495

# Winterthur Life UK Limited

## Notes to the Financial Statements

### 26 Technical provisions

The principal assumptions underlying the calculation of the long term business provision are:

#### a) Rates of interest

Life non-profit	4.5% net
Life with-profit	3.25% net
Pensions non-profit	6%
Pensions with-profit	4.5%
Immediate annuities	7%

#### b) Mortality tables

Life policies, pension policies and deferred annuities:	Males AM(80) Females AF (80)
Immediate Annuities:	Males IM (80)c2010 and PM (80)c2010 - set back one year Females IF (80) c2010 and PF (80)c2010 - set back one year

### 27 Deferred taxation

A net deferred tax asset has been recognised in the financial statements and included in other prepayments and accrual income as follows:

	1996	1995
	£000	£000
Deferral of acquisition costs	84	4,000
Unrealised appreciation/depreciation of investments included in non technical income	-	(126)
	84	3,874

The movement for the year has been included in the profit and loss account as follows:

	1996	1995
	£000	£000
Technical account tax attributable to policyholders	(3,916)	2,500
Non-technical account - tax on profit on ordinary activities	-	(157)
	(3,916)	2,343

In addition to the above there is a provision for deferred taxation in respect of linked business of £1,610,000 (1995: £1,526,000) included in technical provisions for linked liabilities. There are no other material unprovided deferred tax balances.

## 28 Creditors

i) Other creditors including taxation and social security comprise:

	1996	1995
	£000	£000
Investments purchased for subsequent settlements	131	8,015
Social security	469	405
Owed to group undertakings	4,434	730
Other	980	856
	6,014	10,006

ii) Amounts owed to credit institutions include bank loans secured on the property of the company, repayable by equal instalments as below. Interest is payable on the loans at variable rates between base rate and 3.5% p.a. above base rate and fixed rates between 9.50% p.a. and 12.5% p.a.

	1996	1995
	£000	£000
In less than one year	1,604	1,729
Between one and two years	1,540	1,301
Between two and five years	4,258	3,754
In five years or more	3,907	4,276
	11,309	11,060

The balance of amounts owed to credit institutions, £52,389,000 (1995: £46,565,000), is a liability in respect of a mark-to-market deposit agreement, the value of which is based on the movements in the FTSE 100 Share Index.

iii) Under the financial reinsurance treaty disclosed in note 24, the net amount outstanding at 31 December 1996 would have been included in the balance sheet as deposits received from reinsurers. However, this liability has been off-set by a corresponding asset, which has been included to recognise that part of the value of future margins arising on the reassured block of policies out of which the reinsurance liability will be repaid. This is illustrated below:

	1996	1995
	£000	£000
Deposits received from reinsurers	15,718	-
Value of future margins recognised under reinsurance agreement	(15,718)	-
	-	-



## Winterthur Life UK Limited

### Notes to the Financial Statements

#### **29 Long term fund**

At 31 December 1996, the total amount of assets representing the long term fund as defined in the Insurance Companies Act 1982, valued in accordance with Schedule 1 to the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 was £1,249,033,000 (1995: £1,003,336,000).

#### **30 Pension scheme**

The company operates a non-contributory pension scheme providing benefits based on final pensionable pay, contributions being charged to the long term business technical account so as to spread the costs of pensions over employees' working lives with the company. Contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent actuarial valuation was at 1 April 1994. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. Future investment returns are assumed to be 9.0% and the annual increases in salaries and pensions are assumed to be 8.0% and 6.0% respectively.

The most recent actuarial valuation showed that the market value of the scheme's assets was £52,789,000 and that the actuarial value of those assets represented 117% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The pension charge for the period was £1,001,000 (1995: £992,000). At the end of the year, the company owed the scheme £528,000 (1995: £374,000).

### **31 Cash flow statement**

Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary of a parent that prepares consolidated financial statements including a cash flow statement dealing with the cash flows of the group.

### **32 Ultimate parent company**

The company's accounts are consolidated in the group accounts of its ultimate parent company, "Winterthur" Schweizerische Versicherungs-Gesellschaft AG, a company incorporated in Switzerland. The Company is a wholly owned subsidiary of Winterthur Life UK Holdings Limited, which is itself a wholly owned subsidiary of Winterthur (UK) Holdings Limited, a company registered in England and Wales. The Company's financial statements are consolidated in the financial statements of Winterthur (UK) Holdings Limited. Copies of accounts for "Winterthur" Schweizerische Versicherungs-Gesellschaft AG and Winterthur (UK) Holdings Limited are available from Winterthur Life UK Limited, Winterthur Way, Basingstoke, Hants RG2 1 6SZ.



# Winterthur Life UK Limited

## Notes to the Financial Statements

### 33 Contingent liabilities

i) As part of certain arrangements with a number of tied estate agencies, the company has undertaken to guarantee the rental payments which fall due in respect of 136 property leases. The outstanding lease terms range from 1 to 18 years duration. As at 31 December 1996, the maximum possible liability (in the unlikely event that all such lease payments had to be met by the company for the full duration of their terms) was as shown below. To date, the company has incurred no actual liability in respect of these guarantees.

	1996	1995
	£000	£000
Maximum potential liabilities (before tax) under rent guarantees	14,858	18,342

ii) In common with other life offices in the United Kingdom, the company has written pensions transfer and opt out business. A provision has been made in respect of rectification and review costs of pension transfers and opt outs from occupational schemes, which is included in the long term business provision. The number of policyholders who should be compensated and the amount of compensation payable to these policyholders cannot currently be accurately determined; accordingly the provision might prove insufficient or excessive when the position is finally determined.

The provision has been determined with due consideration to the guidelines issued by the Securities and Investments Board in October 1994. The principal assumptions and estimates made in determining the provision relate to the number of cases which on investigation may be regarded as non-compliant sales, giving rise to a loss to the policyholder, and the average costs of making good the loss.

iii) The company has a contingent liability for any levy in relation to independent financial advisers under the Investors Compensation Scheme. There is no basis at the present time for assessing the likely level of any such levy.

iv) Uncalled capital on investments held by the company at the year end amounted to £160,000 (1995: £284,000).

### 34 Capital commitments

Authorised but not yet contracted for £500,000 (1995: £nil).

### 35 Loans to directors and officers

i) Directors - Details of such loans are shown below. Mortgage advances are loans made under the staff house purchase scheme and are secured on the main residence of the borrower and life assurance policies. All due interest has been paid.

	Loan 1.1.96 during 1996	Max. loan	Loan 31.12.96	Ave. rate of interest
	£	£	£	%
Mr J C Finan-mortgage advance	30,000	30,000	-	4.70
Mr R A F Ostime-mortgage advance	27,000	27,000	-	5.00

ii) Officers - Staff loans for the purpose of house purchase existed as follows: aggregate amount outstanding as at 31 December 1996: £nil (1995: £472,000). Number of officers: 0 (1995: 5).

Winterthur Life UK Holdings Limited  
Registered Office: Winterthur Way, Basingstoke  
Hampshire RG21 6SZ. Telephone (01256) 470707  
Registered No: 3223762 England

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Registered No: 19772 England  
Winterthur Life UK Limited is regulated  
by the Personal Investment Authority

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