Registered Number: 2339826

ROYAL & SUN ALLIANCE INSURANCE GROUP PLC

Report and Accounts

for the year ended 31 December 1999

LD5
COMPANIES HOUSE
0306
19/05/00

OUR STRATEGIC GOAL IS TO DELIVER SUPERIOR RETURNS BY ALLOCATING CAPITAL APPROPRIATELY AND ACHIEVING SUPERIOR EXECUTION THROUGH OUR FOCUS ON CUSTOMER NEEDS AND OPERATIONAL EXCELLENCE.

IFC WORLDWIDE ACTIVITY
01 FINANCIAL HIGHLIGHTS
02 REGIONAL HIGHLIGHTS
03 CHAIRMAN'S STATEMENT
05 GROUP CHIEF EXECUTIVE'S REVIEW
08 GROUP FINANCE DIRECTOR'S REPORT
12 ACTIVE CAPITAL MANAGEMENT
16 DIRECTORS

18 **ACTIVITY REVIEW**

OPERATING REVIEWS
22 EUROPE
26 AMERICAS
28 ASIA PACIFIC
30 WORLDWIDE ASSET MANAGEMENT

ACCOUNTS
33 DIRECTORS' REPORT
35 CORPORATE GOVERNANCE
37 REPORT OF THE AUDITORS TO THE MEMBERS OF ROYAL & SUN ALLIANCE INSURANCE GROUP PLC
38 REMUNERATION REPORT
40 DIRECTORS' EMOLUMENTS
42 DIRECTORS' SHAREHOLDINGS
44 ACCOUNTING POLICIES
48 CONSOLIDATED PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS
49 CONSOLIDATED PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – LONG TERM BUSINESS
50 CONSOLIDATED PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT
51 STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
51 MOVEMENTS IN SHAREHOLDERS' FUNDS
52 CONSOLIDATED BALANCE SHEET
54 PARENT COMPANY BALANCE SHEET
55 CONSOLIDATED SHAREHOLDERS' CASH FLOW STATEMENT
56 NOTES ON THE ACCOUNTS
78 SEGMENTAL INFORMATION
80 PRINCIPAL SUBSIDIARY COMPANIES
82 PRINCIPAL ASSOCIATED UNDERTAKINGS AND OTHER SIGNIFICANT SHAREHOLDINGS
83 FINANCIAL CALENDAR
84 FIVE YEAR FINANCIAL REVIEW
86 SHAREHOLDER INFORMATION

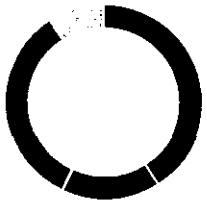
FINANCIAL HIGHLIGHTS

	1999	1998
REVENUE		
General business net premiums written	£7,159m	£6,867m
Life business net premiums written	£3,284m	£2,856m
Investment products	£701m	£593m
RESULTS		
(based on longer term investment return ('LTIR'))		
Group operating profit	£566m	£602m
Group operating earnings per ordinary share	25.7p	24.7p
BALANCE SHEET AT 31 DECEMBER		
Shareholders' funds (in 1999 after £751m special dividend)	£6,484m	£7,269m
Net asset value per share (adding back equalisation provisions)	463p	472p
DIVIDEND		
Total dividend for the year per ordinary share	24.7p	23.0p
Special dividend paid on 1 June 1999	48.0p	-

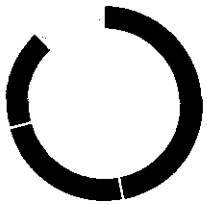
The 1999 Group operating profit (based on LTIR) is before charging goodwill amortisation (including goodwill in acquired claims provisions) and amortisation of value of long term business, amounting to £30m, reorganisation costs of £52m, the premium on the redemption of convertible bonds of £14m, interest on long term subordinated debt of £10m and claims equalisation provisions of £12m. It also excludes the profit on disposal of subsidiaries and branches of £10m.

The 1998 Group operating profit (based on LTIR) is before charging reorganisation costs of £13m, premium on the redemption of convertible bonds of £142m and claims equalisation provisions of £51m. It excludes the profit on disposal of subsidiaries and branches of £5m.

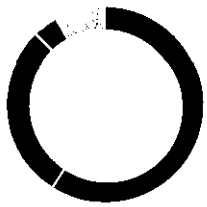
COMMERCIAL PREMIUM INCOME



PERSONAL PREMIUM INCOME



LIFE PREMIUM INCOME

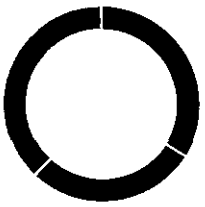


- General business premiums written up 4%, life premiums written up 15%, investment product sales up 18%.
- Pre tax Group operating profit was £566m (1998 £602m) including general insurance investment gains based on a longer term investment return.
- Final dividend for the year of 16.3p, making a 7.4% increase in total for the year, excluding the special dividend.

REGIONAL HIGHLIGHTS

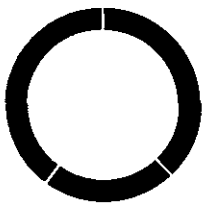
£M	UK		OTHER EUROPE		AMERICAS		ASIA PACIFIC	
	1999	1998	1999	1998	1999	1998	1999	1998
GENERAL BUSINESS								
Net premiums written	3,141	3,353	1,440	1,396	1,817	1,544	761	574
Underwriting result	(308)	(290)	(169)	(215)	(162)	(101)	(104)	(54)
General business result (based on LTIR)	151	199	26	(38)	156	184	(21)	7
Net assets	698	1,700	1,330	931	2,747	2,370	377	313
Return on capital employed (net of tax)	9%	10%	2%	(9)%	10%	13%	(6)%	–
LIFE BUSINESS								
Net premiums written	1,950	1,710	961	812	126	205	247	129
Life business result	165	172	19	26	35	27	24	5
Shareholders' interest in life business	1,797	1,650	465	455	237	221	277	155

UK PREMIUM INCOME



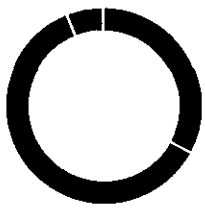
- Personal 34%
- Commercial 28%
- Life 38%

OTHER EUROPE PREMIUM INCOME



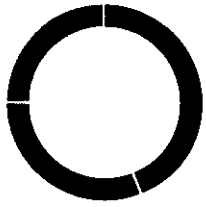
- Personal 38%
- Commercial 22%
- Life 40%

AMERICAS PREMIUM INCOME



- Personal 33%
- Commercial 61%
- Life 6%

ASIA PACIFIC PREMIUM INCOME



- Personal 44%
- Commercial 31%
- Life 25%

CHAIRMAN'S STATEMENT

WE HAVE INSTITUTED STRONG PROGRAMMES OF CORRECTIVE ACTION IN ALL OF OUR UNDERPERFORMING LINES OF BUSINESS – WORK REMAINS TO BE DONE BUT THERE IS ENCOURAGING EVIDENCE OF IMPROVEMENT.

1999 has been a year of transformation for the Group, and I am pleased to report very encouraging progress in the implementation of our strategy, with its focus on profitable growth and long term shareholder value. I regret, however, that I must report on a second year of reduced operating profit.

The Group operating profit based on longer term investment return was £566m, a 6% reduction from 1998.

Our balance sheet position remains strong and the Board is pleased to recommend a final dividend of 16.3p. Together with the interim dividend of 8.4p this represents an increase of over 7% on the 1998 dividend of 23.0p. During 1999 we also returned £751m to shareholders by way of a 48p special dividend and this has almost entirely accounted for the reduction in shareholders' funds to £6,484m.

We continue to review our capital position regularly and any funds identified as surplus to our requirements will be returned to shareholders.

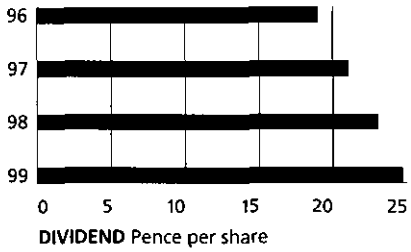
The result has been affected by a number of factors. The trading environment for general insurance remained at a cyclical low throughout most of the year. There was continuing competitive pressure, particularly in those lines of business where price is the main differentiating feature. However, we are now achieving substantial rate increases in many areas, and are committed to continued discipline in our underwriting and pricing.

We have instituted strong programmes of corrective action in all of our underperforming lines of business – work remains to be done but there is encouraging evidence of improvement, including a significant reduction in our exposure to these areas. I am confident that we will be able to report further progress next year.

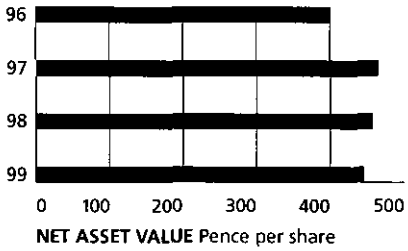
1999 will go down in history as one of the worst for natural disasters. Storms, floods, earthquakes and mudslides all contributed to an estimated £16bn bill for insurers worldwide. You will not be surprised that, in our position as a leading Global insurer, we bore our share of this bill. However, while their effect on our results was significant, it is pleasing to be able to report that our new reinsurance covers were successful in reducing the impact by over £50m.

In responding to the challenges posed by today's environment, we remain committed to our long term goals. In both personal and commercial lines we have worked to improve our ability to identify and respond to customer requirements while consistently providing world class service. Many of our operations, including our Italian direct writer, our Dutch life operation, and our German business, have won awards in recognition of superior customer service. In the UK, awards were received by our engineering division and our Sunderland call centre.

We are growing the business both organically and by acquisition with a focus on core geographic and sector areas where we have a strong market position, and niche areas where our specialist skills can add greater value. Each of our main acquisitions this year – Tyndall, Trygg-Hansa and Orion – supported these strategic objectives. Tyndall enhanced our position in the Australian life market, Trygg-Hansa built on our historically strong position in Scandinavia, and Orion brought particular expertise in specialist areas which offer higher margins.



DIVIDEND Pence per share



NET ASSET VALUE Pence per share

At the same time we have continued to develop the financial management of the business using return on capital as our prime measure of success.

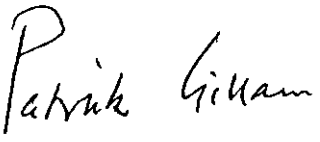
We believe that our target of a Group combined ratio of 103% for 2001 remains both realistic and achievable. We continue to enforce underwriting controls throughout the Group, particularly in the relatively small number of underperforming businesses. Our claims management initiatives bring us opportunities both to make savings in purchasing and also to retain more control of the settlement process, enabling us to offer better service to customers. Improved reinsurance policies will continue to reduce the volatility in our results. These and other actions throughout the Group will help us to achieve our aims and enhance our future prospects.

Royal & SunAlliance, as a major international financial services group operating in different business cultures, is committed to maintaining the highest standards of integrity and fair dealing in our relationships with all stakeholders – customers, intermediaries, staff, shareholders and business partners. Wherever we operate, we seek to make a positive and meaningful contribution to community activities and to behave in a socially responsible manner. We take our responsibilities to conduct our operations with proper regard for the environment seriously and have adopted a Group standard of environmental activities which is taken into proper account in our investment decisions. The Group recognises that sustained commercial success is only possible in a healthy society.

Our commitment to these areas has been underlined in 1999 by two major initiatives. We announced a global partnership with the International Federation of Red Cross and Red Crescent Societies who, like us, are in the business of risk prevention and assisting people on a worldwide basis. We are sponsoring Robert Swan, the polar explorer, in his five year Mission Antarctica project. This is dedicated to preserving the world's last great natural wilderness by removing 1,000 tons of debris from an abandoned scientific base.

Many people contribute to the success of a company. The Duke of Westminster and John Kemp-Welch retired from the Board in May 1999 and John Rowson will leave the Board at the Annual General Meeting after six years as a director of the Group having reached the age of 70. On behalf of the Board, I thank them all for their valuable help over the years. In June, Bob Gunn, who ran our very successful operation in Canada from 1990 to 1998, when he took overall responsibility for our operations in the Americas, was appointed to the Board. We welcome his extensive experience in all aspects of our business.

I am proud of the achievements of our people in responding to a challenging environment. On behalf of my fellow directors, I am grateful to the management and the staff for their considerable efforts.



SIR PATRICK GILLAM
Chairman

GROUP CHIEF EXECUTIVE'S REVIEW

I AM PLEASED WITH THE SIGNIFICANT PROGRESS WE HAVE MADE, AND AM CONFIDENT WE ARE ON TRACK TO ACHIEVE OUR FINANCIAL GOALS IN 2000 AND 2001.

Two years ago, I unveiled a strategy that would transform the Group into a modern, efficient, 'wired for the 21st century' global group that could compete, and win, against the best in the business. It has not been an easy two years for the employees and shareholders of Royal & SunAlliance. Fundamentally changing a company of 50,000 people in over 50 countries is hard; doing it when your industry is suffering through two years of intense price competition, significant natural catastrophes, huge investments in technology and economic turmoil in various parts of the world, makes it harder still. I am pleased with the significant progress we have made, and am confident we are on track to achieve our financial goals for 2000 and 2001.

OPERATING REVIEW OF 1999

The Group operating profit for the year was £566m (1998 £602m).

The general business result was £312m (1998 £352m). We have taken the necessary actions in those areas of the business which have underperformed. These include corrective underwriting action, a strong stance on price increases and withdrawal from sectors of business where necessary. In addition, we are reorganising our reinsurance programmes for 2000 and 2001 to reduce the volatility of our results from year to year. Considerable investment has been made in claims management across a range of areas including efficiency of claims handling, reduction in the cost of replacement goods and reduction in the incidence of fraudulent claims. Expense control initiatives introduced throughout the Group will increasingly benefit our profitability.

During 1999 there was cause for some optimism for price increases in most markets. In some sectors, such as the UK motor markets, where over competition and abnormal claims inflation have seriously affected profitability, material increases were obtained in 1999 and further considerable increases can be expected in 2000.

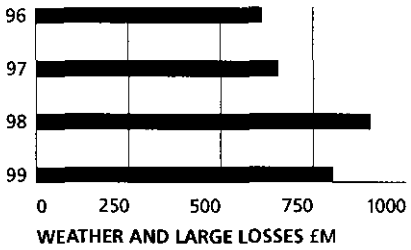
In most other sectors where rates are inadequate, the decline of recent years has stopped and modest price increases are being obtained. In a number of these areas we have reduced our portfolios as we stood aside from business offered at unacceptable rates. We will continue to increase rates in 2000. This may lead to some further business loss in the short term but it is essential to the recovery of profitability in these areas.

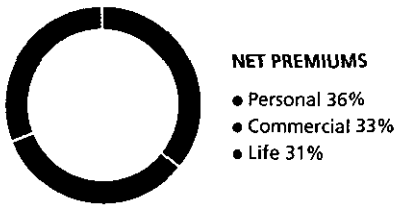
Those market sectors where good profits have been made are, and will remain, very competitive. The key to maintaining our advantage here is to continue to focus on satisfying customer needs and increasing our efficiency.

We continue to strengthen our strict financial disciplines ensuring that pricing decisions are made based on profitability rather than maintaining market share. Risk weighted return on capital is the primary measure of performance within the Group. It has been incorporated into the performance related incentive schemes throughout the Group, ensuring there is no divergence between shareholder interests and employee incentive rewards.

Our life business made a profit of £243m (1998 £230m). This was contributed to by the acquisition of Guardian in New Zealand in 1998.

The life and asset management sector is changing rapidly in most markets. Margins on the newer savings based products are lower than those on traditional products. This requires life companies to operate through technologically advanced systems capable of handling high volumes of business efficiently. We are moving quickly to reorganise our structures,





products and distribution methods in response to these changes throughout the world. Our acquisition in Australia and the acquisition of a majority holding in La Construcción in Chile are valuable steps in this process. In July 1999 we sold our US life business which, although profitable, was too small within the US market to have strategic value without considerable further investment. In the UK, we reorganised the business to focus on distribution through Independent Financial Advisers.

Our target for the Group combined operating ratio (the ratio of claims, commissions and expenses) continues to be 103% of premiums for the full year 2001. Each of our operations worldwide has a target which, in combination, will allow the Group to achieve its targeted return on its risk based capital of 10% after tax and inflation. Each operation not currently achieving its target return has produced an action plan for doing so. Any operation without the prospect of reaching its target return in an acceptable time will be disposed of.

STRATEGY

Key to our strategy is the focus on customer needs.

Commercial customers require global capabilities and we are ideally placed to service their needs through our ability to deliver insurance coverage in over 130 countries. In addition, we rank in the top three in the growing market for multinational corporate insurance coverage. During 1999, we have rebalanced this portfolio, reducing involvement in the larger risk managed sector, where results have been unacceptable, and concentrating on the small and medium sized multinational market.

The growth strategy for commercial business is to use our leadership in the multinational business to leverage relationships, skills and balance sheet strength to drive superior returns in local business units.

Our personal customers continue to need products delivered on a multi local basis, tailored to take account of variations such as language, local custom and taxation. Our proposition to them is based on offering the full range of general, life and investment products as a combined Personal Financial Services package.

In mature business sectors, with strong competition and limited opportunity for strong growth with profit, it is necessary to deliver efficient and quality service to carefully chosen target markets. Throughout our businesses actions are being taken, many centred on e-business initiatives, to enhance our infrastructure. In our major markets, we have economies of scale, which give us competitive advantage. For example, we are reducing expenses and claims costs by comprehensive, and increasingly automated, supply chain management.

In the speciality lines and developing business sectors where higher profit margins and good growth opportunities are available, technical skill is key to long term success. We have made these areas our growth priority in a number of countries. In the USA they account for all the commercial business growth in 1999.

Our main acquisitions in the year were Tyndall in Australia, Orion Capital Corporation in the USA and Trygg-Hansa in Sweden. In each case we have taken advantage of existing operational strengths in the country or region. Each has significant market or sector share and brings valuable management teams and technical skills to enhance our organic growth prospects.

The integration of Tyndall with our Australian life operation has greatly strengthened our position in the Australian life and pensions market and is achieving its target profits.

The purchase of Orion improved our strategic position in the USA, the world's largest insurance market. The deal will double the Group's size in the USA, adding mass to both personal and commercial lines, and substantially diversifying the product mix, so improving the balance of the portfolio. This will increase our proportion of high profit margin business and give increased sales opportunities of complementary products and distribution channels. We are restructuring the commercial business of Royal & SunAlliance to reflect the more successful and profitable Orion model and we expect this to generate valuable savings going forward. The deal is expected to make a positive contribution to Group profit in 2000.

The acquisition of Trygg-Hansa gave us a leading position in key personal lines in Sweden and complements the existing specialist book of business written by Holmia, Codan's subsidiary in Sweden. It also brought with it a market leading call centre based distribution system that allows access to Trygg-Hansa's direct customers, as well as further customers through affinity group distribution agreements. Trygg-Hansa's logo has the highest brand recognition of any Swedish financial services company. The combination of Trygg-Hansa and Codan, along with smaller acquisitions in Poland and Lithuania, gives us a strong platform within the Nordic/Baltic market from which to grow our business.

The profile accorded to e-business by the media and markets reflects the potential of internet and related technologies to fundamentally change the way in which companies and markets operate. We have been engaged in a variety of e-business activities since 1996 – from marketing ourselves and our products, through improving service to customers, to using connectivity to improve our support and administration functions.

1999 saw us accelerate the pace of this activity. Our worldwide e-business practice coordinates and supports a variety of initiatives across the world. In addition, in keeping with many large groups, we have a "hothouse" team looking to develop a range of radical new business propositions. Our aim is to embed e-awareness and thinking all across our business during the remainder of 2000.

The reorganisation of our capital structure centred on the return of excess funds to shareholders in June 1999 and subsequent funding of acquisitions by long term debt. The resulting efficient organisation, together with operations focused on maximising return on their properly allocated capital, is a firm base from which to deliver consistently superior returns for shareholders.

BOB MENDELSOHN
Group Chief Executive

GROUP FINANCE DIRECTOR'S REPORT

THE GROUP CONTINUED WITH ITS POLICY OF MANAGING THE BUSINESS ON SHAREHOLDER VALUE PRINCIPLES, USING AND DEVELOPING THE RISK BASED CAPITAL TECHNIQUES THAT WERE INTRODUCED LAST YEAR.

GROUP FINANCIAL POSITION

1999 was another disappointing year for the financial results of the Group. Exceptional levels of bad weather and other natural catastrophes, together with some poor underwriting experience, masked the beginnings of the recovery in property and casualty insurance markets worldwide.

The Group continued with its policy of managing the business on shareholder value principles, using and developing the risk based capital techniques that were introduced last year.

SHAREHOLDER VALUE ADDED

The Group's prime financial objective remains to maximise the return to shareholders by ensuring that the return on capital (ROC) is significantly greater than its cost.

SOURCES OF CAPITAL

Maximising the return to shareholders requires both operational excellence and active management of the Group's capital base.

Significant changes were made to the Group's capital base in 1999.

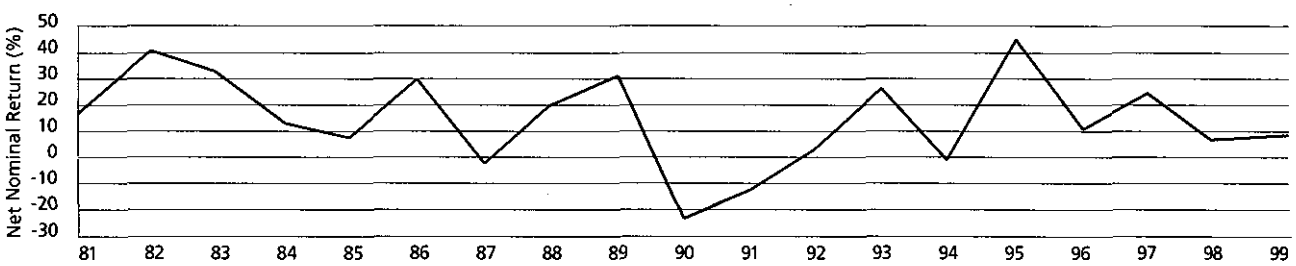
The special dividend to shareholders of £751m, together with the proportionate share consolidation of 10 for 11 shares, announced with the 1998 results, were approved at the AGM in May. The dividend was paid in June. This reduced shareholders' funds, bringing them more into line with capital requirements – as set out in the report on Active Capital Management in these accounts.

The subsequent acquisitions of Tyndall in Australia, Trygg-Hansa in Sweden and Orion in the USA increased the capital requirements. This increase was partly financed by the issuance of some £610m of subordinated debt.

Since the year end the Group has raised a further £146m of equivalently subordinated hybrid capital through a private placement.

Such debt, being both long term and restricted as to the circumstances in which it can be repaid, can be regarded as a form of capital. The attraction of this type of capital is that it is significantly cheaper than equity. As a result, the Group's weighted average cost of capital has been reduced and there has been a corresponding improvement in shareholder value added.

These actions, together with a continuing refinement of the risk based capital process, represent a significantly more efficient use of the Group's finances in support of maximising the return to shareholders whilst maintaining the essential levels of security for our customers.



GROUP ROC FOR THE PAST 19 YEARS. Over this period the average annual ROC was 15% net

The introduction of the subordinated debt in 1999 means that the analysis now needs to distinguish between capital (which comprises shareholders' equity together with subordinated debt) and equity, which is the shareholders' interest alone.

CAPITAL	1999 £M	1998 £M
SHAREHOLDERS' EQUITY	6,359	7,144
NON EQUITY SHAREHOLDERS	125	125
EQUITY MINORITY INTERESTS	406	291
SUBORDINATED DEBT CAPITAL	610	–
	7,500	7,560

RETURNS

As set out last year, the Group's financial target is for its return on equity to exceed its cost of equity consistently by 4 percentage points. The cost of the Group's equity is around 9.5% implying a 13.5% nominal target return. This equates to the Group's longstanding target ROC of 10% net real. For the Group's general business this target is also expressed as a combined ratio (the ratio of claims and expenses to premium) of 103%.

In 1999 the return on equity was affected by both the special dividend of £751m and the goodwill arising on the three main acquisitions. Under UK accounting such goodwill is now capitalised and amortised to the profit and loss account. Previously it has been written off to reserves leaving only tangible net assets. The return on equity can be calculated on an accounting basis or on a weighted, tangible net assets basis, in both cases making full provision for tax on unrealised investment gains and adjusting for the timing of the special dividend.

RETURNS	1999 %	1998 %
ACCOUNTING BASIS	8.7	6.9
TANGIBLE NET ASSETS BASIS	9.6	–

The returns in 1999 and 1998 were below target principally due to the poor underwriting conditions and exceptional claims events that prevailed throughout the period.

The introduction of the subordinated debt will improve the return on equity in a full year by around 0.4%.

RISK BASED CAPITAL ALLOCATION

The introduction of risk based capital assessment permits the comparison of the capital requirements of each part of the business. It also allows us to bring into account the benefits of being a worldwide group. The spread of risk exposures across over 100 countries means that less capital is required than if the same risks were concentrated in a few locations. This diversification of risk is one of the drivers behind the move to reduce the proportion of the Group's exposures in the UK. This has been achieved in 1999 through the acquisitions in Sweden and the USA of Trygg-Hansa and Orion. On a full proforma basis, the UK now provides less than 50% of the Group's premium income.

	RISK BASED CAPITAL		CAPITAL REQUIREMENTS	
	1999 %	1998 %	1999 £M	1998 £M
UK	42	44	1,301	1,451
USA	53	60	580	510
CANADA	40	38	201	186
SCANDINAVIA	45	45	206	152
AUSTRALIA	53	53	270	189
OTHER	57	50	807	739
	47	47	3,365	3,227

GENERAL BUSINESS RESULT

The risk based capital approach also allows us to assess the returns being achieved by each part of the Group. The returns are calculated using the pre tax operating profit on the longer term investment return basis. This is a comprehensive measure of

performance that is not distorted by short term investment fluctuation.

The following analysis shows the returns on risk based capital for the last three years for the general business operations.

	1999 %	1998 %	1997 %
UK	9.2	10.3	19.3
USA	16.4	20.0	18.6
CANADA	8.5	14.0	18.5
SCANDINAVIA	6.7	20.5	7.7
AUSTRALIA	1.7	7.6	14.2
OTHER	(5.6)	(13.4)	0.1
	5.7	6.1	14.2

The analysis for each of the last three years is consistent in showing that the core operations can produce good returns whilst the smaller operations have struggled. A number of major operations were affected by poorly performing units in 1999 and action is already in hand to correct them. In the UK significant action is being taken in respect of broker personal motor, commercial motor and the risk managed account. In the USA the merger with Orion Capital has provided the opportunity for a major reorganisation and refocusing of the commercial lines operations. Scandinavia, Canada and Australia, together with the US, were all adversely affected by weather losses in 1999.

Improvements have been made in the Other category, notably in Other Europe where disposals of non performing units at the beginning of 1999 improved the result significantly. A continuation of corrective action is, however, required.

LIFE BUSINESS RESULTS

The Group's life insurance operations are significant and during 1999 have been enhanced by the acquisition of Tyndall in Australia and La Construcción in Chile, and by a full year's contribution from Guardian in New Zealand. In addition a number of overseas operations, as well as the UK, shared strong organic growth.

The shareholders' interest in life operations increased from £2,481m to £2,776m. This represents the value of the shareholders' interest in the various life operations, including the net present value of the profit expected to emerge from existing business. The increase is in part attributable to the acquisitions outlined above, offset by the disposal of our USA life operation which was sold in July 1999. After adding back profits transfers to shareholders there is an underlying increase of £337m attributable to new business sales and to a strong investment return.

OVERALL GROUP RESULTS

The Group operating profit based on the longer term investment return was £566m (1998 £602m). The overall Group operating profit before tax of £378m (1998 £864m) includes the effect of marking all shareholder investments to market value. It also is stated after goodwill amortisation and the interest on subordinated debt, as well as other exceptional items.

The tax charge remains at a high level due to the continued policy of realising investment gains. Over the course of the last two years some £1,606m of investment gains have been realised, principally in respect of equities. This results in a high tax charge since, under UK accounting principles, the tax arising on an investment gain is only recognised when that gain is realised.

DIVIDEND

The Group dividend of 24.7p amounts to £353m. This is 5% of opening shareholders' funds. The current dividend yield is approximately 7%. This level of return to shareholders represents a form of ongoing active capital management. The principal determinant of the dividend policy is the strength of the Group balance sheet and the Group's capital requirements.

GROUP BALANCE SHEET

The Group balance sheet has shown significant change over the year, partly as a result of the acquisitions and hybrid capital issuance already referred to. In addition to these actions, the payment of the special dividend of £751m in June 1999, and the continued policy of realising equity investment gains has meant that the balance sheet has become more efficient and focused on maximising shareholder value, whilst at the same time having the appropriate amount of solvency and liquidity to maintain the Group's financial strength and ratings.

The Group's equity shareholders' funds amounted to £6,359m (1998 £7,144m) whilst total capital (including minority interests, preference shares and long term subordinated debt) was £7,500m (1998 £7,560m).

ACCOUNTING POLICY CHANGES

The Group accounts have not been significantly impacted by accounting policy changes in 1999. This contrasts with 1998 when the format and policies reflected the recently introduced ABI Statement of Recommended Practice for Insurance Accounting (SORP).

The principal changes in 1999 are:

- The cessation of the grossing up of investment income in accordance with Financial Reporting Standard 16 "Current Tax". This follows the abolition of Advance Corporation Tax in 1998.

- The separate disclosure of the amortisation of goodwill and the amortisation of the discount arising in acquired claims provisions. Both of these are disclosed separately due to their materiality and are deducted in arriving at overall Group operating profit.

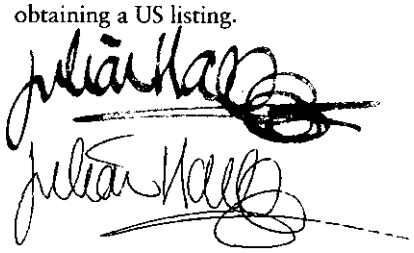
LISTING IN THE USA

During 1999 the Group made progress towards obtaining a New York Stock Exchange listing. It is expected that the Group will apply for such a listing in 2000. A key requirement of the listing is the restatement of the Group results in accordance with US Generally Accepted Accounting Practice (US GAAP) and this process was undertaken during 1999. The restatement emphasised two aspects. Firstly, it highlighted certain significant additional elements of value that are not currently reflected in the UK GAAP accounts. Principal amongst these are the surplus in the Group's main pension funds and the difference between the stated and net present values of the Group's general business claims provisions. Secondly, the exercise highlighted the extent of additional restatement work entailed in producing accounts under various accounting frameworks.

The International Accounting Standards Committee has created a working party to develop an International Insurance Accounting Standard. The Group welcomes and is actively involved with this development although progress is painfully slow.

SUMMARY

Whilst the financial results were again disappointing, 1999 saw considerable progress in making the Group's balance sheet more efficient and thereby maximising shareholder value. The risk based capital techniques were further embedded in the operations and progress was also made towards obtaining a US listing.



JULIAN HANCE

Group Finance Director

ACTIVE CAPITAL MANAGEMENT

AN INSURANCE COMPANY IS CONCERNED WITH THE MANAGEMENT OF RISK. THE BALANCE BETWEEN PRUDENCE AND RETURN LIES BEHIND THE PRINCIPLES OF RISK BASED CAPITAL AND SHAREHOLDER VALUE ADDED.

INTRODUCTION

The objective of this section is to explain how the Group actively manages its capital and, in particular, how it identifies, evaluates and manages risk.

An insurance company is fundamentally concerned with the management of risk. It must ensure that at all times it has the appropriate financial resources available to meet any losses that may arise, while at the same time balancing this need for prudence with the requirement to produce satisfactory returns on the capital employed. The maintenance of this balance between prudence and return lies behind the principles of risk based capital and shareholder value added (SVA) that are explained in more detail in subsequent sections of this and the Group Finance Director's report.

The Group has continued the development of its risk based capital assessment techniques introduced last year. These complement the existing solvency assessments and provide an improved basis of evaluating the Group's performance. All approaches are based on the concept of the solvency of the insurance operation.

SOLVENCY

The solvency of an insurance company represents its ability to meet liabilities as they arise. Solvency is assessed in a number of different ways and the financial management of an insurance company is concerned with balancing these assessments and maximising the utilisation of the shareholders' funds. The principal solvency measures used by the Group are statutory, rating agency and risk based capital assessments.

STATUTORY SOLVENCY

Statutory solvency is calculated for each territory in accordance with local regulation. The requirements of local regulation vary quite considerably. Generally the regulatory solvency requirements for general business tend to be less onerous than those of either the rating agency or risk based capital assessments. The Group met all its statutory solvency requirements throughout the year.

RATING AGENCY SOLVENCY

Rating agencies such as Standard & Poor's, Moody's Investors Service and A M Best provide claims paying ratings for the Group and its principal subsidiaries. These ratings are based on the detailed financial modelling of the Group and regular review of Group strategic direction. The current claims paying ratings are 'AA-' from Standard & Poor's, 'Aa3' from Moody's Investors Service in the UK and 'A' from A M Best in the USA. In each case these ratings position the Group as being in a strong financial position.

RISK BASED CAPITAL

The third basis of solvency assessment is the internal risk based capital review undertaken by the Group as the basis of its active capital management. The approach has been developed to provide a comprehensive identification of the Group's capital requirements. This in turn enables us to set target financial returns on the risk based capital for individual operations. It also identifies surplus capital and capital deficiencies that can be addressed by share repurchase or new capital issues respectively.

The methodology adopted is to produce a model of the Group's insurance and investment exposures to loss. Using both actual experience of the Group and market experience, it is then possible to estimate a probability distribution for the extent of losses that may arise. Criteria are established for the acceptable probability of loss that the Group should take and this determines the capital requirement.

The criterion adopted by the Group in respect of general insurance is that there should be a less than 1% chance of solvency falling below 25% of net written premiums over the next five years. Applying this criterion to the Group's general business and associated investment exposures implies a solvency requirement of 47% of net written premiums. Note that this excludes the capital requirements in respect of life insurance and other activities, which are separately assessed.

A key aspect of the 47% solvency requirement is the impact of certain policy decisions, notably investment policy. Having met the matching requirements identified below, an insurance company has reasonable discretion as to how to invest its portfolio of shareholder and technical provision funds. Investing in fixed interest investments can be expected to produce lower yields but with less volatility in value than investing in equities. The higher volatility of equities requires more capital to maintain the Group's solvency criteria.

INVESTMENT POLICY

The investment policy of the Group's shareholders' funds is determined in conjunction with the investment of the general business technical provisions. The technical provisions, which amounted to £15,062m at the end of 1999, are funds held either in relation to future periods of risk (unearned premiums) or in anticipation of the settlement of claims that have already occurred (outstanding claims).

A primary consideration in determining the investment policy is to ensure that the investments will be able to be liquidated into cash to meet the liabilities as they fall due. Another consideration is that the investments should match the currency of the liabilities so as to avoid unnecessary exchange exposure.

Within these two constraints the investment policy is determined with regard to the expected returns and inherent volatility of the various types of investments.

Analysis of the expected returns and capital requirements indicates that the overall expected return on capital employed is maximised with an investment policy of investing all the shareholders' funds and 5% of the technical provisions in equities, with the balance invested in fixed interest and cash. This policy maximises the expected return on capital, although it does require a higher level of solvency due to the greater volatility of equity investments. This is the policy that the Group has followed and which drives the 47% capital requirement. The policy is continually reviewed in the light of changing market circumstances and shareholder requirements.

Another element of the assessment process is the consideration of the geographic disposition of the capital and its matching against risk exposures. During 1999 this geographic disposition was considerably improved by the acquisitions of Trygg-Hansa in Scandinavia and Orion Capital in the USA. Both these territories, and in particular the USA, represented areas of excess capital at the beginning of the year and the acquisitions have ensured a better balance.

GEOGRAPHICAL SPREAD OF SHAREHOLDERS' FUNDS	1999 £M	1998 £M
UK	2,495	3,350
OTHER EUROPE	1,487	1,386
AMERICAS	2,682	2,591
ASIA PACIFIC	654	468
OTHER (INC. BORROWINGS/ MINORITIES)	(834)	(526)
	6,484	7,269

LIFE

The life business capital requirement is calculated as the shareholders' interest in long term business, amounting to £2,776m (1998 £2,481m). The majority of this is represented by the embedded value of the shareholders' interest in life funds. This approach reflects the fact that the shareholders' funds attributable to life operations, other than the embedded value, are maintained at minimum required levels.

OTHER ACTIVITIES

The capital requirements for other activities are generally established at the actual level of shareholders' funds employed in the business.

SUMMARY CAPITAL POSITION

CAPITAL REQUIREMENT	£M
GENERAL AND INVESTMENT CAPITAL REQUIREMENT	3,365
LIFE BUSINESS CAPITAL REQUIREMENT	2,776
	6,141

The Group risk based capital requirement can be compared with actual capital to determine any surplus. For consistency it is appropriate to adjust the stated shareholders' funds by the amount of unprovided deferred tax on the unrealised gains.

The following analysis shows the development of actual capital over the last year:

	£M
CAPITAL BROUGHT FORWARD	7,131
ADJUST FOR UNPROVIDED DEFERRED TAX	217
CAPITAL GENERATED FROM OPERATIONS	327
SHARE CAPITAL ISSUED	15
UNAMORTISED GOODWILL AND GOODWILL ON ACQUIRED CLAIMS	(1,022)
EQUALISATION PROVISION	9
INCREASE IN MINORITY INTERESTS	115
INCREASE IN SUBORDINATED DEBT	610
DIVIDENDS: –	
ORDINARY	(353)
SPECIAL	(751)
PREFERENCE	(9)
PREMIUM ON REDEMPTION OF BONDS	(14)
	6,275
CAPITAL CARRIED FORWARD	6,275
RISK BASED CAPITAL REQUIREMENT	6,141
SURPLUS	134

RISK ANALYSIS

The overall Group approach to the identification, evaluation and management of risk is dealt with in the Corporate Governance report on pages 35 and 36.

As identified in last year's report, the major feature of the risk process for the year was the millennium and its potential impact on insurance claims, investment values and our own business processes.

Although there remain a number of important dates and events that may prove of concern, experience to date in 2000 indicates that the actions that were taken have ensured that this will not be a significant issue for the Group.

SENSITIVITY

The Group's financial position can be analysed in terms of its sensitivity to change in certain economic and operating parameters. The following table summarises the principal sensitivities:

MOVEMENT IN	BY	CHANGE IN	BY
INVESTMENTS			
EQUITIES	FTSE 100 PTS (OR EQUIVALENT)	NET ASSETS	£70M
GILTS	INTEREST RATE 100 BPS	NET ASSETS	£350M
CURRENCIES – AGAINST STERLING			
US DOLLARS	10¢ CHANGE	NET ASSETS	£150M
DANISH KRONER	1 KR CHANGE	NET ASSETS	£50M
EURO	10¢ CHANGE	NET ASSETS	£45M
UNDERWRITING COMBINED RATIO	REDUCTION BY 1%	GENERAL BUSINESS NET OF TAX ROC	1.5%
SHAREHOLDERS' INTEREST IN LIFE FUNDS DISCOUNT RATE	REDUCTION BY 1%	EMBEDDED VALUE	£100M
INVESTMENT RETURNS			
EQUITIES	LONG TERM RETURN 1% HIGHER	GROUP OPERATING PROFIT	£50M
GILTS	LONG TERM RETURN 1% HIGHER	GROUP OPERATING PROFIT	£80M

DIRECTORS

1. SIR PATRICK GILLAM[^*] *Chairman*
Age 66. Chairman of the Nomination Committee. Director and Chairman of the Group from March 1997. Chairman of Standard Chartered. Formerly a Managing Director of The British Petroleum Company. Former Chairman of Asda Group.

2. ANTHONY FORBES[+^*] *Deputy Chairman*
Age 62. Director of the Group from 1994 and Deputy Chairman from 1998. Director of The Merchants Trust and Carlton Communications. Former Joint Senior Partner of Cazenove & Co.

3. BOB AYLING[^*]
Age 53. Director of the Group from 1993. Chief Executive of British Airways. Chairman of New Millennium Experience Company. Former Under Secretary at the Department of Trade.

4. JOHN BAKER [+^]
Age 62. Director of the Group from 1995. Deputy Chairman of Celltech. Former Chairman of National Power and Medeva.

5. NICHOLAS BARBER+⁂

Age 59. Chairman of the Remuneration Committee. Director of the Group from 1991. Governor of the London Business School. Former Director of Albright & Wilson. Former Chief Executive of Ocean Group.

6. BOB GUNN*

Age 54. Director of the Group from June 1999. Appointed Group Director of the Americas Region in 1998. Chief Executive Officer of the Group's operation in Canada from 1990. Director of the Insurance Council of Canada, the Insurance Information Council of Canada and the Insurers Advisory Organisation of Canada.

7. JULIAN HANCE*

Age 44. Group Finance Director from October 1998. Former Group Chief Accountant and Finance Director of Life and Investment Operations. Joined the Group in 1987 from Deloitte Haskins & Sells.

8. ARTHUR HAYES*

Age 57. Director of the Group from 1994. Appointed Group Director, Investment & Financial Services in February 1998. Director of Thistle Hotels.

9. HENRY KESWICK+⁂

Age 61. Chairman of the Audit & Compliance Committee. Group Deputy Chairman from 1993 to 1996. Director of the Group from 1975. Director of The Telegraph Group and Robert Fleming Holdings Limited. Chairman of Jardine Matheson Holdings Limited.

10. BOB MENDELSOHN*^

Age 53. Group Chief Executive from December 1997. Chief Executive Officer of the Group's operation in the USA from 1994. Chairman of the American Insurance Association and Council of Insurance Company Executives. Former President and Chief Operating Officer of WR Berkley Corporation.

11. JOHN ROWSON+

Age 69. Director of the Group from 1994. Solicitor. Former Senior Partner of Herbert Smith.

12. PAUL SPENCER*

Age 50. Director of the Group from 1995. Chief Executive UK since October 1998. Previously Group Finance Director. Director ABI and FSA Practitioners Forum. Former Associate Director-Treasurer of Hanson.

13. CAROLE ST. MARK^⁂

Age 57. Director of the Group from September 1998. President and Chief Executive Officer of Growth Management LLC. Director of Polaroid Corp, SuperValu Inc and Gerber Scientific Inc. Former President and Chief Executive Officer of Pitney Bowes Business Services.

* Executive Director

\+ Member of Audit & Compliance Committee

^ Member of Nomination Committee

⁂ Member of Remuneration Committee

SETTLING CLAIMS BETTER

WE ARE WORKING TO DELIVER WORLD CLASS SERVICE AND DRIVE OUT COSTS. WE ARE SQUEEZING THE £6BN A YEAR WE SPEND SETTLING NON LIFE CLAIMS IN MANY WAYS, INCLUDING USING OUR PURCHASING POWER, AND CRACKING DOWN ON FRAUD.

Settling claims makes us big spenders: for example, we are among the UK's largest buyers of white and brown goods, carpets and furnishings. To exploit that purchasing power better, we have signed exclusive contracts with major retailers including Dixons, Signet and Halfords to provide replacements direct to customers. We save over £10m a year – more as we introduce internet ordering – while customers benefit from seven day delivery, installation and security marking. The deal won us an award for excellence from the Institute of Purchasing and Supply.

In the US alone we are looking to save an annual $6m by leveraging the purchasing power of our enlarged organisation. And we have begun to strike global purchasing deals with organisations like General Motors.

MAKING CUSTOMERS HAPPIER

IMPROVEMENTS TO SERVICE AND EFFICIENCY MADE OVER THE LAST YEAR AIM TO BENEFIT BOTH CUSTOMERS AND THE BOTTOM LINE.

That's the thinking behind our award winning Customer Charters in Australia and Italy, which pay compensation if we fail to meet stated service standards. It's also why we were so pleased to win first place for recruitment and motivation of staff in the European Call Centre of the Year Awards.

MANAGING RISKS SMARTER

OUR CUSTOMERS PAY PREMIUMS TO INSURE AGAINST RISKS. BUT IF WE WORK WITH THEM TO REDUCE THOSE RISKS, WE WILL ALL BE BETTER OFF. IT'S ONE OF THE WAYS IN WHICH WE ARE TAKING INSURANCE BEYOND ITS TRADITIONAL ROLE.

Our acquisition of Orion will double the size of our business in the US, and its complementary product range has improved the balance of our portfolio.

It has also brought new ideas. Orion's workers' compensation business – covering employees against injury at work – has developed a remarkably successful 'Zero Accident Culture®' approach. Working with businesses to reduce the number of accidents and combining the approach with RoyalCare's post claims initiatives can produce above average performance even from risks that seemed unattractive. The programme brings corporate customers the kind of benefits not normally associated with insurance: improved workforce morale and reduced time lost through injuries.

SHARING SKILLS WIDER

KNOWLEDGE SHARING IS ENERGISING OUR BUSINESS WORLDWIDE. OUR INTERNATIONAL PRACTICE TEAMS ARE NOW WORKING TOGETHER ON OVER 50 PROJECTS AND PROFIN IS ONE WINNER THAT HAS ALREADY EMERGED.

Professional and financial insurance (ProFin) is set to grow by a third this year. Covers include professional indemnity, directors & officers and related policies and are good lines of business with attractive margins. But to succeed in ProFin you need critical mass and dedicated expertise at the point of sale. When we put together our Worldwide ProFin practice team, it was immediately clear that we had particular strengths in the UK and US – elsewhere we were too small to make a real impact. So we pooled our international resources and began building a truly worldwide ProFin business that draws on our UK and US expertise. Regional operations are now backed up by global support teams and best practices, products and systems are quickly disseminated over our intranet.

WORKING FUNDS HARDER

OUR UK FUND MANAGEMENT TEAM'S SUCCESS IS NO NINE DAY WONDER. IN 1999 THEY RETAINED THE UK'S TOP INVESTMENT AWARD – BEST INVESTMENT MANAGEMENT GROUP – FOR A RECORD THIRD YEAR IN SUCCESSION.

They also won Best Individual Pensions Fund Manager in 96, 97 and 98, and Best Life Insurance Fund Manager for the third time in five years.

To capitalise on this success, we have been raising our marketing profile in personal investment and preparing for a major push into the institutional investment market. In the UK we have increased our retail marketing, both through IFAs and on the internet. We have launched e-sales of ISA products and are developing a website that allows customers to deal in unit trusts and OEIC investments and to check on the value of their holdings. In 2000 we are launching some important new products, including the Extra Income Bond Fund and a Japan Fund.

BECOMING A NET WINNER

THE WINNERS IN THE NEW ECONOMY WON'T BE COMPANIES THAT JUST STRAP AN 'E-' ONTO OLD HABITS. THEY WILL BE COMPANIES THAT USE THE NET TO TRANSFORM PROCESSES, PRODUCTS, DELIVERY AND PRICING – IN SHORT THE WHOLE CUSTOMER PROPOSITION.

Since 1996 we have been using internet technology to cut costs, speed processes, link international teams and create new possibilities for customers. Since 1998 we have had an e-business practice group to foster new initiatives – currently some 200 around the world. It's doing a great job of e-enabling existing businesses; but we needed something more.

Throughout the business, there's an e-energy bubbling over into new ideas too hot for the traditional development process. So we have formed a radical new business hothouse that's agile enough to tap that energy and champion bolder e-initiatives from inside and outside the Company.

STRETCHING MINDS FURTHER

THE WORLD IS CHANGING. OUR BUSINESS IS CHANGING. AND THAT MEANS WE HAVE TO CHANGE AS INDIVIDUALS – CONSTANTLY LEARNING, BROADENING OUR SKILLS AND OPENING OUR MINDS TO NEW POSSIBILITIES.

The need for effective training and development programmes has never been greater. But the intranet is providing tremendous opportunities to deliver training in ways that best suit individuals and the business.

In the UK, for example, we have set up a virtual Underwriting College which helps people to gain underwriting and management skills – and apply them in their work. Programmes are flexible, using traditional workshops and new technology to match individual training needs. And most importantly, all teaching materials incorporate action planning directly related to participants' team and business objectives. As a result, we are not just transferring skills but teaching people how to apply them.

MAKING OUR CONTRIBUTION STRONGER

WE ARE EXPERTS IN ENVIRONMENTAL RISKS – AFTER ALL, WE INSURE AGAINST THEM. SO WE TAKE OUR OWN ENVIRONMENTAL POLICIES SERIOUSLY, AS PART OF A BROAD COMMITMENT TO RESPONSIBLE CORPORATE CITIZENSHIP.

Independent studies confirm the success of our environmental policies: the latest Business in the Environment report rated us top among UK insurers, and a review of our safety and environmental risk management placed us in the second highest of 27 categories. A more vivid demonstration of our commitment comes from our sponsorship of Mission Antarctica, a programme led by polar explorer and environmentalist Robert Swan, to clear and recycle 1,000 tonnes of rubbish from a Russian base in Antarctica, with volunteers including RSA staff.

In 1999 our relationship with the International Federation of Red Cross and Red Crescent Societies really began to take off. We are giving support, skills and resources at Group and local level, and providing expertise in fields such as risk management and disaster recovery.

EUROPE

OUR OLD, PRODUCT BASED ORGANISATION WAS TYPICAL OF THE TRADITIONAL FINANCIAL SERVICES INDUSTRY. WE HAVE DISMANTLED IT TO CREATE SOMETHING NEW: A NIMBLE, RESPONSIVE ORGANISATION FOCUSED ON THE NEEDS OF CUSTOMERS.

UK OVERVIEW – A YEAR OF TRANSFORMATION

During 1999 we reviewed our strategy, planning for the increasing pace of change in the market. We took firm action to transform our underwriting, claims management and expenses so that we can continue to provide the best service to customers in the new environment while delivering exceptional and sustainable returns to shareholders.

Our old, product based organisation was typical of the traditional financial services industry. We have dismantled it to create something new: a nimble, responsive organisation focused on the needs of customers.

Rebuilding from the customer perspective has given us the opportunity to remove many non productive activities and improve efficiency and service. Our size continues to be a major strength and we are now better placed to realise genuine economies of scale in market leverage, supply chain management and control of production costs.

In addition we have been in a stronger position to enhance our core skills, particularly in underwriting and claims management.

We also made substantial changes at senior management level – making a number of key appointments to bring in expertise from other parts of the Group and from outside, and to boost our skills in areas such as IT.

As in other parts of the world, perhaps the greatest driver of change at present is the development of e-business. This is already affecting the insurance proposition itself, the way it is delivered to the customer and the multitude of internal and external business processes in the insurance value chain. We have wholeheartedly embraced the new technology and in 1999 received over £100m of electronic business from our motor brokers alone.

We have decided to consolidate our personal direct activities into a single e-enabled retail business offering integrated life, general and savings propositions. This ground breaking initiative will gather momentum throughout 2000.

At an operational level the increase in customer focus, together with our determination to make the most of e-business opportunities, has emphasised the need for common processes. We have been implementing a radical IT strategy based on using a smaller set of software packages to satisfy the majority of our business requirements. This will cut our total number of computer systems by a third over the next two years and help us to re-engineer our business processes to maximise efficiency across the UK.

The Association of British Insurers recognised our commitment to professional standards by awarding us an A grade for compliance with the General Insurance Code of Practice.

UK COMMERCIAL

UK Commercial is a leading commercial insurer. It provides a full range of commercial products to a wide customer base including the majority of the FTSE 100 and a major share of the middle sized companies that are our strongest market.

We are determined to enhance our position still further by becoming the most customer focused, efficient and profitable UK commercial insurer.

We are creating tailored propositions to meet the individual needs of our customers. Market segmentation and the strengthening of our claims

management processes are enabling us to deliver customer solutions more efficiently.

Our success in customer service is well documented and well recognised in the marketplace. In 1999 we received the insurance industry award for Best Engineering Insurer for the eighth year in succession. We successfully launched Enterprise, our tailored approach to the small business market, and strengthened our London market team with a view to further improving our long term relationships with key brokers and clients.

To help us achieve unprecedented levels of customer service and efficiency, we have invested heavily in new technology for developing and promoting knowledge sharing. In addition we have placed real emphasis on leadership and team working, encouraging all staff to take personal responsibility for continuous improvement.

Our future success will be based on a solid foundation of excellence in our core competencies, underwriting and claims. The skills we possess here set us apart from other financial services organisations and we are determined to exploit this competitive advantage further in 2000.

UK PERSONAL FINANCIAL SERVICES

Our Personal Financial Services (PFS) operation is a leader in its market. We are currently the UK's largest personal lines insurer and second largest direct insurer. We have remained a major force in the household insurance and private motor insurance markets. Our focus on growing market share in health cover has paid off, and our private medical insurance book now exceeds £100m.

We remain strongly committed to both direct and intermediated distribution. We are also the largest provider of own brand insurances to major financial services institutions. And our corporate partnership team was delighted to win an industry marketing award with Boots The Chemist for our range of Boots branded personal insurance products.

To control costs and enhance customer service we are re-engineering our supply chain and developing more claims supplier partnerships. For example, we have signed a new contract with Dixon Stores Group for the replacement of electrical goods, and have won a major supply management award for household goods replacement.

Where beneficial, we are insourcing services – for example by expanding our claims adviser team and employing engineers to deal with subsidence claims. Call centres remain a key part of our service proposition and the customer service award for our Sunderland Call Centre was a tribute to all our people there.

UK LIFE

1999 was an excellent year for the UK Life & Unit Trust operation. As well as achieving very pleasing business results, it was named Life Insurer of the Year at the 1999 British Insurance Awards.

Recognising that we could not stand still in a rapidly changing marketplace, we began a major change programme in 1999 to improve our approach to customers – meeting their needs and providing a comprehensive service rather than merely selling them products. This resulted in a move away from distribution through a commission only direct sales force and tied agents to focus on distribution through Independent Financial Advisers.

EUROPE

DESPITE THE CONTINUED CHALLENGING CONDITIONS IN MOST EUROPEAN MARKETS, 1999 SAW A SIGNIFICANT IMPROVEMENT IN THE PERFORMANCE OF A NUMBER OF OUR BUSINESSES.

We also completed the migration of 1.4 million customer records to a new computer system. This has been one of the largest projects of its type in Europe and will help us to build broader relationships with policyholders as customers of the whole business rather than owners of a specific product.

To complement our new distribution strategy and improved customer service, we are rationalising our product range to focus on products such as Group Risk, Progressive Protection and our With Profit Bond, which are consistently in demand and all won record new business in 1999.

In a year when properties coming on to the market were scarce, Royal & SunAlliance Property Services (RSAPS) managed to achieve its best result since the late 1980s, with completed sales up 20%. Its Financial Services arm achieved its best result ever, with total income of £25m and £1.3bn of mortgage business placed.

We made radical changes in the way we are organised to meet the demands of life customers. We achieved top quality profitable growth in our chosen markets. We are confident that our sharper focus on the IFA market, together with initiatives such as our extranet sites and our ability to work within the '1% charges' environment envisaged for the Government's new stakeholder pension products, will ensure that we maintain our position as a key player in the UK life market.

CONTINENTAL EUROPE

1999 saw a significant improvement in the performance of a number of our businesses, despite the continued challenging conditions in most European markets.

These gains were partly offset by the impact of severe storm losses in the region in December, especially in Scandinavia and France. Our European businesses showed a general business operating result of £26m for 1999, an improvement in performance of £64m compared with 1998.

In the course of the year, the first fruits of recent strong remedial action on portfolios across the region began to materialise. Much of our commercial portfolio was re-underwritten when we reviewed our Y2K exposures and this action, together with effective reinsurance arrangements, helped to minimise the underlying volatility of our European business.

Germany proved a particular highlight in 1999. Thanks to an extensive business process re-engineering programme, Securitas returned to underwriting surplus. This was due to an effective combination of disciplined technical underwriting and claims management, with service excellence and a more customer facing approach.

In Italy, Lloyd Italico vigorously pursued its recovery plan with an agency re-engineering programme. Results were broadly in line with forecast and the next stage of the recovery will focus on more effective claims management. Royal & Sun Alliance Assicurazioni produced a sound underlying performance, achieving growth and overall profitability. Royal Insurance, our direct operation in Italy, also experienced strong premium growth and considerably improved its combined operating ratio.

Ireland showed a substantial improvement in results and a welcome return to profitability in 1999, following a high incidence of large fire losses and weather related claims in the previous year. The general personal lines portfolio performed particularly well.

Elsewhere, it was pleasing to note continued good performances from some of the smaller operations: our businesses in the Middle East, Malta and Portugal all produced profits.

However, severe underpricing in the motor market continued to adversely affect our overall underwriting performance in Spain throughout 1999. Our Spanish operation introduced a concerted programme of rate increases, together with an expense reduction programme, and will implement a radical recovery plan this year.

Customer service has been high on the agenda of our European businesses as we have developed multi skilled teams to enhance our global servicing capability. Our Italian direct writer, our Dutch life operation and our German business all received market awards in 1999 in recognition of superior customer service.

It was an important year for strategic acquisitions in Europe. The purchase in August of non life insurer Trygg-Hansa by our Danish operation, Codan, substantially increased our presence in the Swedish market. The strong positioning of the Trygg-Hansa brand in Sweden, together with a strategic alliance with S-E Banken, will provide a strong platform for the development of future business in the Nordic region. In addition to this, the acquisition by Codan of a 70% stake in the leading Lithuanian insurer, AB Lietuvos Draudimas, will provide significant opportunities in the emerging Baltic insurance arena.

Other acquisition activity involved the purchase of a 60% share of PBK Zycie, a Polish specialist life insurer and the acquisition in Italy of AGF's commercial lines portfolio. The Polish transaction included a bancassurance agreement for future distribution of life, savings and investment products in Poland.

Our life business across Europe will benefit from the development of a pan-European investment proposition based on a range of equity and fixed interest funds in Luxembourg. These are now being used both by Group companies in Europe and by our linked life companies. In addition, 1999 saw the launch of Eurolife, an initiative by Royal & Sun Alliance Financial Services in the Isle of Man, to target high net worth individuals in Europe.

E-commerce has become an integral part of the region's strategy, both for transactions and for delivering services. We have made particular progress in our businesses in Benelux, Denmark, Italy and Sweden – and internet sales by our direct operation in Italy have been steadily rising and in December 1999 reached 12% of new business sales.

AMERICAS

THE COMBINATION OF STRONG ORGANIC GROWTH AND OUR ABILITY TO CAPITALISE ON STRATEGIC OPPORTUNITIES MAKES ROYAL & SUNALLIANCE A LEADER IN THE AMERICAS.

OVERVIEW

1999 was an exceptionally eventful year marked by significant changes in our business operations, advances in technology and some extraordinary weather activity. The acquisition of specialty insurer Orion has already benefited US combined ratio performance and contributed to a 13% rise in our premium base. Underwriting results weakened as all parts of the Americas reported higher than normal weather damage and an unusually severe hurricane season. Hurricane Floyd, in particular, impacted all three Americas regions.

Although the 1999 result was disappointing, we strengthened our position and are better placed to excel in 2000.

USA

For a second consecutive year organic premium growth was strong at 9.7% and accompanied by improvement in the underlying combined ratio.

US results, in the 12th consecutive year of soft market conditions, reflect disciplined targeting of higher margin and desirable segments and a continued emphasis on delivering customer value and service. By meeting growing consumer demand for tailored solutions, real-time convenience and better value, we are well placed to benefit from the price firming now evident in parts of the marketplace, particularly workers' compensation.

	RSA USA	MARKET AVERAGE
PREMIUM GROWTH	17.8%	2.3%
COMBINED RATIO	101.8%	104.3%
COMBINED RATIO (INC. CAT LOSSES)	106.4%	107.5%

The acquisition in November 1999 of Orion Capital represents the most visible action to date in our aim to achieve a leading position in the world's largest insurance market. The addition of this leading speciality company provides valuable balance to our US business mix and opens a wide range of new opportunities by broadening our product and distribution capabilities.

Although the US market will benefit from the strong economy and rate hardening in some market segments, conditions will remain difficult in 2000 – particularly for undifferentiated providers. Royal & SunAlliance, with its new and traditional strengths, has a growing opportunity to stand out.

CANADA

Overall results for the year were mixed: strong premium growth and improved investment and life performance were offset by poorer underwriting results. These were hit by continuing high weather related losses and some extraordinary losses on our commercial book, contributing to a higher combined ratio of 105.4%. But total premium growth of 4% is expected to exceed the industry growth rate significantly, and a greater contribution from investments and improved life results combined to produce an improved operating profit from the 1998 level.

Technological advances included HUON and our Claims Analysis System on the internet (CASi). HUON is our new integrated client computer system, which started to process business in January 1999. Designed to boost efficiency and flexibility, it will enable us to offer new services and move faster in our rapidly changing marketplace. CASi received international recognition with a prestigious award from the Smithsonian Institute in Washington.

Leveraging technology to improve customer service was also a focus for

Royal & SunAlliance Financial. In 1999 the company launched three new software systems including Fieldlink, a web based application which gives distributors real-time access to customer information and dramatically streamlines front office operations.

Other customer service initiatives included the new Valet Claims Service, which gives auto customers streamlined service and peace of mind. Available around the clock, it minimises the stress of an accident by looking after everything from sending a tow truck to providing the customer with a rental car and returning the repaired vehicle.

Our new Personal Financial Services Group is charged with bringing together life, non life and investment products for distribution to brokers and corporate partners. The majority of products will be ours, but customers will also be able to access best of breed products from other companies to complement our range. The backbone of the new operation is a customer call centre which will provide after-sales servicing as well as marketing and sales to end consumers on behalf of our business partners.

LATIN AMERICA & CARIBBEAN

This has been a year of contrasts for Latin America & Caribbean, with significant development across the region and profitable growth of the life portfolio, but a very disappointing financial result overall.

The region continued to suffer in 1999 from an economic downturn that adversely affected trading conditions, although most markets are more optimistic for 2000. The year was dominated by large losses: six hurricanes in the Caribbean produced net losses of some £17m; and Colombia and Venezuela suffered earthquake and flood losses respectively. Together with a number of large exceptional losses, these events accounted for the entire regional underwriting loss and overshadowed good performances elsewhere, particularly in Argentina.

The commercial business market continued to be competitive for most of the year, although in 2000 we should benefit from the improving rates we saw in certain markets during the last quarter. Our experience in the region goes back over 100 years: together with our extensive network, it enables us to offer a truly international service to commercial clients, helping them grow successfully in both new and existing markets.

Our Personal Financial Services business includes both life and general personal lines. Following the success of our initial 1997 investment in Compañia de Seguros de Vida La Construcción, a major Chilean life and annuity company, we have increased our shareholding to 51%. We believe this will prove to be an excellent platform for us to develop life business across the region.

Business through corporate partners continues to be an important and growing distribution channel, particularly for PFS, and we have established a number of strategic relationships across the region. We have created call centres to deliver superior customer service and continue to enhance them with new technology and new techniques, drawing on the Group's worldwide experience.

Our direct writing operation in Argentina, one of the first of its kind to be established in the region, continues to perform well, offering customers quality services and products at competitive prices.

ASIA PACIFIC

OUR OPERATIONS IN THE REGION HAVE LAID STRONG FOUNDATIONS FOR MEETING THEIR GROUP TARGET RETURNS.

OVERVIEW

The Asia Pacific region's general insurance result reflected difficult trading conditions, particularly in the Australian commercial market, exceptional losses such as the Sydney hailstorm and the Taiwan earthquake and retrospective costs associated with the introduction of the Goods & Services Tax in Australia.

Operating profits from life operations in Australia and New Zealand were £24m. The acquisitions of Tyndall in Australia and Guardian in New Zealand have strengthened our position in both markets.

We made good progress in consolidating operations across the region, particularly in Australasia and other key long term markets including China and Japan. During 1999 the regional management was relocated from the UK to within the region, providing leadership and support to local operations and ensuring that decisions are made and owned locally. Strong practice group networks have boosted wider cooperation and information sharing across the region.

The performance of the New Zealand operation was a highlight, having another excellent year, achieving strong, profitable growth in both its general and life insurance operations.

PERSONAL FINANCIAL SERVICES (PFS)

We made progress towards growing our PFS business. The acquisitions have given us a stronger base for increasing our life, savings and investment business, providing a range of insurance and financial services to customers, and capitalising on the many opportunities for cross selling, particularly to personal lines insurance customers.

We now own 100% of AAMI, our leading Australian direct insurer, and look forward to obtaining the synergy benefits of full ownership. AAMI has a strong brand reputation with more than 1.7 million policyholders, over 1,300 staff and annual income of more than £250m. It has a deserved reputation for customer focus, through innovations such as the world's first general insurance Customer Charter.

Japan remains a centre of attention for PFS because of its regionally dominant GDP. We are developing PFS products and distribution channels there and positioning ourselves for the further opening up of this significant market. An application for a life insurance business licence in Japan is currently being pursued.

Our direct distribution model for Japan will have wider application throughout the region, particularly in other key Northern Asian markets such as Taiwan and Korea. We are currently investigating appropriate variations of the model to suit local customer preferences, legislation and market forces in these and other countries.

Distribution partnerships with major regional banks and credit card companies will continue to play a major role in building PFS. We will also seek to expand our relationships with the local banks in each market.

We continue to develop our multi-channel approach to PFS distribution, with growing emphasis on alternative channels including partnerships with banks and retailers, direct marketing, e-business and electronic delivery.

COMMERCIAL

We are developing a substantial commercial insurance business in the region on the triple pillars of large risk managed business, facilities and specialty lines.

The Australian commercial market was particularly challenging in 1999, although there were encouraging signs in the second half of the year that rates were firming across most major business segments. During the year we undertook a major review of the Australian commercial business aimed at streamlining it, sharpening market focus and improving profitability.

Workers' compensation insurance initiatives proceeded in both Australia and New Zealand. We became a major player in the newly deregulated New Zealand market through our participation in Fusion Insurance Services, capturing nearly 40% market share. Although the new Government looks set to reverse privatisation, our business model will allow a low cost withdrawal.

In early 1999 we set up Global Risks Asia in Singapore to work with Asian country operations, giving large clients local access to advanced technical underwriting and risk engineering expertise. This reflects our approach of bringing decision making closer to the customer where local culture, language, politics and economies are best understood.

We also established a global underwriting team in Japan to put us at the forefront of multinational underwriting involving Japanese risks.

During the year we paid increased attention to claims management throughout the region. Projects undertaken included successful drives to increase customer focus and reduce claims leakage.

BUSINESS DEVELOPMENT

In 1998 we became the first UK headquartered insurance company to be granted a general insurance operating licence in China. Since then we have continued to lobby for widening of the scope of our licence, currently limited to commercial insurance in Shanghai, and to promote and foster growing business relations between China and the UK.

In late 1999 we won approval to open a liaison office in South Korea, which is the region's second largest insurance market and is opening up relatively quickly. We are now working towards obtaining an operating licence in 2000 with an initial concentration on the risk managed commercial market.

We maintained our representative office in India, in readiness for the opening up of this significant insurance market. This was finally confirmed by the Indian Government towards the end of 1999. Our long established, high profile presence in India puts us in a good position to take advantage of joint venture opportunities there.

We established Royal & Sun Alliance IT Solutions (India) in 1999, tapping India's pool of IT talent to help us achieve cost effective, high quality IT solutions for various Group operations across the globe.

OUTLOOK

Much of South East Asia emerged from recession in 1999, although trading conditions remained difficult with soft rates and local markets reluctant to consolidate. Our companies in these countries focused on investing in our infrastructure, particularly through business excellence programmes.

Across Asia Pacific we will maintain our commitment to sustainable and well managed growth in quality business. We are well placed to take advantage of opportunities arising as the region continues to recover from its economic problems.

WORLDWIDE ASSET MANAGEMENT

OUR INVESTMENT TEAM CONTINUED TO DELIVER EXCELLENT INVESTMENT PERFORMANCE AND WAS NAMED STANDARD & POOR'S MICROPAL BEST UK INVESTMENT MANAGEMENT GROUP FOR THE THIRD YEAR RUNNING.

MARKET REVIEW

The year began with bond yields at an historical low reflecting investors' concerns over the world economic outlook in 1999. Their worst fears were dispelled as economies recovered sharply in the Pacific region, where most of the concerns had centred. Stronger than expected growth in both the US and Europe and an apparent absence of inflationary pressure around the world meant that equities performed more strongly than bonds.

Over the year most major equity markets produced double digit gains, but the performance of individual sectors – and indeed individual stocks – varied enormously. Gains were concentrated on companies with exposure to high tech areas such as information technology, telecoms and the internet. Throughout the year, the construction of portfolios took on ever increasing importance.

Since introducing risk based capital management techniques, we have had a policy of reducing our exposure to equities in order to reduce volatility. The strength of equity markets enabled us to continue our disposal programme at attractive prices. We also sold a sizeable proportion of our UK investment property portfolio. These divestments were largely responsible for the fall in investment income.

Funds under management increased by 7% to £61bn over the year, of which £6bn was held for third parties.

ASSET MANAGEMENT

Our investment team continued to deliver excellent investment performance and won the distinction of being named Standard & Poor's Micropal Best UK Investment Management Group for the third year running, a distinction never before achieved.

Further independent recognition of our investment expertise came from Standard & Poor's Fund Research, which gave the Royal & SunAlliance Portfolio Trust its highest investment rating of frAAA. This takes to eight the number of our funds which have Standard & Poor's Fund Research ratings.

We have further strengthened both the research and fund management teams, bringing our complement of investment professionals to 70 while retaining our focus on core skills.

ASSET GATHERING

In 1999 we launched two major product development initiatives in the UK. In April we launched a range of Individual Savings Accounts (ISAs) in response to changes in tax favourable investments. In October, we launched an Open Ended Investment Company (OEIC), initially with five sub funds, to meet emerging demand from retail and institutional investors.

At the same time we completed our trust rationalisation programme by merging two unit trusts.

Building on the foundations laid in previous years, we achieved further rapid growth in investment product sales. Unit trust/OEIC sales were up 24% to £332m and UK institutional pensions sales rose 40% to £67m. The value of unit trusts/OEICs and pooled/segregated pensions funds under management passed £2bn and £1bn respectively.

The OEIC marks a significant step towards positioning Royal & SunAlliance as a leading edge investment house. Its structure, offering greater versatility in product design and charges than a unit trust, gives us more flexibility and responsiveness and we

plan a series of innovative product launches during 2000.

We continued to develop our asset management business internationally, boosting our fund management operations with acquisitions in both Australia and New Zealand. We are now New Zealand's third largest retail fund manager, after integrating Tyndall's New Zealand business into our operation.

The Luxembourg based SICAV launched marketing initiatives in Europe, starting with Holland and Malta. We have set up a Dublin operation to market unit linked life products into Continental Europe. Following 1999's rapid growth in new business in Canada, we are planning six new specialised investment funds for the segregated funds business, bringing the range on offer to 14.

We have completed a major review of our business and are committed to leveraging our established and recognised core competencies in fund management into a significant core business.

We are now making significant developments in the UK as we expand our asset gathering operation in preparation for a major push into the institutional investment market. This will involve developing a segregated product range supported by high quality service as well as building closer working relationships with investment consultants.

As part of this initiative our Risk Modelling team will be responsible for ensuring that our risk controls remain at the forefront of industry standards and incorporating them into investment solutions that deliver performance in keeping with customers' risk tolerances.

We are strengthening our marketing, communications and sales teams to facilitate this expansion. Our marketing team has already undertaken extensive work on our investment proposition aimed at strengthening our investment brand and significantly raising our profile and visibility. We will be actively marketing our investment management capability, through specialist teams, to institutional customers and advisers specialising in investment business. We are committed to becoming recognised as an outstanding provider of innovative and active investment solutions, working in close partnership with intermediaries and customers.

We have also taken action to further increase our market penetration in retail funds to build on our success to date. We increased our retail distribution capacity through Independent Financial Advisers (IFAs) with the help of our UK life company's IFA sales team, and the Group's developing direct operation will enhance our marketing direct to the public.

Work has begun on several e-business initiatives and product developments, including online product launches and trading of ISAs. These will ensure our customers have the products they want and are able to do business with us in the way they choose.

CONTENTS

33 DIRECTORS' REPORT

35 CORPORATE GOVERNANCE

37 REPORT OF THE AUDITORS TO THE MEMBERS OF ROYAL & SUN ALLIANCE INSURANCE GROUP PLC

38 REMUNERATION REPORT

40 DIRECTORS' EMOLUMENTS

42 DIRECTORS' SHAREHOLDINGS

44 ACCOUNTING POLICIES

48 CONSOLIDATED PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS

49 CONSOLIDATED PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – LONG TERM BUSINESS

50 CONSOLIDATED PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

51 STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

51 MOVEMENTS IN SHAREHOLDERS' FUNDS

52 CONSOLIDATED BALANCE SHEET

54 PARENT COMPANY BALANCE SHEET

55 CONSOLIDATED SHAREHOLDERS' CASH FLOW STATEMENT

56 NOTES ON THE ACCOUNTS

78 SEGMENTAL INFORMATION

80 PRINCIPAL SUBSIDIARY COMPANIES

82 PRINCIPAL ASSOCIATED UNDERTAKINGS AND OTHER SIGNIFICANT SHAREHOLDINGS

83 FINANCIAL CALENDAR

84 FIVE YEAR FINANCIAL REVIEW

86 SHAREHOLDER INFORMATION

DIRECTORS' REPORT

The directors of Royal & Sun Alliance Insurance Group plc submit their report and the audited financial statements of the Group for the year ended 31 December 1999.

PRINCIPAL ACTIVITY

The Company is the holding company of the Royal & SunAlliance group of companies whose principal activity is the transaction of insurance business and the provision of related financial services. The Group operates in over 50 countries worldwide.

REVIEW OF THE YEAR AND FUTURE DEVELOPMENTS

These are outlined in the Chairman's statement, the Group Chief Executive's review and the operations review beginning on page 3. The Group's profit, appropriations and financial position are shown on pages 48 to 53.

EMPLOYMENT POLICY

The Group's competitive advantage depends on the quality of its products and services. This can best be maintained and developed by utilising the skills and potential of all its people. The objective of the Group's employment policy is to create a positive working environment based upon teamwork, innovation and personal leadership. The policy is designed to achieve this goal by encouraging staff to contribute fully to the business, take personal responsibility for their own career development and by offering a stimulating work environment.

The Group is committed to meeting all its statutory obligations to employees and to offering equal opportunities in recruitment, training and career development, irrespective of religion, ethnic origin, sex or physical disability.

Against this background, a number of initiatives have been or are being undertaken:

- During 2000 a worldwide practice group will take forward a Group Diversity Vision, which is intended to capitalise on the varied perspectives and backgrounds of our people and customers in support of the Group's global business goals. A key component of this vision is to deliver improved customer satisfaction through the corporate values of Truth, Trust and Teamwork.
- In 1999 the Group successfully extended its International Sharesave Plan to selected countries outside the United Kingdom – enabling more than 70% of employees to take part. Participation rates exceeded expectations and the Plan will be extended to additional countries in 2000.
- The Group provides ongoing training and development opportunities to all staff. In the United Kingdom the Group established a number of technology based learning centres. They allow employees to undertake self-directed learning activities in support of their career development. Also during 1999 the 360 degree feedback programme for leaders was further extended.
- There was an increased use of international assignments which enable staff to develop their careers in an international setting. In this fast developing world where knowledge is a key commodity, the Group has tried to maximise its position by utilising technology to facilitate the sharing of this knowledge. Additionally, practice groups and networks have been established to enable colleagues throughout the world to share ideas and undertake projects across a range of business issues. An International People Forum in Hong Kong brought together 300 staff from the Group's worldwide operations to share knowledge, take action and facilitate change across the organisation.

Royal & SunAlliance respects the rights of employees to choose to be represented collectively. There is regular consultation and negotiation between management and recognised staff representative bodies under agreed procedures at national and local levels. Agreements have been reached with trades unions in Europe to establish a European Employee Consultation Forum. Its inaugural meeting takes place in 2000. All staff received regular briefings on Group performance and plans.

ENVIRONMENTAL POLICY

The directors are responsible for the Group's environmental strategy. A Group Environmental Policy Statement has been developed to assist businesses in implementing this strategy. Copies of the statement are available from the Worldwide Group Office at the address shown on page 87. Staff worldwide are actively encouraged to take specialist advice where necessary and set objectives to ensure that environmental considerations are effectively taken into account in all aspects of the Group's business. A worldwide practice group has been constituted to facilitate sharing of information and best practice across the Group and between individual functions. In the 1998 environmental benchmarking study of the United Kingdom FTSE companies published in 1999, the Group was ranked third out of twenty in the financial sector and was the highest placed insurer.

As a major insurer of commercial, industrial and individual risks around the world, the Group has a particular interest in the prevention of environmentally damaging incidents and in the use of advanced risk management techniques to minimise the likelihood of such incidents occurring.

The Group's worldwide environmental policy, supported by an enlightened approach to the purchase of materials, will ensure the effective use of resources such as energy. The amount of waste produced is minimised and, where waste production is unavoidable, its safe and effective disposal is ensured. The policy requires adherence to the requirements of environmental laws and regulations as a baseline, seeking to achieve continual improvements over and above these standards and will aim to foster a sense of environmental

responsibility among colleagues, suppliers, customers and the local communities in which the Group operates. One way in which the Group is demonstrating its commitment to the environment is in the sponsorship of Robert Swan's environmental project, Mission Antarctica, described on page 21.

CORPORATE GOVERNANCE

A statement on corporate governance appears on pages 35 and 36.

CHARITABLE AND POLITICAL CONTRIBUTIONS

The Company and its subsidiaries worldwide made charitable donations of £4m during the year and made no political donations. The Group's charitable donations on a regional basis were as follows, United Kingdom £2m (of which £1m was in cash, the balance as gifts in kind), Americas £1m and Europe (excluding United Kingdom), Middle East and Africa £1m.

The way in which community involvement is promoted varies from business to business. In the United Kingdom, for example, staff are actively encouraged to become involved in various programmes centred around helping young adults. On a cross Group basis an excellent example of our involvement in the worldwide community is our relationship with the International Federation of Red Cross and Red Crescent Societies, through which we aim to share skills, resources and information on an international scale. Further details about this project may be found on page 21.

SUPPLIER PAYMENT POLICY

It is the Group's policy to abide by terms of payment agreed with suppliers. In most cases a supplier of goods or services does so under standard terms of contract (which in the United Kingdom are available on request from UK Purchasing, 1 Leadenhall Street, London EC3V 1PP) that lay down terms of payment. In other cases, specific terms are agreed beforehand.

The Company's outstanding indebtedness to trade creditors on 31 December 1999 amounted to £1,277,000 corresponding to ten days payments when averaged over the year.

SHARE CAPITAL

During the year 1,462,250 ordinary shares of 25p each were issued on the exercise of employee share options for a total consideration of £4,033,950. Following the consolidation of shares in May 1999, 5,284,747 ordinary shares of 27.5p each were issued on the exercise of employee share options for a total consideration of £10,688,247. An authority from the shareholders for the Company to purchase up to 5% in total of its own shares remained in force at 31 December 1999.

SUBSTANTIAL SHARE INTERESTS

As at 29 February 2000, The Capital Group Companies, Inc. has declared an interest in 96,263,244 ordinary shares of 27.5p each in the Company representing 6.74% of the issued share capital in accordance with Part VI of the Companies Act 1985.

DIVIDENDS

The directors recommend a final dividend of 16.3p per share for payment on 1 June 2000 to holders of ordinary shares on the register at the close of business on 17 March 2000. This, together with an interim dividend of 8.4p per share paid on 1 December 1999, will make a total dividend for the year of 24.7p per share. A special dividend of 48.0p per share was paid on 1 June 1999.

The preferential dividend at the rate of 3.6875% for the period from 1 October 1999 to 31 March 2000 is to be paid on 3 April 2000 to holders of preference shares on the register at the close of business on 18 February 2000.

DIRECTORS

His Grace, the Duke of Westminster and Sir John Kemp-Welch retired from the Board on 12 May 1999. R J Gunn, Group Director of the Americas Region, was appointed a director on 2 June 1999. R J Gunn, together with R J Ayling, J W Baker and Sir Patrick Gillam, who retire by rotation, will be proposed for re-appointment. J A Rowson will retire from the Board at the conclusion of the Annual General Meeting having attained the age of 70.

AUDITORS

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

By order of the directors
J V MILLER
Group Company Secretary
London, 1 March 2000

CORPORATE GOVERNANCE

The Royal & SunAlliance Group is committed to the highest standards of corporate governance and seeks to reinforce these through establishment of strong ethical values and applying integrity and professionalism in all of its activities. A Statement of Business Principles is in place across the Group to provide practical guidance on the standards expected. An appropriate organisational structure is in place for the Group, with responsibilities and delegation of authority clearly defined. There are periodic meetings of the senior management leadership team, comprising both Regional and Group management, to discuss business objectives and performance and other relevant issues.

CONTROL ENVIRONMENT

The Listing Rules of the London Stock Exchange were extended in September 1999 to require companies to review all internal controls, not just financial controls, including those covering operational, compliance and risk management. Guidance for directors on the procedures to be established were published in the Turnbull Committee's "Internal Control: Guidance for Directors on the Combined Code". During implementation of the full Turnbull procedures, the Group will utilise the London Stock Exchange approach and for 1999 has performed the review of controls using the criteria established by the Rutteman Working Group in December 1994.

For 2000 the Board will utilise and report on the requirements set out in the publication "Principles of Good Governance and Code of Best Practice" (the Combined Code) relating to internal control and as set out in the guidance published by the Turnbull Committee in September 1999. These procedures will cover all controls, including financial, operational and compliance controls and risk management processes.

During the year to 31 December 1999 the Company has applied the principles established by the London Stock Exchange in the Combined Code with the exception of not having one year service contracts for all executive directors. An explanation for this can be found in the Board Remuneration Report on pages 38 to 39 of this document.

As required by the Combined Code, the Board has conducted a review of the effectiveness of the systems of internal financial control for the year and has taken account of any material developments since the end of the year. The directors are satisfied that the Group's systems of internal financial control do not contain any material deficiency or weakness and can provide reasonable, but not absolute, assurance that assets are safeguarded, transactions are appropriately authorised and recorded and that material errors and irregularities are either prevented or can be detected in a timely manner.

BOARD AND COMMITTEE STRUCTURE

The Board of Directors, which meets on a regular basis, has the ultimate responsibility for the Group's system of internal controls. A schedule of matters reserved to the Board ensures that the directors maintain full and effective control over significant strategic, financial, organisational and compliance matters.

The Board currently comprises five executive directors and eight non-executive directors, as identified on pages 16 and 17 of this document. The Company considers the non-executive directors to be free from any business or other relationship which could materially interfere with the exercise of their independent judgement. One-third of the directors are required under the Articles of Association to submit themselves for re-election each year. Proposals for re-election, which are not automatic, and all new appointments are considered by the Nominations Committee, chaired by Sir Patrick Gillam.

There is an appropriate division of responsibilities on the Board and the roles of the Chairman and the Group Chief Executive are separate. The Board is led by the Chairman and the executive management of the Group is the responsibility of the Group Chief Executive. A number of separate Committees of the Board operate, membership of which is largely comprised of non-executive directors, to deal with audit & compliance, remuneration and nomination matters. The Chairmen and members of the various Committees are identified on pages 16 and 17 of this document. The Board has not separately appointed a senior independent non-executive director as it deemed that the position of Deputy Chairman meets this requirement.

All directors have access to the advice of the Company Secretary and a procedure is in place for any director to take independent professional advice. Directors are provided with appropriate training and briefings on appointment and subsequently as necessary. Non-executive directors have full access to management and are encouraged to make site visits to stay abreast of Group affairs. The Group operates a comprehensive financial monitoring process involving monthly and detailed quarterly reporting and discussion at the Board, to ensure that performance is continually assessed. There is also a regular reporting of relevant non-financial matters.

DIRECTORS' REMUNERATION

Details of how the Board has exercised its obligations under the Combined Code in respect of directors' remuneration are reflected in the Remuneration Report as shown on pages 38 to 39 of this document.

SHAREHOLDER COMMUNICATION

The Company considers continuing and open communication with shareholders to be a priority. Results are published quarterly and there is a regular programme of dialogue with institutional investors and their representative bodies. Private investors are encouraged to

attend the Annual General Meeting as it provides an opportunity to have a full presentation of the Group's financial position and plans and allows shareholders to question directors. The Group's internet site www.royalsunalliance.com continues to be developed and provides a regular update on business and other developments and general matters of interest.

RISK MANAGEMENT AND INTERNAL CONTROL

The directors have delegated to executive management the evaluation and identification of key risks and responsibility for the establishment and implementation of systems of internal control appropriate to the various business environments in which the Group operates. Operational management are supported in the risk identification process by a Group Risk Review Committee and the Internal Audit function. The Group Risk Review Committee includes representatives from across the Group in a wide range of disciplines and is charged with actively reviewing emerging risks, aggregation exposures and other threats and with monitoring the Group's approach to managing risks. The formal reports of the Group Risk Review Committee are also presented to the Audit & Compliance Committee.

In addition, there is in place a regular process of internal control self appraisal whereby each business unit is required to systematically assess its internal business control systems and, where necessary, initiate programmes for corrective action or improvement. The self appraisal uses as its foundation the major risks profile developed through the Group Risk Review Committee analysis and the business objectives set for the individual operations. Against these risks and objectives, the resources and controls of the business unit will be assessed. This assessment will consider, inter alia, the effectiveness of controls over key transaction cycles, procedures, authorities and responsibilities, skill levels and competencies, and compliance with laws and regulations. The process is hierarchical and requires each business unit to prepare a full report of the appraisal, which is reviewed and certified by the relevant Regional Chief Executive and by Internal Audit and is subsequently presented to the Audit & Compliance Committee and the Board. Where remedial action programmes are required these will periodically be reviewed for progress.

Management's monitoring of the internal control process is supported by Internal Audit functions that operate on a Group and Regional basis and perform regular reviews of operational and control procedures. The work of Internal Audit is focused on areas of greatest risk to the Group as determined by risk analysis and management consultation which are completed in conjunction with audit planning. The formal reports of such reviews are provided to the Audit & Compliance Committee. The Group Chief Auditor reports to the Group Chief Executive but has unrestricted access to the Audit & Compliance Committee.

The Audit & Compliance Committee has terms of reference which enable it to take an independent view of the appropriateness of the Group's accounting policies and practices for presentation of the report and accounts and compliance with Stock Exchange and other requirements. It also considers the appointment and remuneration of the external auditors and the effectiveness and work schedule of Internal Audit.

There are in place procedures for the review and authorisation of capital investments including formalised post-acquisition reviews and appraisals. Specific risk based techniques for managing Group capital have been developed and continue to be refined. These are explained more fully in the report of the Group Finance Director and the Active Capital Management report on pages 8 to 15 of this document.

STATEMENT OF RESPONSIBILITIES

The directors are required to present for each accounting period financial statements which comply with the provisions of company law and which give a true and fair view of the state of affairs of the Company and the Group as at the end of the accounting period and of the result of the Group for that period. Consolidated financial statements have to be presented in accordance with the Companies Act 1985. In preparing the financial statements suitable accounting policies, framed by reference to reasonable and prudent judgements and estimates, have to be used and applied consistently. Applicable accounting standards also have to be followed subject to any material departures being disclosed and explained in the notes on the financial statements. The directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business. The directors are also responsible for maintaining adequate accounting records, for the safeguarding of assets of the Group and for taking reasonable steps to prevent any fraud and other irregularities.

BASIS OF ACCOUNTS

The Board of Directors has satisfied itself that the Group has adequate resources to continue in operation for the foreseeable future. The Group financial statements therefore continue to be prepared on a going concern basis.

By order of the directors
J V MILLER
Group Company Secretary
London, 1 March 2000

REPORT OF THE AUDITORS TO THE MEMBERS OF ROYAL & SUN ALLIANCE INSURANCE GROUP PLC

We have audited the financial statements on pages 44 to 82 which have been prepared in accordance with the accounting policies set out on pages 44 to 47.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report. As described on page 36, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom's Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or, if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statements on pages 35 and 36 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

BASIS OF AUDIT 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 and the Group's circumstances, consistently applied and adequately disclosed.

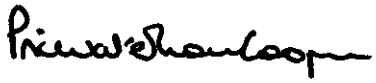
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

EQUALISATION PROVISIONS

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirements for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 1999 and the effect of the movement in those provisions during the year on the balance on the general business technical account and profit on ordinary activities before tax, are disclosed in note 10 on page 58.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London, 1 March 2000

REMUNERATION REPORT

REMUNERATION POLICY

The salary and other benefits of executive directors and certain senior executives are determined by a Remuneration Committee comprising non-executive directors, who are listed on pages 16 and 17. The Committee's objectives are to ensure that the Company has policies to:

- Ensure the attraction, retention and motivation of high calibre individuals.
- Reward executive directors by reference to the overall performance of the Group and, where appropriate, their individual business unit.
- Align the interests of the executive directors as closely as possible with those of shareholders.

Over half of the Group's revenues are earned outside the UK. The majority of the senior management team are not UK citizens. The Committee therefore takes careful account of international, as well as UK, trends in remuneration. The Committee's current policy is to relate basic salaries to the mid-market pay levels of companies of comparable size and complexity, including both international financial services and other listed companies. The Group aims to encourage top quartile performance by means of short term and long term incentive schemes. The Remuneration Committee draws upon advice and survey data from specialist remuneration consultants where necessary. In framing its policy, the Committee has taken account of the relevant provisions of the Combined Code annexed to the Listing Rules of the London Stock Exchange.

The individual salary, incentive and benefit levels of executive directors and certain senior executives, are reviewed annually by the Remuneration Committee, having regard to individual responsibilities and performance, and taking account of pay and conditions throughout the Group.

Remuneration for executives consists of four principal elements:

- A basic salary.
- An annual bonus scheme, based on the performance of the Group as a whole, the individual and where appropriate their business unit.
- Participation in an executive share option scheme.
- Pension provision.

Details of individual directors' emoluments are set out on pages 40 and 41 and directors' shareholdings and share options on pages 42 and 43 of this document.

ANNUAL BONUS PLAN

The annual bonus plans for 1999 and 2000 are based on the Group's risk based return on capital. The maximum payment in respect of 2000 for the executive directors and other senior executives will be 80% (100% for R J Gunn) of basic salary. This level will only be paid in the event of exceptional individual and corporate performance, 30% (50% for R J Gunn) will be payable if target performance is achieved.

Annual bonuses for executive directors with regional responsibility are based 70% on the performance of their region and 30% on Group results.

No bonuses are due to the executive directors in respect of the performance for the business year 1999.

LONG TERM INCENTIVE ARRANGEMENTS

Executive share option scheme

In 1999 the Annual General Meeting approved the introduction of a new executive share option scheme. This followed a detailed review by the Remuneration Committee into the effectiveness of the executive share option scheme.

Awards of executive share options are targeted to reward and encourage high performance. The executive directors and other senior executives are eligible to receive annual grants of options in shares equal in current market value to their basic salary. When that level of options exceeds four times salary, these grants are funded by way of shares purchased in the market and retained in a trust. All participants in the scheme are encouraged to retain their options for as long as possible. Shareholding guidelines apply to all participants. The executive directors and certain other senior executives are required to build and retain a minimum shareholding of Royal & SunAlliance shares, equivalent to at least one times their current salary. Normally, share options are exercisable between three and 10 years after grant.

Grants of executive share options made in 1999 were made subject to a performance condition that they could not be exercised unless the Group delivered a net return on capital which exceeded inflation by an annual average of at least 6% over a three year period. The performance condition is subject to an annual review by the Remuneration Committee. Executive share options granted between 1996 and 1997 were subject to the performance condition that average total shareholder return (TSR) must at least equal the median of the FTSE 100 companies for a period of three years prior to exercise.

With the exception of R V Mendelsohn, the Group Chief Executive, no directors received nor were entitled to receive any benefits under any other long term incentive schemes, apart from participation in the Group's executive share option scheme and the savings related share option schemes, which are also open to all staff in the UK and an increasing number of other countries in which we operate.

Performance share plan – R V Mendelsohn

In order to recruit R V Mendelsohn a non-pensionable long term incentive plan was put in place. With effect from 1 January 1998, and annually thereafter, R V Mendelsohn receives a non-pensionable grant of shares (at market price) equal to his annual basic salary multiplied by 1.6. This grant is conditional upon challenging performance criteria over a consecutive three year period, such that for 75% to 100% of the shares to vest all of the following conditions must be met in any given three year period:

- Growth in the Group's TSR must be in the top quartile of a defined group of twelve leading UK, US and Continental European insurers;
- Growth in the Group's TSR must exceed the UK retail prices index (RPI) plus 2% per annum compound; and
- The Group's share price must grow by between 5% and 20%, with 20% growth required if 100% of the shares are to be vested.

If TSR growth is below the comparator group median, or RPI plus 2% per annum is not achieved, no shares will vest. Between 30% and 60% of the shares will vest for TSR growth which falls outside the top quartile but which is at or above the comparator group median, subject to achieving the required 2% growth above RPI. TSR is based on share price and cumulative cash dividends. Each three year performance period will be self contained. R V Mendelsohn is required to accumulate and retain a minimum shareholding resulting from the operation of this plan which equals his annualised base salary.

PENSIONABLE REMUNERATION

With the exception of R J Gunn, the basic salary of executive directors is the only element of remuneration which is pensionable. Pensionable remuneration for R J Gunn is basic salary plus the average of bonuses received in the 5 years before retirement. With the exception of R V Mendelsohn and R J Gunn, all executive directors are members of one of the main Royal Insurance or Sun Alliance UK pension schemes, both of which are non-contributory and which are open to UK staff in general. Further details are given on page 41 of this document.

The UK schemes provide members with a pension of up to ⅔ of pensionable salary, which excludes any incentive payments, at age 62. Executives who joined either scheme after May 1989 are subject to the statutory earnings cap, (£90,600 for 1999/2000) on Inland Revenue approved pension schemes. Benefits are secured for some executives in respect of that part of their salary exceeding the earnings cap under the Royal Insurance Supplementary Pension Scheme, which is an unapproved and unfunded plan.

R V Mendelsohn continues to accrue benefits under US State and company non-contributory pension arrangements based on the US dollar equivalent of his UK salary or, if higher, a deemed final salary of no less than $1,300,000.

R J Gunn is a member of the approved non-contributory Royal & SunAlliance Canada staff pension scheme. This, together with the supplementary pension scheme, provides a pension of approximately ⅔ of salary at age 62. The supplementary pension scheme is an unapproved and unfunded plan.

DIRECTORS' SERVICE CONTRACTS

Directors holding executive office have service contracts, the terms of which are considered by the Remuneration Committee, to provide a proper balance of duties and security between the respective parties.

T A Hayes and P Spencer, together with R V Mendelsohn, have contracts that are terminable by the employer on two years' notice; J C Hance's contract is terminable on one year's notice. R J Gunn is employed under a Canadian employment agreement under which there is no provision for notice. Termination provision would be a matter for mutual agreement in the context of Canadian employment law and practice.

In the case of all executive directors dismissal by the employer without notice and the absence of specific grounds may require pay in lieu of the corresponding notice periods. If not so terminated, the contract continues until the director attains age 62, (65 for R V Mendelsohn and R J Gunn).

The only executive director proposed for re-election at the forthcoming Annual General Meeting is R J Gunn.

NON-EXECUTIVE DIRECTORS

Those directors appointed to a non-executive role do not have service contracts and are not entitled to bonus payments or pension arrangements. They do not participate in the Group's long term incentive arrangements. The fees payable to non-executive directors were reviewed in 1999. Fees were last reviewed in 1996 and will be considered again in 2002. Remuneration of the non-executive directors is set by the Board as a whole.

NICHOLAS BARBER

Chairman of Remuneration Committee, on behalf of the Board

London, 1 March 2000

DIRECTORS' EMOLUMENTS

1. **REMUNERATION**

Remuneration for the years ended 31 December, was as follows:

	Salary and fees £000	Allowances and benefits £000	Total 1999 £000	Total 1998 £000
Executive directors				
R J Gunn (note 1)	273	18	**291**	342
J C Hance	275	10	**285**	159
T A Hayes	315	13	**328**	312
R V Mendelsohn – remuneration (note 2)	620	356	**976**	1,085
R V Mendelsohn – other (note 3)	–	–	**–**	1,283
P Spencer	358	14	**372**	320
Non-executive directors				
R J Ayling	31	–	**31**	25
J W Baker	31	–	**31**	25
N C F Barber	39	–	**39**	30
A D A W Forbes	60	–	**60**	46
Sir Patrick Gillam	152	–	**152**	120
Sir John Kemp-Welch (note 4)	9	–	**9**	25
Henry Keswick	39	–	**39**	30
J A Rowson	31	–	**31**	25
C F St. Mark	31	–	**31**	8
The Duke of Westminster (note 4)	9	–	**9**	25

Notes:

1. R J Gunn was appointed on 2 June 1999. The remuneration shown is for both years in full. Of the 1999 total, £174,000 was receivable after appointment to the Board.
2. As an expatriate director, R V Mendelsohn receives remuneration which is intended to put him in a position, after taking into account taxation and living cost differentials, where he is no worse off than were he to perform the same duties for the Group in his home country (the United States). Additional expatriate benefits, such as the provision of accommodation and relocation allowances, are also payable to him. These benefits totalled £294,000 in 1999 (1998 £190,000) and are included within allowances and benefits.
3. Other remuneration paid to R V Mendelsohn in 1998 related to a buy out of bonuses accruing under his 1994 US long term incentive scheme which terminated as a consequence of his appointment as Group Chief Executive in December 1997. This was a one off payment and, consequently, there is no equivalent amount in 1999.
4. The Duke of Westminster and Sir John Kemp-Welch resigned on 12 May 1999.

2. PENSION BENEFITS

Non-executive directors are not entitled to any pension benefits. The pension benefits earned by the executive directors, as members of Group defined benefit schemes, were as follows:

	Date of birth	Actual service to year end	Increase in accrued pension during the year £	**Accumulated total accrued pension at 31 December 1999 £**
R J Gunn (note 2)	23.04.45	26 yrs 7m	101,965	**229,209**
J C Hance (note 3)	06.10.55	12 yrs 9m	18,584	**69,417**
T A Hayes (note 3)	31.03.43	37 yrs 11m	15,610	**202,224**
R V Mendelsohn (note 4)	18.07.46	5 yrs 11m	11,851	**343,861**
P Spencer (note 3)	03.01.50	4 yrs 0m	14,500	**42,293**

Notes:

1. The accumulated total accrued pension shown is the annual payment from normal retirement age based on service at 31 December 1999.
2. R J Gunn is a member of the Canadian defined benefit pension schemes which provide level pensions from retirement during his lifetime and 60% of the pension to a surviving spouse. Increases to pensions when in payment are applied on a discretionary basis with the aim of providing increases of ⅔ of the increase in the Canadian Consumer Price Index. No allowance is made for these discretionary increases in Transfer Values.

   Of the amounts shown above only £19,565 in respect of the accumulated total accrued pension at 31 December 1999 and £529 of the increase in accrued pension during the year had vested at 31 December 1999. The balance vests in April 2000 when he attains age 55.
3. J C Hance, T A Hayes and P Spencer are members of UK schemes which provide a spouse's pension of ⅔ of member's pension. If not payable to a spouse it is payable to adult dependants, on a discretionary basis, or eligible children. In addition, children's pensions are ⅓ of member's pension except in the case of P Spencer where any eligible children's pensions are £649 p.a. per child below age 10 and £973 p.a. per child aged 10 and above. On the death of a pensioner within 5 years of retirement, a lump sum is payable equal to the balance of 5 years' pension payments except for P Spencer, where the sum is less any dependants' pensions payable during this period. Increases to pensions in payment are guaranteed at 5% p.a. or the increase in price inflation, if lower. However, an allowance for discretionary increases to pensions in payment is included in transfer value calculations (although not in the statutory minimum cash equivalent calculation). The allowance is in respect of the difference between increases in line with price inflation and the guaranteed level of increases. Early retirement rights at age 60 apply in respect of the component of pension for service from 17 May 1990 except for P Spencer where the rights are for service from 1 October 1995.
4. R V Mendelsohn is a member of US defined benefit pension schemes which provide level pensions from normal retirement age during his lifetime. The benefits are to be taken in the form of a level pension during his lifetime and ⅔ of the pension to a surviving spouse, the value being actuarially equivalent to the single life pension to which he is entitled. The pension figures shown are in respect of the single life pension entitlement. The normal retirement age is 65.

   Early retirement rights vested on 15 January 1999 and apply in respect of £335,073 of the total accrued pension at 31 December 1999 (and in respect of £10,321 of the increase in the accrued pension in the year). If these rights had been exercised at 31 December 1999 the immediate annual pension entitlement would have been £248,791.

   R V Mendelsohn is also a member of a defined contribution scheme to which the Group contributed £2,748 during the year.
5. The increase in accrued pension during the year excludes any increase for inflation. No contribution by members of the schemes is required but, with the exception of R J Gunn, they all have the option of paying AVCs. Neither the contribution nor the resulting benefits are included in the table.

3. OTHER INFORMATION

At 31 December 1999, there were outstanding to J C Hance loans totalling to £18,032 (1998 £24,618) under the standard terms of the Group's UK Car Ownership Scheme which is open to all UK managers within a qualifying salary band. The loans were entered into during 1998, prior to his appointment to the Board, and are repayable not later than 2001. Interest is charged at a variable rate (8% p.a. throughout 1999), except on £5,000 which is interest free.

DIRECTORS' SHAREHOLDINGS

1. SHAREHOLDINGS

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

	Shares held at 1 January 1999 or on appointment (note 1)	**Shares held at 31 December 1999 (note 2)**
R J Ayling	600	**545**
J W Baker	1,890	**1,718**
N C F Barber	7,334	**6,667**
A D A W Forbes	5,335	**4,850**
Sir Patrick Gillam	–	**9,575**
R J Gunn (note 3)	3,000	**15,327**
J C Hance (note 3)	–	**8,467**
T A Hayes (note 3)	60,000	**54,543**
Henry Keswick	30,844	**29,536**
R V Mendelsohn (note 3)	23,474	**46,340**
J A Rowson	2,337	**2,178**
P Spencer (note 3)	533	**484**
C F St. Mark	–	**5,676**

Notes:

1. Ordinary shares of 25p each or, if appointed after 14 May 1999, ordinary shares of 27.5p each (see note 2).
2. Ordinary shares of 27.5p each. On 14 May 1999, every 11 ordinary shares of 25p each in the capital of the Company were consolidated into 10 new ordinary shares of 27.5p each.
3. In addition to the interests shown above, the directors indicated, in common with the employees, had a beneficial interest as at 31 December 1999 in 200,000 ordinary shares of 27.5p each held in the Royal & Sun Alliance ESOP Trust No 2.
4. On 29 February 2000 the directors' interests remained unchanged.

2. OPTIONS

Movements in option holdings during 1999 were as follows:

		Options held at 1 January 1999 or on appointment	Options granted during the period	Options exercised during the period	Weighted average exercise price (pence)	Weighted average market price at date of exercise (pence)	Gains on exercise £	Options held at 31 December 1999
R J Gunn	ESOS	296,851	26,643	–	–	–	–	**323,494**
	SAYE	–	4,269	–	–	–	–	**4,269**
J C Hance	ESOS	97,393	91,795	–	–	–	–	**189,188**
	SAYE	13,035	–	8,467	186	516	27,941	**4,568**
T A Hayes	ESOS	194,278	31,683	–	–	–	–	**225,961**
	SAYE	4,018	–	–	–	–	–	**4,018**
R V Mendelsohn	ESOS	785,811	61,385	–	–	–	–	**847,196**
	SAYE	–	–	–	–	–	–	–
P Spencer	ESOS	296,526	72,053	–	–	–	–	**368,579**
	SAYE	5,407	–	–	–	–	–	**5,407**

Options held at 31 December 1999 in respect of the ordinary shares of the Company as a result of executive and savings related share option schemes were as follows:

	Number	Weighted average exercise price (pence)	Dates exercisable From	To
R J Gunn	327,763	347.5	15.06.1993	14.09.2009
J C Hance	193,756	480.9	14.04.1997	14.09.2009
T A Hayes	229,979	397.3	14.04.1997	14.09.2009
R V Mendelsohn	847,196	329.3	01.06.1999	14.09.2009
P Spencer	373,986	427.2	17.10.1999	14.09.2009

Notes:

1. Options granted to directors during the year under the executive share option schemes (ESOS) were granted at option prices of 505p and 550.8p which were the market prices at the dates of the grants.
2. Options granted under the executive share option schemes are potentially exercisable between three and 10 years after grant. Current practice is that the exercise of options under the Royal & Sun Alliance Insurance Group plc 1999 Executive Share Option Scheme is conditional upon the Group delivering a net real return on capital exceeding an average annual 6% over a period of three consecutive years prior to the exercise. The exercise of previously issued share options under the executive share option schemes between 1996 and 1997 is conditional upon the Group achieving an average total shareholder return exceeding the median of the FTSE 100 companies for a period of three years prior to exercise. No performance conditions apply to options granted prior to 1996 on other schemes.
3. Full details of all directors' shareholdings and options to subscribe for shares are recorded in the Company's Register of Directors' Interests which is open to inspection in accordance with the provisions of the Companies Act 1985.
4. The official closing middle market price at its highest during the year was 622.17p and at its lowest was 356.00p per share; on the last dealing day of the year it was 471.50p per share.

ACCOUNTING POLICIES

FINANCIAL STATEMENTS

The financial statements are prepared in accordance with applicable UK accounting standards and the Statement of Recommended Practice (SORP) issued by the Association of British Insurers in December 1998. As noted in the investment accounting policy the true and fair override has been adopted in respect of the valuation of investment properties and no depreciation is provided. The Group's accounting policies are set out on pages 44 to 47.

CHANGES IN ACCOUNTING POLICY

The Group has adopted the requirements of Financial Reporting Standard 16 "Current Tax" in 1999. Dividends, interest or other income receivable includes any withholding tax but excludes any other taxes, such as attributable credits, not payable wholly on behalf of the Group. Previously attributable tax credits were included in investment income. The tax on ordinary activities is reduced by an equal amount. The financial impact of this change is considered in note 1 on page 56 and comparatives have been restated.

GROUP ACCOUNTS

The consolidated accounts of the Group include the results of all subsidiaries drawn up to 31 December.

The Group consolidated profit and loss account and consolidated balance sheet are drawn up in accordance with the provisions of Section 255A of, and Schedule 9A to, the Companies Act 1985. The Parent Company balance sheet is drawn up in compliance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985. As permitted by Section 230 of the Companies Act 1985, the Parent Company profit and loss account has not been included in these financial statements.

Subsidiaries acquired during the year are consolidated from the effective date of acquisition.

The consolidated shareholders' cash flow statement has been drawn up in accordance with Financial Reporting Standard 1 (Revised) which requires the cash flow statement to exclude the cash flows of the long term policyholders' funds.

Principal associated undertakings are accounted for by the equity method in the consolidated financial statements. The figures included for interests in principal associated undertakings are for the accounting periods indicated on page 82.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities, including long term subordinated liabilities, and results of both businesses and associates denominated in foreign currencies are translated into sterling at rates ruling at the year end and the resulting differences are taken to reserves or in the case of long term business are included within the long term business technical account. Transactions denominated in foreign currencies are translated at the prevailing rate at the date of the transaction and the resulting exchange differences are included within the profit and loss account. Foreign currency assets and liabilities are translated into sterling at rates ruling at year end and the resulting exchange differences are included within the profit and loss account.

DERIVATIVES

The Group has entered into certain interest rate swaps in relation to its subordinated liabilities, which are treated as hedges. The underlying hedged liabilities are carried at cost and accordingly the swaps have not been marked to market. The interest payable or receivable on interest rate swaps is included in interest paid. Future contracts and purchased options are included within the category to which the contract relates and are valued at market value.

GENERAL BUSINESS TECHNICAL ACCOUNT

General business is accounted for on an annual basis. Premiums written are accounted for in the year in which the contract is entered into and include estimates where the amounts are not determined at the balance sheet date. Premiums written exclude taxes and duties levied on premiums. An allocation of the investment return has been made to the general business technical account from the non-technical account on the longer term rate of return basis. The commission and other acquisition costs incurred in writing the business are deferred and amortised over the period in which the related premiums are earned.

Claims paid represent all payments made during the period whether arising from events during that or earlier periods.

The balance on the general business technical account is arrived at after taking account of changes in the equalisation provisions.

LONG TERM BUSINESS TECHNICAL ACCOUNT

Premiums and annuity considerations are accounted for when due except premiums in respect of linked business which are accounted for when the policy liabilities are created. Single premiums are those relating to products issued by the Group where there is a contractual obligation for the payment of only one premium. Annual premiums are those where there is a contractual obligation for the payment of premium on a regular basis and include premiums relating to certain group life and disability business which are considered recurring premiums. Claims arising on maturity are recognised when the claim becomes due for payment. Death claims are accounted for on

notification. Surrenders are accounted for at the earlier of the payment date or the date at which the policy ceases to be included in the long term business provision or the technical provisions for linked liabilities.

Acquisition costs comprise direct and indirect costs of obtaining and processing new business. These costs are deferred as an explicit deferred acquisition cost asset, gross of tax relief and amortised over the period in which they are expected to be recovered out of margins in matching revenues from related policies. At the end of each accounting period, deferred acquisition costs are reviewed for recoverability by category, against future margins from the related policies in force at the balance sheet date.

The profits on long term insurance business represent the transfer from the long term funds to shareholders following the actuarial valuation of liabilities, investment income arising on shareholders' funds attributable to the long term business based on the longer term investment return and the movements in certain reserves attributable to shareholders held within the long term funds. Profits are shown in the non-technical account grossed up for tax at the effective rate of corporation tax applicable in the period. For business transacted overseas, results have been included in accordance with local generally accepted accounting principles where they are consistent with UK practice.

New business premiums are recognised when the policy liability is established. New single premiums include recurrent single premium contracts including DSS rebates and increments under group pension schemes. Where products are substituted by the policyholder or pension contracts are vested, these transactions are reflected as new business only to the extent that they give rise to incremental premiums.

Reversionary bonuses are recognised when declared; terminal bonuses are recognised when payable.

Shareholders' accrued interest represents the excess of accumulated profit recognised under the modified statutory basis of reporting long term business over the statutory transfers made from the long term funds to shareholders. The amount of profit recognised as shareholders' accrued interest is credited to the profit and loss account within capital and reserves.

INVESTMENT RETURN

Income from investments is included in the profit and loss account on an accruals basis. Dividend income on ordinary shares is recognised when the related investment goes "ex-dividend". Realised and unrealised gains and losses on investments attributable to long term business are dealt with in the long term business technical account. Realised and unrealised gains and losses on other investments, including the Group's share of realised and unrealised gains and losses of associated undertakings, are dealt with in the non-technical account. Realised gains and losses on investment disposals represent the difference between net sale proceeds and cost of acquisition. Unrealised gains and losses on investments represent the difference between the carrying value at the year end and the carrying value at the previous year end or, in the case of investments purchased in the year, the cost of acquisition.

Group operating profit (based on longer term investment return) is presented including investment return on the longer term rate of return basis. The longer term rate of return basis reflects both historical experience and the directors' current expectations for investment returns. The rates of longer term return are set with the objective of ensuring that, in aggregate over time, the return recognised in operating profit does not exceed or fall below the actual returns achieved. Other movements in investments represent the difference between the actual investment return in the year and that determined on the longer term rate of return basis.

GROUP OPERATING PROFIT (BASED ON LONGER TERM INVESTMENT RETURN)

Group operating profit before tax (based on longer term investment return) is analysed between general business, long term business and other activities as an additional disclosure. It excludes interest on long term subordinated liabilities, other movements in investments, the change in the equalisation provisions, amortisation of goodwill and of goodwill in acquired claims provisions and other items including reorganisation costs and gains on the disposal of subsidiaries.

TAXATION

Taxation in the non-technical account and long term business technical account is based on profits and income for the year as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior years. UK tax in respect of overseas subsidiaries and principal associated undertakings is based on dividends received. Taxation in the non-technical account includes the tax by which the balance on the long term business technical account has been grossed up.

Deferred taxation is calculated on the liability method and consists of the estimated taxation, or relief from taxation, which is expected to arise in the foreseeable future from material timing differences using expected future rates of tax where applicable. Under this policy, no provision is made for taxation which might arise on the distribution of profits retained by overseas subsidiaries or associated undertakings. Credit is taken for relief for trading losses only to the extent that the directors anticipate that profits will absorb such losses in the foreseeable future.

Allowance is made in the long term business provision and within assets held for linked liabilities for deferred taxation at appropriate discounted rates in respect of related unrealised gains. A provision for deferred taxation on other unrealised gains is made where realisations giving rise to a taxation liability are anticipated in the foreseeable future.

GOODWILL

Goodwill, being the difference between the cost of an acquisition and the fair value of the net tangible assets acquired, arising on the acquisition of subsidiary companies and associated undertakings, is capitalised in the balance sheet and amortised to the profit and loss account on a straight line basis. The cost of acquisition is the amount of cash paid and the fair value of other purchase consideration given together with associated expenses. The period of amortisation is determined by an assessment of the useful economic life of the goodwill, but not exceeding 20 years. Goodwill arising prior to 31 December 1997 has been eliminated against reserves in accordance with the Group accounting policy at the date of acquisition. In the event of the disposal of a business acquired prior to this date, the related goodwill is charged to the profit and loss account in the year of sale.

The shareholders' interest in the acquired value of long term business is included as part of the fair value of the acquired net assets in the goodwill calculation and is dealt with as described below.

The fair value of general business claims provisions relating to businesses acquired is established after making allowance for future investment income. The discount, being the difference between the fair value and the undiscounted value at which they are accounted for on consolidation, is capitalised as goodwill in acquired claims provisions and amortised to the profit and loss account over the expected run-off period of the related claims.

INVESTMENTS

Investments and assets held to cover linked liabilities, are shown at market value, for which purpose unlisted investments, mortgages and loans are included at directors' valuation and properties at professional valuation. For listed securities the stock exchange values are used except that fixed income securities held for long term business in certain overseas operations are included on an amortised cost basis. Properties are valued annually at open market value.

The Companies Act requires properties to be depreciated over their expected useful economic lives. The directors consider that depreciation of investment properties would not give a true and fair view. In accordance with Statement of Standard Accounting Practice 19 "Accounting for Investment Properties", no depreciation is provided on these properties on the basis that depreciation is already reflected in the annual valuations. The amounts attributed to this factor by the valuers cannot reasonably be separately identified or quantified.

It is the Group's practice to maintain properties occupied by the Group in a continual state of sound repair. Accordingly the directors consider that the economic lives of these properties and their residual values, based on prices prevailing at the time of acquisition or subsequent valuation, are such that any depreciation is insignificant and is thus not provided.

Investments in subsidiaries are included in the Parent Company balance sheet at net asset value and unrealised gains and losses are dealt with in the revaluation reserve.

VALUE OF LONG TERM BUSINESS

This represents the directors' assessment of the value of the shareholders' investment in the long term business funds, not already recognised under the modified statutory principles of profit recognition. It comprises the shareholders' share of both the net of tax future cash flows arising from the in-force long term business policies and the surplus held within the funds to meet solvency and future business development requirements. Movements in this asset, except those arising on acquisition, are recognised in the Statement of Total Recognised Gains and Losses.

The present value of in-force long term business existing at acquisition which will be recognised as profit, is amortised in the long term technical account on a systematic basis over the anticipated periods of the related contracts in the portfolios.

TANGIBLE ASSETS AND DEPRECIATION

Tangible assets, other than land and buildings in the Parent Company balance sheet, comprise fixtures, fittings and equipment (including computers and motor vehicles) which are stated at cost and depreciated over periods not exceeding their estimated useful lives (between three and 10 years) after taking into account residual value.

OWN SHARES

The shares held by the Royal & Sun Alliance ESOP Trusts are recognised as assets under the heading "Own Shares" at original cost in the consolidated balance sheet until such time as the shares vest unconditionally with the relevant executive director or employee. Any profit that may arise in the Trusts upon exercise of the options will be recognised at the exercise date.

FUND FOR FUTURE APPROPRIATIONS

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

LONG TERM SUBORDINATED LIABILITIES

Long term subordinated liabilities comprise long term subordinated bonds. Subordinated bonds are stated at the fair value of consideration received after deduction of unamortised issue costs and discount. Issue costs together with discount allowed on issue of bonds are charged to the profit and loss account on an annual basis over the term of the bonds.

Long term subordinated liabilities are presented as a component of the Group's capital base as they are in the nature of long term capital financing. As such, the cost of such liabilities is treated as a financing item and is not deducted in arriving at Group operating profit (based on longer term investment return).

TECHNICAL PROVISIONS

The provision for unearned premiums represents the proportion of premiums written relating to periods of insurance subsequent to the balance sheet date, calculated principally on a daily pro-rata basis.

The provision for claims outstanding, whether reported or not, comprises the estimated cost of claims incurred but not settled at the balance sheet date. It includes related expenses and a deduction for the expected value of salvage and other recoveries. The provision is determined using the best information available of claims settlement patterns, forecast inflation trends and after recognition of the potential time elapsed in the notification, development and settlement of claims. As permitted under local statutory guidelines, claims provisions relating to long term permanent disability claims in the United States, Canada and Scandinavia paid on an annuity basis are discounted after reflecting interest expected to be earned on the related investments.

Differences between the estimated cost and subsequent settlement of claims are dealt with in the appropriate technical account for the year in which they are settled or re-estimated.

Provision is made, based on information available at the balance sheet date, for any estimated future underwriting losses relating to unexpired risks after taking into account future investment income on relevant technical provisions. The unexpired risk provision is assessed in aggregate for business classes which, in the opinion of the directors, are managed together.

The long term business provision is derived from actuarial valuation. For with profits business, the calculation includes explicit allowance for vested bonuses (including those vesting following valuation at the balance sheet date). Implicit allowance is made for future reversionary bonuses through the use of a net premium valuation method employing a reduced valuation rate of interest. No provision is made for terminal bonuses.

Equalisation provisions are established in accordance with the requirements of legislation in certain countries and are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date.

The technical provisions for linked liabilities are the repurchase value of units allocated to in-force policies at the balance sheet date, where the policy benefits are wholly or partly related to investments of any description or to indices of the value of investments.

OPERATING LEASES

Payments made under operating leases are charged on a straight line basis over the term of the lease.

PENSION COSTS

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 1999

	Notes	1999 £m	1998 £m
Gross premiums written		**8,260**	8,088
Outward reinsurance premiums		**(1,101)**	(1,221)
Premiums written, net of reinsurance		**7,159**	6,867
Change in the gross provision for unearned premiums		**(147)**	(117)
Change in the provision for unearned premiums, reinsurers' share		**5**	(61)
Earned premiums, net of reinsurance		**7,017**	6,689
Allocated investment return transferred from the non-technical account	12	**997**	999
Claims paid			
Gross amount		**(6,637)**	(6,030)
Reinsurers' share		**1,043**	958
		(5,594)	(5,072)
Change in the provision for claims			
Gross amount		**(25)**	(62)
Reinsurers' share		**179**	25
		154	(37)
Claims incurred, net of reinsurance		**(5,440)**	(5,109)
Acquisition costs		**(1,853)**	(1,764)
Change in deferred acquisition costs		**24**	11
Administrative expenses		**(645)**	(630)
Reinsurance commissions and profit participation		**166**	143
Net operating expenses	3	**(2,308)**	(2,240)
Amortisation of goodwill in acquired claims provisions	17	**(12)**	–
Underwriting result		**(743)**	(660)
Longer term investment return allocated to the general business technical account	12	**997**	999
Balance on the technical account before change in the equalisation provisions		**254**	339
Change in the equalisation provisions	10	**(12)**	(51)
Balance on the technical account for general business		**242**	288

Discontinued and acquired operations do not form a material part of the figures above.

The accounting policies on pages 44 to 47 and the notes on pages 56 to 82 form part of these financial statements.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – LONG TERM BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 1999

	Notes	1999 £m	Restated 1998 £m
Gross premiums written		**3,404**	2,974
Outward reinsurance premiums		**(120)**	(118)
Earned premiums, net of reinsurance		**3,284**	2,856
Investment income	11	**3,845**	3,765
Unrealised gains on investments		**417**	850
Total technical income		**7,546**	7,471
Claims paid			
Gross amount		**(2,837)**	(3,015)
Reinsurers' share		**87**	89
		(2,750)	(2,926)
Change in the provision for claims			
Gross amount		**(24)**	(25)
Reinsurers' share		**–**	9
		(24)	(16)
Claims incurred, net of reinsurance		**(2,774)**	(2,942)
Change in long term business provision			
Gross amount		**(932)**	(2,650)
Reinsurers' share		**47**	40
		(885)	(2,610)
Change in technical provisions for linked liabilities, net of reinsurance		**(1,640)**	(816)
Change in other technical provisions, net of reinsurance		**(2,525)**	(3,426)
Acquisition costs		**(350)**	(308)
Change in deferred acquisition costs		**16**	(7)
Administrative expenses		**(242)**	(192)
Net operating expenses	3	**(576)**	(507)
Investment expenses and charges	11	**(60)**	(52)
Tax attributable to the long term business	14	**(240)**	(365)
Other technical charges – amortisation of acquired present value of long term business	19	**(4)**	(1)
Total technical charges		**(6,179)**	(7,293)
Technical income less charges		**1,367**	178
Allocated investment return transferred to the non-technical account		**–**	–
Transfers to the fund for future appropriations		**(1,191)**	(17)
Balance on the technical account for long term business		**176**	161

Discontinued and acquired operations do not form a material part of the figures above.

The accounting policies on pages 44 to 47 and the notes on pages 56 to 82 form part of these financial statements.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1999

	Notes	1999 £m	Restated 1998 £m
Balance on the general business technical account (see page 48)		**242**	288
Balance on the long term business technical account (see page 49)		**176**	161
Tax credit attributable to balance on the long term business technical account		**59**	69
Balance on the long term business technical account gross of tax		**235**	230
Investment income	11	**1,651**	1,713
Allocated investment return transferred from the long term business technical account		**–**	–
Investment expenses and charges	11	**(79)**	(213)
Unrealised losses on investments		**(645)**	(139)
Allocated investment return transferred to the general business technical account		**(997)**	(999)
Income from other activities		**282**	260
Charges from other activities	2, 3	**(261)**	(245)
Central expenses	3	**(36)**	(30)
Amortisation of goodwill	17	**(14)**	(1)
Total Group operating profit		**290**	909
Share of results of associated undertakings		**88**	(45)
		378	864
Analysis of profit on ordinary activities before tax			
General business result		**312**	352
Long term business result		**243**	230
Other activities (including associated undertakings)		**11**	20
Group operating profit (based on longer term investment return)		**566**	602
Other movements in investments		**(80)**	463
Interest on long term subordinated liabilities		**(10)**	–
Change in the equalisation provisions	10	**(12)**	(51)
Amortisation of goodwill	17	**(14)**	–
Amortisation of goodwill in acquired claims provisions	17	**(12)**	–
Other items	2	**(60)**	(150)
Profit on ordinary activities before tax		**378**	864
Tax on profit on ordinary activities	14	**(270)**	(374)
Profit on ordinary activities after tax		**108**	490
Attributable to equity minority interests		**(21)**	(33)
Profit for the financial year attributable to shareholders		**87**	457
Dividends	15	**(1,113)**	(369)
Transfer to retained profits		**(1,026)**	88
Earnings per ordinary share	16	**5.3p**	28.7p
Diluted earnings per ordinary share	16	**5.2p**	28.3p
Group operating earnings after tax per ordinary share (based on longer term investment return)	16	**25.7p**	24.7p

Discontinued and acquired operations do not form a material part of the figures above.

The accounting policies on pages 44 to 47 and the notes on pages 56 to 82 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 1999

	Other reserves £m	Profit and loss account £m	1999 £m	1998 £m
Profit for the financial year	–	87	**87**	457
Movement in value of long term business (other than on acquisition)	169	–	**169**	(115)
Exchange:				
Group	(5)	39	**34**	(26)
Share of associated undertakings	–	(3)	**(3)**	(43)
Shareholders' consolidated recognised gains arising in the year	164	123	**287**	273

Exchange includes a loss of **£1m** (1998 £nil) on exchange relating to foreign currency borrowings.

MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 1999

	Notes	Share capital/ premium £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	1999 £m	1998 £m
Shareholders' funds at 1 January	27	658	8	1,462	5,141	**7,269**	7,333
Shareholders' recognised gains		–	–	164	123	**287**	273
Issue of share capital	28	2	–	–	–	**2**	3
Increase in share premium		28	–	–	(15)	**13**	29
Goodwill written back	24	–	–	–	26	**26**	–
Dividends	15	–	–	–	(1,113)	**(1,113)**	(369)
Shareholders' funds at 31 December		688	8	1,626	4,162	**6,484**	7,269

The change in accounting policy explained in note 1 on page 56 had no effect on recognised gains in 1998 or on shareholders' funds at 31 December 1998.

The accounting policies on pages 44 to 47 and the notes on pages 56 to 82 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 1999

ASSETS	Notes	Shareholder consolidated 1999 £m	Shareholder consolidated 1998 £m	Combined consolidated 1999 £m	Combined consolidated 1998 £m
Intangible assets	17	**1,035**	13	**1,035**	13
Investments					
Land and buildings	18	**519**	970	**2,386**	2,664
Interests in associated undertakings	22	**221**	218	**222**	218
Other financial investments					
Shares and other variable yield securities and units in unit trusts	18	**4,866**	5,664	**18,742**	18,107
Debt securities and other fixed income securities		**9,912**	8,634	**24,646**	23,864
Loans and deposits with credit institutions		**787**	909	**1,396**	1,644
		15,565	15,207	**44,784**	43,615
Value of long term business	19, 44	**1,784**	1,506	**1,784**	1,506
Deposits with ceding undertakings		**96**	78	**115**	110
Total investments		**18,185**	17,979	**49,291**	48,113
Assets held to cover linked liabilities	18	**–**	–	**8,304**	6,675
Reinsurers' share of technical provisions					
Provision for unearned premiums		**507**	367	**507**	367
Long term business provision		**–**	–	**394**	377
Claims outstanding		**3,183**	2,152	**3,189**	2,254
Technical provisions for linked liabilities		**–**	–	**14**	12
		3,690	2,519	**4,104**	3,010
Debtors					
Debtors arising out of direct insurance operations	20	**2,620**	2,343	**2,710**	2,465
Debtors arising out of reinsurance operations		**874**	683	**886**	698
Other debtors	20	**1,441**	1,640	**740**	1,066
		4,935	4,666	**4,336**	4,229
Other assets					
Tangible assets	21	**228**	170	**268**	218
Cash at bank and in hand		**497**	294	**822**	626
Own shares	28	**29**	–	**29**	–
		754	464	**1,119**	844
Prepayments and accrued income					
Accrued interest and rent		**193**	185	**443**	439
Deferred acquisition costs – long term		**–**	–	**628**	637
Deferred acquisition costs – general		**825**	712	**825**	712
Other prepayments and accrued income		**104**	81	**121**	107
		1,122	978	**2,017**	1,895
Total assets		**29,721**	26,619	**70,206**	64,779

The shareholder consolidated balance sheet represents the shareholder and general insurance business assets and liabilities.

The combined balance sheet includes long term business assets and liabilities relating to long term business policyholders.

The accounting policies on pages 44 to 47 and the notes on pages 56 to 82 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 1999

LIABILITIES	Notes	Shareholder consolidated 1999 £m	Shareholder consolidated 1998 £m	Combined consolidated 1999 £m	Combined consolidated 1998 £m
Capital and reserves					
Ordinary share capital		**393**	391	**393**	391
Preference share capital		**125**	125	**125**	125
Called up share capital	28	**518**	516	**518**	516
Share premium account		**170**	142	**170**	142
Other reserves		**1,626**	1,462	**1,626**	1,462
Capital redemption reserve		**8**	8	**8**	8
Profit and loss account		**4,162**	5,141	**4,162**	5,141
Equity shareholders		**6,359**	7,144	**6,359**	7,144
Non-equity shareholders		**125**	125	**125**	125
Shareholders' funds (see page 51)		**6,484**	7,269	**6,484**	7,269
Equity minority interests in subsidiary undertakings		**406**	291	**406**	291
Long term subordinated liabilities	29	**610**	–	**610**	–
Total capital, reserves and long term subordinated liabilities		**7,500**	7,560	**7,500**	7,560
Fund for future appropriations		–	–	**4,840**	3,785
Technical provisions					
Provision for unearned premiums		**4,476**	3,755	**4,476**	3,755
Long term business provision	30	**–**	–	**26,433**	26,618
Claims outstanding		**14,017**	11,543	**14,162**	11,850
Equalisation provisions	10	**259**	250	**259**	250
		18,752	15,548	**45,330**	42,473
Technical provisions for linked liabilities		–	–	**8,318**	6,687
Provisions for other risks and charges	31	**306**	366	**363**	421
Deposits received from reinsurers		**50**	51	**203**	198
Creditors					
Creditors arising out of direct insurance operations		**437**	411	**504**	471
Creditors arising out of reinsurance operations		**607**	403	**619**	413
Debenture loans	32	**535**	273	**540**	279
Amounts owed to credit institutions	32	**136**	170	**136**	170
Other creditors including taxation and social security	33	**807**	1,265	**1,238**	1,719
Proposed dividend	15	**233**	238	**233**	238
		2,755	2,760	**3,270**	3,290
Accruals and deferred income		**358**	334	**382**	365
Total liabilities		**29,721**	26,619	**70,206**	64,779

Except for certain debenture loans and amounts owed to credit institutions shown in note 32, all creditors are payable within a period of five years.

The accounting policies on pages 44 to 47 and the notes on pages 56 to 82 form part of these financial statements.

PARENT COMPANY BALANCE SHEET

AS AT 31 DECEMBER 1999

	Notes	1999 £m	1998 £m
Fixed assets			
Tangible assets	21	**39**	16
Investments	25	**6,506**	7,423
		6,545	7,439
Current assets			
Amounts owed by Group undertakings		**1,099**	471
Other debtors		**131**	131
Cash at bank and in hand		**10**	7
		1,240	609
Creditors – amounts falling due within one year			
Amounts owed to Group undertakings		**(422)**	(495)
Other creditors including taxation and social security		**(36)**	(46)
Proposed dividend	15	**(233)**	(238)
		(691)	(779)
Net current assets/(liabilities)		**549**	(170)
Total assets less current liabilities		**7,094**	7,269
Creditors – amounts falling due after more than one year			
Long term subordinated liabilities	29	**610**	–
Capital and reserves			
Ordinary share capital		**393**	391
Preference share capital		**125**	125
Called up share capital	27, 28	**518**	516
Share premium account	27	**170**	142
Revaluation reserve	27	**5,281**	6,105
Capital redemption reserve	27	**8**	8
Profit and loss account	27	**507**	498
Equity shareholders		**6,359**	7,144
Non-equity shareholders		**125**	125
Shareholders' funds		**6,484**	7,269
Total capital, reserves and long term subordinated liabilities		**7,094**	7,269

The accounting policies on pages 44 to 47 and the notes on pages 56 to 82 form part of these financial statements.

The financial statements on pages 44 to 82 were approved on 1 March 2000 by the Board of Directors and are signed on its behalf by:

JULIAN HANCE

Group Finance Director

CONSOLIDATED SHAREHOLDERS' CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 1999

	Notes	1999 £m	Restated 1998 £m
Operating activities			
Net cash inflow from general business		**168**	64
Shareholders' net cash inflow from long term business		**150**	158
Premium on redemption of convertible bonds		**–**	(142)
Other operating cash flows attributable to shareholders		**2**	2
Net cash inflow from operating activities	37	**320**	82
Dividends from associates		**56**	1
Servicing of finance			
Premium on redemption of subordinated liabilities		**(14)**	–
Dividends paid on non-equity shares		**(9)**	(9)
Issue costs on long term subordinated liabilities		**(5)**	–
Dividends paid to minorities		**(8)**	(10)
		(36)	(19)
Taxation paid		**(145)**	(214)
Capital expenditure			
Purchases less sales of tangible assets		**(83)**	(69)
Acquisitions and disposals			
Acquisition of interests in associated undertakings		**(49)**	(74)
Acquisition of subsidiary undertakings and redemption of subordinated liabilities	23, 41	**(1,736)**	(142)
Acquisition of minority interests in subsidiary undertakings		**(21)**	–
Disposal of interests in associated undertakings		**–**	2
Disposal of subsidiary undertakings and branches	42	**319**	6
Disposal of minority interests in subsidiary undertakings		**5**	–
		(1,482)	(208)
Dividends paid on equity shares		**(1,109)**	(337)
Financing			
Issue of ordinary share capital		**15**	14
Issue by subsidiary of ordinary share capital to minorities		**30**	–
Net proceeds from issue of long term subordinated liabilities	40	**615**	–
Purchase of own shares		**(29)**	–
Net cash inflow from financing		**631**	14
Cash available for investment		**(1,848)**	(750)
Cash flows were invested as follows:			
Movement in cash holdings	40	**215**	28
Net portfolio investments	38, 39, 40		
Land and buildings		**(489)**	(2)
Shares and other variable yield securities		**(1,459)**	(1,210)
Loans, debt securities and other fixed income securities		**153**	290
Deposits with credit institutions		**(46)**	110
Borrowings		**(222)**	34
		(2,063)	(778)
Net investment of cash flows		**(1,848)**	(750)

The cash flow statement does not include any amounts relating to the long term business except cash transactions between the long term business and shareholders.

The 1998 amounts have been restated to reflect the presentational change arising from the raising of long term subordinated liabilities and their designation as long term Group financing. Borrowings are available to meet shorter term liquidity needs and, as such, are now shown as a component of investment movement. All cash flows arising from the servicing of borrowings have been restated as operational cash flows. The accounting policies on pages 44 to 47 and the notes on pages 56 to 82 form part of these financial statements.

NOTES ON THE ACCOUNTS

1. IMPACT OF CHANGES ON PROFIT AND LOSS ACCOUNT ARISING FROM ACCOUNTING POLICY CHANGES

The impact of the change in accounting policy arising from the adoption of Financial Reporting Standard 16 "Current Tax" in the non-technical account is to reduce the investment income and the profit on ordinary activities before tax by **£7m** (1998 £14m). The tax on ordinary activities is reduced by an equivalent amount. In the long term business technical account the impact is to reduce both investment income and tax attributable to long term business by **£39m** (1998 £49m).

2. OTHER ITEMS

Other items within the non-technical account comprise: **£46m** (1998 £13m) of reorganisation costs in relation to general insurance businesses in the UK, Scandinavia, USA and Asia Pacific, and in Asia Pacific **£4m** (1998 £nil) of reorganisation costs in relation to long term businesses and **£2m** (1998 £nil) of reorganisation costs in relation to non-insurance activities. Additionally, there is **£4m** (1998 £nil) amortisation of the present value of acquired in-force business, **£14m** (1998 £142m) premium on the redemption of subordinated liabilities and convertible bonds and **£10m** of profit (1998 £5m) on disposal of subsidiaries and branches.

3. NET OPERATING EXPENSES AND OTHER CHARGES

	General business		Long term business	
	1999 £m	1998 £m	**1999 £m**	1998 £m
a. Net operating expenses in the technical accounts include:				
Depreciation	**56**	53	**15**	12
Operating lease rentals – premises	**75**	67	**10**	8
Operating lease rentals – other assets	**17**	15	**2**	1

Operating expenses in 1998 include a fine of £225,000 levied by the Personal Investment Authority in respect of administration procedures, mainly arising before the end of 1996, which related to the review of pension transfer and opt-out business.

b. Charges from other activities in the non-technical account include depreciation of **£5m** (1998 £7m), operating lease rentals – premises of **£13m** (1998 £12m) and operating lease rentals – other assets of **£1m** (1998 £1m).

c. Central expenses in the non-technical account include depreciation of **£1m** (1998 **£nil**), operating lease rentals – premises of **£5m** (1998 £1m) and operating lease rentals – other assets **£nil** (1998 £nil).

4. EXCHANGE RATES

In respect of the major overseas currencies the rates of exchange used in these financial statements are US Dollar **1.61** (1998 1.66), Canadian Dollar **2.34** (1998 2.56), Danish Kroner **11.96** (1998 10.59) and Australian Dollar **2.46** (1998 2.71).

5. LONG TERM INSURANCE BUSINESS

	1999 £m	1998 £m
Net new business written during the year was as follows:		
Annual premiums	**247**	223
Single premiums	**1,661**	1,214
	1,908	1,437

Gross new business premiums are not materially different to the above.

Total reversionary and terminal bonuses included within the long term business technical account are **£690m** (1998 £855m).

6. EMPLOYEE INFORMATION

	1999 £m	1998 £m
Staff costs for all employees comprise:		
Wages and salaries	**995**	928
Social security costs	**77**	73
Pension costs	**49**	48
	1,121	1,049

	Average for year	
	1999 Number	1998 Number
The average number of employees of the Group during the year was as follows:		
UK	**24,891**	24,408
Other Europe	**8,186**	7,475
Americas	**8,549**	8,544
Asia Pacific	**4,868**	4,067
	46,494	44,494

7. PENSION COSTS

The Group mainly operates funded defined benefit pension schemes. There is a funded defined contribution scheme in Denmark and a number of unfunded overseas schemes. Overseas schemes are administered in accordance with local law and practice. The major pension schemes in the UK, USA and Denmark together cover the majority of scheme members throughout the Group and the assets of these schemes are mainly held in separate trustee administered funds. Each of the major defined benefit schemes are subject to regular valuation using the projected unit or other appropriate method which is the basis of the pension cost in the consolidated profit and loss account, the cost being spread over employees' working lives.

The total pension cost for the Group in 1999 was **£49m** (1998 £48m) of which **£16m** (1998 £21m) related to the two main UK schemes, including **£nil** (1998 £nil) in respect of early retirements. Contributions of **£10m** (1998 £11m) were made to the defined contribution scheme in Denmark.

Independent qualified actuaries carry out valuations of the major schemes except for one of the UK schemes, for which the actuary is an employee of the Group. At the most recent formal actuarial valuations of the major defined benefit schemes for the purpose of assessing pension costs (the two UK schemes 30 June 1999 and 31 March 1997, and USA 1 January 1999), the market value of the assets of these schemes was **£3,882m** (1998 £3,441m). Of this amount, **£3,513m** related to the UK schemes and their actuarial values were sufficient to cover 120% and 127% respectively of the benefits accrued to members of each of those schemes, after allowing for projected increases in earnings and pensions. The valuations for the two major UK schemes were based respectively on assumptions that salaries increase by 5% and 6%, pensions increase by 3% and 4% and investment returns are 7.8% and 8.5%. The differences in these assumptions arise because of the different valuation dates of the two UK schemes.

The level of contributions to the UK schemes was 5.6% and 0%. The amounts respectively charged to the profit and loss account were 5.6% and 5% of relevant UK earnings. Actuarial surpluses arising from the valuations of both the UK schemes and certain other schemes are being applied to reduce pension costs over the estimated working lives of members of the respective schemes.

There are no significant contributions outstanding or prepaid as at 31 December 1999 except that included in creditors are amounts of **£60m** (1998 £49m) resulting from the difference between the amounts charged to revenue and the amounts contributed to the main schemes in the UK and **£33m** (1998 £39m) in respect of provisions for unfunded overseas schemes.

8. POST-RETIREMENT BENEFITS

The Group provides post-retirement healthcare benefits to certain current and retired United States and Canadian employees. The estimated discounted present value of the unprovided accumulated obligations are calculated in accordance with the advice of independent qualified actuaries. At 31 December 1999 the unprovided accumulated obligation in the United States is estimated at **£7m** (1998 £8m) assuming a premium inflation initially of **7%** reducing over 5 years to **5.5%** (1998 7.5% reducing over five years to 5.5%) and a discount rate of **8%**. The unprovided accumulated obligation in Canada is estimated at **£3m** (1998 £3m) assuming a premium inflation for medical care of **5.8%** (1998 9% reducing over 4 years to 6%) and for dental care **4%** (1998 6%) for all years and a discount rate of **6.8%**. The benefits are accounted for on a systematic basis over the remaining service lives of current employees, the cost in the year being **£5m** (1998 £5m). The costs of meeting the liability for these benefits are expected to attract taxation relief when paid. The total provision included in the consolidated balance sheet is **£35m** (1998 £27m).

9. DIRECTORS' EMOLUMENTS

	1999 £000	1998 £000
The aggregate emoluments of the directors, including amounts received from subsidiaries, were as follows:		
Executive directors		
Emoluments	**2,135**	3,313
Gains on the exercise of share options	**28**	662
Fees and other payments to non-executive directors	**432**	576
	2,595	4,551

The above figures include the amounts paid to the newly appointed directors from the date of appointment to the Board. Details of directors' remuneration and pension benefits, including that of the highest paid director (R V Mendelsohn), are included in the Directors' Emoluments shown on pages 40 and 41. Details of directors' interests in the Parent Company, including gains made on the exercise of share options, are shown on pages 42 and 43.

A pension payment of **£20,112** (1998 £19,206) was paid by a subsidiary to a former director in respect of services other than as a director.

10. EQUALISATION PROVISIONS

Equalisation provisions are established in accordance with the Insurance Companies (Reserves) Act 1995 in the UK and with similar legislation in overseas countries. These provisions, notwithstanding that they do not represent liabilities at the balance sheet date as they are over and above the anticipated ultimate cost of outstanding claims, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet and any change in the provisions during the year is required to be shown in the general business technical account.

The effect of including the provisions is as follows:

	1999 £m	1998 £m
Provisions at 1 January	**250**	194
Charged to the general business technical account and in the profit on ordinary activities before tax	**12**	51
Exchange movement on non-UK provisions	**(3)**	5
Provisions at 31 December	**259**	250

The cumulative impact of equalisation provisions on shareholders' funds at 31 December 1999 is **£253m** (1998 £242m).

11. INVESTMENT INCOME/EXPENSES AND CHARGES

	Technical account long term business		Non-technical account	
	1999 £m	Restated 1998 £m	1999 £m	Restated 1998 £m
Investment income				
Income from associated undertakings (note 1)				
Profit before gains on the realisation of investments	–	–	**24**	25
Gains on the realisation of investments	–	–	**53**	–
	–	–	**77**	25
Other investment income				
Income from land and buildings	**131**	141	**32**	60
Income from other investments	**1,448**	1,497	**790**	812
Gains on the realisation of investments (note 2)	**2,266**	2,127	**752**	816
	3,845	3,765	**1,574**	1,688
	3,845	3,765	**1,651**	1,713
Investment expenses and charges				
Interest on bank loans and overdrafts	**(1)**	(1)	**(20)**	(36)
Interest on long term subordinated liabilities	–	–	**(10)**	–
Interest on other loans	**(3)**	(1)	**(11)**	(11)
Investment management expenses	**(56)**	(50)	**(24)**	(24)
Premium on redemption of long term subordinated liabilities and convertible bonds	–	–	**(14)**	(142)
	(60)	(52)	**(79)**	(213)
Net investment income	**3,785**	3,713	**1,572**	1,500

Notes:

1. The 1998 figure includes results for an eighteen month period in respect of the Group's investment in Mutual & Federal Investments Limited following the change to a 31 December accounting reference date.
2. Gains on the realisation of investments include a gain of **£10m** (1998 £5m) relating to the Group's disposal of interests in subsidiaries and branches.

12. METHODOLOGY FOR CALCULATIONS OF LONGER TERM RATE OF RETURN AND COMPARISON OVER A LONGER TERM

The rates of investment return used for the longer term rate of return basis are reviewed annually and are set out below:

	1999 %	1998 %
Pre tax returns assumed		
Fixed interest returns (nominal)	**6.00**	6.00
Equity returns (nominal)	**9.00**	9.00
Inflation	**3.00**	3.00

These returns are applied to the average, over the year, of the investments directly attributable to shareholders and the general insurance technical provisions. In each case, the element of shareholders' funds has been determined by reference to the risk based capital that the directors judge is necessary to support the business. The values of the investments are adjusted to reduce the effect of short term fluctuations, while recognising such changes over the longer term.

The aggregate amount of investment return recognised under the longer term basis since 1 January 1994 amounts to £6.5bn. The total investment return that arose in this period was £8.4bn.

13. AUDITORS' REMUNERATION

	1999 £000	1998 £000
Audit of Group accounts		
PricewaterhouseCoopers	**2,437**	2,544
Other	**217**	295
	2,654	2,839
Other statutory audit		
PricewaterhouseCoopers	**1,852**	1,808
Other	**607**	45
	2,459	1,853
	5,113	4,692

Remuneration for audit includes **£16,000** (1998 £15,000) in respect of the Parent Company.

Non-audit fees of **£3,904,000** in the UK during the year were payable to PricewaterhouseCoopers.

Non-audit fees in the UK of £5,107,000 in 1998 for PricewaterhouseCoopers included £1,173,000 paid to Coopers & Lybrand and £1,850,000 paid to Price Waterhouse prior to the date of appointment of PricewaterhouseCoopers as auditors.

14. TAXATION

The taxation on profit on ordinary activities charged in the profit and loss account is as follows:

	Technical account long term business		Non-technical account	
	1999 £m	Restated 1998 £m	1999 £m	Restated 1998 £m
UK taxation				
Corporation tax	**110**	220	**68**	256
Trading losses utilised	**–**	(2)	**–**	(10)
Deferred tax	**40**	14	**1**	1
Prior year items – Corporation tax	**8**	18	**(14)**	(6)
Deferred tax	**–**	–	**(19)**	–
Double taxation relief	**(2)**	(2)	**(19)**	(88)
	156	248	**17**	153
Tax attributable to balance on the long term business technical account	**–**	–	**59**	69
Overseas taxation	**84**	117	**194**	152
	240	365	**270**	374
Analysed				
Parent and subsidiaries	**240**	365	**261**	369
Associated undertakings	**–**	–	**9**	5

UK corporation tax for the current year in the non-technical account is based on a rate of **30.25%** (1998 31%). Further details of current and deferred tax are given in notes 31, 33 and 34. An explanation of factors impacting the 1999 tax charge is given in the Finance Director's Report on page 10.

The tax charge for UK corporation tax in the long term technical account is provided at rates between 20% and 30.25% (1998 between 20% and 31%) computed in accordance with rules applicable to life insurance companies.

15. DIVIDENDS

	1999 p	1998 p	1999 £m	1998 £m
Ordinary				
Special dividend paid	**48.0**	–	**751**	–
Interim paid	**8.4**	7.8	**120**	122
Final proposed	**16.3**	15.2	**233**	238
			1,104	360
Preference			**9**	9
			1,113	369

The dividends in 1998 and the special dividend in 1999 were declared to holders of shares prior to the share consolidation (see note 28). The interim and final dividend in 1999 are in respect of holders of shares after the share consolidation. Full provision has been made for the proposed final dividend.

16. EARNINGS PER ORDINARY SHARE

The earnings per ordinary share shown in the consolidated profit and loss account is calculated by reference to the profit attributable to the equity shareholders of **£78m** (1998 £448m) and the weighted average of **1,482,855,246** (1998 1,559,949,394) shares in issue during the year. No adjustment to the 1998 earnings per share arising from the share consolidation has been made. This is due to the treatment of the special dividend paid at 1 June 1999, which for the purpose of the calculation of earnings per share, is treated as a share repurchase at fair value.

	1999 £m	1998 £m
Profit for the financial year attributable to shareholders	**87**	457
Preference dividends	**(9)**	(9)
Profit for the financial year attributable to equity shareholders	**78**	448

The diluted earnings per share is calculated by reference to the profit attributable to equity shareholders adjusted for such items that on conversion to shares give rise to dilution. This is calculated using the adjusted profit of **£78m** (1998 £448m) and the adjusted weighted average of **1,497,260,487** (1998 1,581,139,645) shares in issue during the year.

Details of the items giving rise to dilution are shown below:

	Profit attributable to equity shareholders		Weighted average number of shares	
	1999 £m	1998 £m	1999	1998
Attributable to the equity shareholders	**78**	448	**1,482,855,246**	1,559,949,394
Options granted to employees	**–**	–	**14,405,241**	21,190,251
	78	448	**1,497,260,487**	1,581,139,645

Group operating earnings after tax per ordinary share (based on longer term investment return) attributable to shareholders includes tax on the allocated longer term investment return at a notional rate of 32%. It is the opinion of the directors that this measure provides a better indication of the underlying performance of the business of the Group.

16. EARNINGS PER ORDINARY SHARE (continued)

The reconciliation of Group operating earnings after tax (based on longer term investment return) per ordinary share to earnings per ordinary share is as follows:

	1999 p	1998 p
Group operating earnings (based on longer term investment return) after tax per ordinary share		
Attributable to shareholders per ordinary share	**25.7**	24.7
Other movements in investments	**(5.4)**	29.1
Interest on long term subordinated liabilities	**(0.7)**	–
Change in the equalisation provisions	**(0.8)**	(3.3)
Amortisation of goodwill	**(0.9)**	–
Amortisation of goodwill in acquired claims provisions	**(0.8)**	–
Premium on redemption of convertible bonds	**(0.9)**	(9.1)
Gains on disposal of subsidiaries and branches	**0.7**	0.3
Other items	**(6.4)**	(0.8)
Tax	**(5.2)**	(12.2)
Earnings per ordinary share	**5.3**	28.7

17. INTANGIBLE ASSETS	Goodwill in acquired claims provisions £m	Goodwill arising on acquisition £m	Total £m
Cost			
At 1 January 1999	–	14	14
Additions	204	844	1,048
At 31 December 1999	**204**	**858**	**1,062**
Amortisation			
At 1 January 1999	–	(1)	(1)
Charge for the year	(12)	(14)	(26)
At 31 December 1999	**(12)**	**(15)**	**(27)**
Net book value			
At 31 December 1999	**192**	**843**	**1,035**
At 31 December 1998	–	13	13

18. INVESTMENTS	Shareholder consolidated 1999 £m	Shareholder consolidated 1998 £m	Combined consolidated 1999 £m	Combined consolidated 1998 £m
Land and buildings				
Freehold	**478**	911	**2,067**	2,420
Long leasehold	**26**	42	**304**	225
Short leasehold	**15**	17	**15**	19
Total land and buildings	**519**	970	**2,386**	2,664
Of which Group occupied	**252**	263	**359**	343
Other financial investments				
Shares and other variable yield securities and units in unit trusts	**4,866**	5,664	**18,742**	18,107
Debt securities and other fixed income securities:				
British government securities	**1,242**	1,399	**6,494**	7,501
Other government securities	**3,186**	2,578	**5,411**	4,955
Local authority securities	**880**	565	**1,180**	861
Corporate bonds	**4,275**	3,922	**11,131**	10,345
Preference shares	**329**	170	**430**	202
Loans secured by mortgages	**115**	100	**467**	491
Other loans (see below)	**53**	41	**96**	142
Deposits with credit institutions	**619**	768	**833**	1,011
Total other financial investments	**15,565**	15,207	**44,784**	43,615
Listed investments				
Included in total investments are the following:				
Interests in associated undertakings	**146**	140	**146**	140
Shares and other variable yield securities and units in unit trusts	**4,584**	5,222	**18,248**	17,532
Debt securities and other fixed income securities	**6,094**	4,544	**20,467**	18,401
	10,824	9,906	**38,861**	36,073

In addition, within the combined consolidated balance sheet, debt securities held in North America amounting to **£3,302m** (1998 £5,010m) at market value are freely traded in an approved securities market but are not listed within the meaning of the Companies Act.

Other financial investments in the combined consolidated balance sheet include securities valued on an amortised cost basis of **£3,141m** (1998 £4,805m) with a historical cost of **£3,135m** (1998 £4,798m), a market value of **£3,127m** (1998 £5,041m) and a redemption value of **£3,178m** (1998 £5,070m).

Other loans shown above for the combined consolidated balance sheet include amounts of **£43m** (1998 £101m) relating to policyholder loans.

The historical cost of total investments (excluding value of long term business) included in the combined consolidated balance sheet is **£37,665m** (1998 £36,063m). The historical cost of assets held to cover linked liabilities is **£6,297m** (1998 £5,390m).

The property valuations have been prepared on the basis of open market value at the balance sheet date in accordance with The Royal Institute of Chartered Surveyors' Appraisal and Valuation Manual by the Group's qualified valuation surveyor.

19. VALUE OF LONG TERM BUSINESS

This represents the amount considered by the directors, based on internal actuarial advice, to be a prudent value of the shareholders' interest in the long term business funds, not already recognised under the modified statutory valuation principles of profit recognition.

The principal assumptions used to calculate the value of the UK long term business are:

	1999 %	1998 %
Investment return:		
Fixed interest	**5.15**	4.46
UK equities	**7.65**	6.96
Overseas equities	**7.65**	6.96
Expense inflation	**3.60**	3.00
Discount rate (including risk margins)	**7.50**	7.00

The investment returns represent the underlying long term assumptions implicit in the calculation of the value of long term business.

During the year the Group acquired value of long term business amounting to **£118m** (1998 £27m) which is being amortised over 20 years. Amortisation charged to the long term business technical account amounted to **£4m** (1998 £1m). The cumulative unamortised acquired value of long term business at 31 December 1999 amounted to **£140m** (1998 £26m).

20. DEBTORS

Debtors arising out of direct insurance operations are analysed as follows:

	Shareholder consolidated		Combined consolidated	
	1999 £m	1998 £m	1999 £m	1998 £m
Due from policyholders	**967**	745	**1,041**	855
Due from intermediaries	**1,653**	1,598	**1,669**	1,610
	2,620	2,343	**2,710**	2,465

Other debtors in the shareholder consolidated balance sheet includes **£798m** (1998 £579m) representing shareholders' accrued interest and shareholders' net assets of certain overseas long term business operations.

Other debtors at 31 December 1999 in the shareholder and combined consolidated balance sheets includes advances of **£nil** (1998 £402m) to Codan Bank A/S customers.

21. TANGIBLE ASSETS	Parent Company			Combined consolidated
	Land and buildings £m	Other £m	Total £m	£m
Cost				
At 1 January 1999	2	14	16	618
Exchange	–	–	–	(11)
Additions	25	–	25	134
Acquisitions	–	–	–	86
Disposals	–	–	–	(125)
Revaluations	–	–	–	–
At 31 December 1999	**27**	**14**	**41**	**702**
Depreciation				
At 1 January 1999	–	–	–	400
Exchange	–	–	–	(4)
Acquisitions	–	–	–	38
Charge for the year	–	2	2	77
Disposals	–	–	–	(77)
At 31 December 1999	**–**	**2**	**2**	**434**
Net book value				
At 31 December 1999	**27**	**12**	**39**	**268**
At 31 December 1998	2	14	16	218

The land and buildings included in the Parent Company balance sheet are reclassified as investments in the combined consolidated balance sheet. The remaining other assets principally comprise short leasehold improvements, fixtures, fittings and equipment.

The land and buildings in the Parent Company balance sheet comprises freehold **£18m** (1998 £2m) and long leasehold **£9m** (1998 £nil).

22. INTERESTS IN ASSOCIATED UNDERTAKINGS

The companies listed on page 82 are those, not being subsidiaries, in which Royal & Sun Alliance Insurance Group plc and its subsidiaries held at 31 December 1999 a participating interest and which are associated undertakings as defined in the Companies Act 1985. All holdings are of equity shares.

Interests in associated undertakings comprise:

	1999 £m	1998 £m
Shares at cost		
At 1 January	**95**	100
Acquisitions	**51**	–
Transfer to subsidiary undertakings/disposals	**(72)**	(5)
At 31 December	**74**	95
Adjustment to valuation	**148**	123
Net book value	**222**	218

Balances due from associated undertakings at 31 December 1999 amounted to **£7m** (1998 £9m).

23. ACQUISITIONS OF SUBSIDIARY UNDERTAKINGS

During the year, acquisitions of subsidiary undertakings were made for a total consideration of **£1,824m** including redemption of subordinated liabilities. Goodwill of **£818m** arising on those acquisitions has been capitalised and is being amortised. The Group has used the acquisition accounting method to account for all acquisitions and the amortisation period for goodwill on all significant acquisitions is 20 years, this being the period over which the value of the businesses acquired are expected to exceed the value of their underlying assets.

During the year the Group acquired:

a. Orion Capital Corporation, USA, acquired on 16 November 1999.

	Book value on acquisition £m	Fair value adjustments £m	Fair value to Group £m
Investments	1,341	(5)	**1,336**
Other assets	1,161	19	**1,180**
Other liabilities	(205)	(10)	**(215)**
Technical provisions for general business	(1,795)	113	**(1,682)**
Net assets (excluding subordinated liabilities)	502	117	**619**
Consideration including acquisition costs and redemption of subordinated liabilities			**1,168**
Goodwill			**549**

The consideration paid was cash. The principal fair value adjustment relates to the valuation of claims reserves on acquisition after making allowance for future investment income. The remaining fair value adjustments relate to valuation adjustments to assets and liabilities. All adjustments are provisional given the acquisition was completed shortly before the year end. The net assets at acquisition exclude **£300m** of long term subordinated liabilities as such debt was considered as capital to support the investment and insurance risks of the business. These liabilities were redeemed as part of the acquisition process and accordingly, consideration of **£1,168m** includes **£300m** paid to redeem the liabilities. The premium paid on redemption of the liabilities amounted to **£14m** which has been expensed in the non-technical account. The loss after tax reported under local GAAP for the period from 1 January 1999 until the date of acquisition was **£100m** and the profit after tax for the year ended 31 December 1998 was £62m.

b. Trygg-Hansa Försäkrings AB, Publikt, Sweden, acquired with effect from 31 August 1999.

	Book value on acquisition £m	Fair value adjustments £m	Fair value to Group £m
Investments	923	–	**923**
Other assets	207	–	**207**
Other liabilities	(227)	2	**(225)**
Technical provisions for general business	(743)	67	**(676)**
Net assets	160	69	**229**
Consideration including acquisition costs			**287**
Goodwill			**58**

The consideration paid was cash except for **£36m** outstanding at the balance sheet date. As part of the same transaction the Group sold its interest in Codan Bank A/S, the details of which are disclosed in note 24. The principal fair value adjustments relate to the valuation of claims reserves on acquisition after making allowance for future investment income and alignment with Group policy of the methodology for determining technical provisions. All adjustments are provisional given the acquisition was completed shortly before the year end. The loss after tax reported under local GAAP for the period from 1 January 1999 until the date of acquisition was **£26m** and the profit after tax for the year ended 31 December 1998 was £135m.

c. Tyndall Australia Limited, acquired on 5 May 1999.

	Book value on acquisition £m	Fair value adjustments £m	Fair value to Group £m
Investments	426	(1)	**425**
Value of long term business	31	10	**41**
Other assets	96	(3)	**93**
Other liabilities	(41)	–	**(41)**
Technical provisions for long term business	(387)	–	**(387)**
Fund for future appropriations	(4)	–	**(4)**
Net assets	121	6	**127**
Consideration including acquisition costs			**302**
Goodwill			**175**

The consideration paid was cash. The principal fair value adjustment relates to the revision, in line with Group policy, of underlying assumptions relating to the valuation placed on the value of long term business.

The profit after tax reported under local GAAP for the period from 1 January 1999 until the date of acquisition was **£5m** and for the year ended 31 December 1998 was £12m.

d. Compañia de Seguros de Vida La Construcción, Chile, acquired on 26 November 1999.

	Book value on acquisition £m	Fair value adjustments £m	Fair value to Group £m
Investments	580	–	**580**
Value of long term business	–	73	**73**
Other assets	20	–	**20**
Other liabilities	(4)	–	**(4)**
Technical provisions for long term business	(493)	–	**(493)**
Net assets	103	73	**176**
Fair value of net assets acquired (11%)			**19**
Consideration including acquisition costs			**17**
Goodwill			**(2)**

A 40% interest in Compañia de Seguros de Vida La Construcción was acquired on 12 November 1997. A further 11% interest was acquired during the year for **£17m** which was paid in cash. The principal fair value adjustment relates to the valuation placed on the value of long term business at acquisition. The profit after tax reported under local GAAP for the period from 1 January 1999 until the date of acquisition was **£16m** and the loss after tax was £12m for the year ended 31 December 1998.

23. ACQUISITIONS OF SUBSIDIARY UNDERTAKINGS (continued)

e. Other Group acquisitions for the year included:

1. Towarzystwo Ubezpieczaniowe PBK Zycie SA, Poland, acquired on 14 April 1999.
2. Lietuvos Draudimas, Lithuania, acquired on 11 June 1999.

The aggregate value of these and other immaterial transactions was:

	Book value on acquisition £m	Fair value adjustments £m	Fair value to Group £m
Investments	42	–	**42**
Value of long term business	–	4	**4**
Other assets	16	(4)	**12**
Other liabilities	(9)	(1)	**(10)**
Technical provisions for general business	(12)	–	**(12)**
Technical provisions for long term business	(21)	–	**(21)**
Net assets	16	(1)	**15**
Fair value of net assets acquired			**12**
Consideration including acquisition costs			**50**
Goodwill			**38**

The consideration was paid in cash except for **£2m** outstanding at the balance sheet date.

In addition to the goodwill arising on the acquisition of subsidiary undertakings, the Group acquired for **£21m** the remaining 20% minority interest in Australia Associated Motor Insurers Limited which gave rise to an additional goodwill of **£26m**. There were no significant fair value adjustments.

The amortisation periods for other Group acquisitions and the minority purchase range from 10 to 20 years, being the periods over which the value of the businesses acquired are expected to exceed the value of their underlying assets.

24. DISPOSALS OF SUBSIDIARY UNDERTAKINGS

During the year, disposals of subsidiary undertakings were made for a total consideration of **£302m**. Gains on disposals of subsidiaries and the branch gave rise to an exceptional pre-tax profit of **£10m** after write off of goodwill. Group disposals during the year comprise:

1. Royal Maccabees Life Insurance Company was sold on 31 July 1999. The transaction generated proceeds, net of costs, of **£235m** and generated an exceptional pre-tax profit of **£30m** before the write off of **£26m** of goodwill attributable to the business previously eliminated against reserves.
2. Codan Bank A/S was sold on 31 August 1999. The transaction generated proceeds, net of costs, of **£57m** and generated an exceptional pre-tax profit of **£nil**. There was no goodwill written off in relation to this disposal. As part of the same transaction the Group acquired Trygg-Hansa Försäkrings AB, Publikt, the details of which are disclosed in note 23.
3. Other disposals during the year comprised Tellit Assurances Sun Alliance SA, Sun Alliance Insurance (Hellas) SA and Phoenix Assurance Zimbabwe Limited which generated in aggregate an exceptional pre-tax loss of **£nil** after write off of goodwill. With the exception of **£2m** of goodwill written off in relation to the disposal of Tellit Assurances Sun Alliance SA, there was no goodwill written off in relation to any of these disposals.
4. The Group disposed of its branch Sun Direct, Germany, which gave rise to an exceptional pre-tax profit of **£6m**.

25. INVESTMENTS (PARENT COMPANY BALANCE SHEET)

	Shares in subsidiary undertakings £m	Loan to subsidiaries £m	Unlisted shares £m	Other loans £m	Total £m
At 1 January 1999	6,895	528	–	–	**7,423**
Additions/Disposals	(82)	(78)	6	61	**(93)**
Revaluations	(824)	–	–	–	**(824)**
At 31 December 1999	5,989	450	6	61	**6,506**

The historical cost of the shares in subsidiary undertakings is **£708m** (1998 £790m).

The Group's principal subsidiaries at 31 December 1999 are set out on pages 80 and 81. The companies are all engaged in the transaction of insurance or related business. The countries shown are those of incorporation and principal operation.

26. CAPITAL COMMITMENTS

The estimated amounts of capital commitments contracted but not provided for in these financial statements is **£4m** (1998 £7m). The Parent Company has no unprovided capital commitments.

27. SHAREHOLDERS' FUNDS

GROUP

The movements in the Group's capital and reserves are detailed on page 51.

At 31 December 1999, the amount of goodwill previously and remaining written off to profit and loss account reserve prior to 1 January 1998 is **£778m** (1998 £806m).

Included in the balance on the consolidated profit and loss account is a reserve of an overseas subsidiary attributable to the Group of **£198m** (1998 £184m) which was established on a discretionary basis as a contingency fund.

PARENT

Movements in the Parent Company capital and reserves were as follows:

	Share capital/ premium £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m	1999 £m	1998 £m
Shareholders' funds at 1 January	658	8	6,105	498	**7,269**	7,333
Shareholders' recognised gains	–	–	(824)	1,137	**313**	273
Issue of share capital	2	–	–	–	**2**	3
Increase in share premium	28	–	–	(15)	**13**	29
Dividends	–	–	–	(1,113)	**(1,113)**	(369)
Shareholders' funds at 31 December	688	8	5,281	507	**6,484**	7,269

Share premium of £15m arises from the capitalisation of reserves consequent upon the exercise of employee share options.

28. SHARE CAPITAL	1999 £m	1998 £m
Authorised		
2,000,000,000 ordinary shares of 27.5p each (1998 2,200,000,000 ordinary shares of 25p each)	**550**	550
300,000,000 (1998 300,000,000) preference shares of £1 each	**300**	300
Issued and fully paid		
1,428,412,281 ordinary shares of 27.5p each (1998 1,564,012,681 ordinary shares of 25p each)	**393**	391
125,000,000 (1998 125,000,000) preference shares of £1 each	**125**	125
	518	516

Following approval of the payment of a special dividend of 48p per ordinary share, at the close of business on 14 May 1999 each ordinary share of 25p was sub-divided into ten ordinary shares of 2.5p each, the "Intermediate Shares". Immediately after the subdivision every eleven of the Intermediate Shares were consolidated into one new ordinary share of 27.5p. Unconsolidated Intermediate Shares, were sold and the proceeds distributed to the relevant shareholders. This consolidation reduced the number of ordinary shares in issue from 1,565,474,931 to 1,423,127,534.

During the year 1,462,250 ordinary shares of 25p and, following the share consolidation, 5,284,747 ordinary shares of 27.5p were issued on the exercise of employee share options for a total cash consideration of **£15m**. The total nominal value of ordinary shares issued during the year was **£2m**.

The preference shares carry a right to a fixed cumulative preferential dividend of 7.375% per annum, payable in half yearly instalments, and are irredeemable. On a return of capital on a winding up, the holders are entitled, in priority to holders of all other shares of the Company, to receive out of the surplus assets of the Company any arrears and accruals of the dividend together with the greater of the price at which the gross yield on each preference share is equal to the mean gross yield on 3.5% War Loan or such Government Stock as may be agreed (but not exceeding twice the nominal amount of the preference share) and the nominal amount of the share together with any premium paid on issue. The holders of preference shares have the right to vote at a general meeting of the Company only if at the date of the notice of the meeting the dividend payable on the shares is in arrears or otherwise on a resolution to vary the rights attaching to the preference shares.

The Royal & SunAlliance ESOP Trust No 1 holds ordinary shares in the Company which may subsequently be transferred to employees (other than the executive directors). At 31 December 1999 the Trust held **6,500,000** ordinary shares (1998 nil) in the Company with a nominal value of **£1,787,500** (1998 £nil) and a market value, based on the mid market value of the Group's shares at the close of business on 30 December 1999 as shown in the Official List of the London Stock Exchange, of **£31m** (1998 £nil).

The Royal & SunAlliance ESOP Trust No 2 holds ordinary shares in the Company which may subsequently be transferred to employees including executive directors. At 31 December 1999 the Trust held **200,000** shares (1998 nil) in the Company with a nominal value of **£55,000** (1998 £nil) and a market value, based on the mid market value of the Company's shares at the close of business on 30 December 1999 as shown in the Official List of the London Stock Exchange, of **£1m** (1998 £nil).

The Trustee of each Trust has waived their rights to dividends in excess of 0.01p on shares held by the Trusts. When computing the earnings per share, the shares held by the Trusts have been ignored in the calculation as, under FRS 14 'Earnings per Share' they are treated as if they were cancelled.

At 31 December 1999, under employee savings related share option schemes, employees held options over 28,477,333 ordinary shares at option prices ranging from 93.80p to 483.00p per share. The options are normally exercisable within six months of the respective exercise dates which are between 1 August 1999 and 1 November 2005 as follows:

Number of shares	Option price per share	Year of exercise
489,321	93.80p – 351.00p	1999
3,444,786	232.50p – 473.00p	2000
4,648,925	206.20p – 483.00p	2001
5,901,093	248.00p – 435.00p	2002
5,016,621	294.00p – 439.00p	2003
8,005,808	395.00p – 430.00p	2004
970,779	356.00p – 439.00p	2005

At 31 December 1999, under executive share option schemes, options over 26,129,606 ordinary shares were held at option prices ranging from 141.60p to 550.80p. The options, which are potentially exercisable between 3 and 10 years after grant, were outstanding as follows:

Number of shares	Option price per share	Year of exercise
188,587	303.00p – 438.30p	1993
612,761	384.00p – 387.10p	1994
504,532	141.60p – 232.00p	1995
737,476	262.90p – 369.00p	1996
651,139	225.90p – 344.00p	1997
854,838	311.60p – 343.00p	1998
2,586,483	225.90p – 424.00p	1999
6,260,525	258.20p – 525.70p	2000
6,392,421	336.90p – 497.00p	2001
7,340,844	370.00p – 550.80p	2002

	Combined consolidated		Parent company	
29. LONG TERM SUBORDINATED LIABILITIES	**1999 £m**	1998 £m	**1999 £m**	1998 £m
Subordinated guaranteed US$ bonds	**302**	–	**302**	–
Subordinated guaranteed Euro bonds	**308**	–	**308**	–
	610	–	**610**	–

During the financial year, the Company issued subordinated US$ bonds and subordinated Euro bonds with dates of redemption of 15 October 2029 and 15 October 2019 respectively. The net proceeds (after issue costs) of **$488m** and **€496m** respectively were used to provide additional capital to assist in the financing of the acquisition of subsidiary undertakings during the year. The amounts payable on redemption are **$500m** and **€500m** respectively. The bonds are contractually subordinated to all other creditors of the Company such that in the event of winding up or of bankruptcy, they are to be repaid only after the claims of all other creditors have been met. The rate of interest payable on the US$ bonds is 8.95%, although the Company has entered into derivative contracts which have the effect of converting the interest payable to a floating rate. These contracts have the same maturity dates as the US$ bonds. **€200m** of the Euro bonds bear interest at a fixed rate of 6.875% until 15 October 2009 and a floating rate thereafter. **€300m** of the Euro bonds bear interest at a floating rate from the date of issue. The Company has the option to repay the Euro bonds on specific dates from 15 October 2009.

30. LONG TERM BUSINESS PROVISION

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

		1999	1998
Interest rates			
Life	– with profit	2.60% to 3.00%	2.60% to 2.75%
Pensions	– with profit	3.00% to 4.50%	3.00% to 4.00%
Annuities	– in payment	5.54%	4.35%
Mortality rates			
Life	– with profit	AM80, AF80 with adjustments	AM80, AF80
Pensions	– with profit	AM80, AF80 with adjustments	AM80, AF80 with adjustments
Annuities	– in payment	PMA80/PFA80 (c=2010) with adjustments	PMA80 (c=2010) with adjustments

The valuation has been carried out principally using a net premium method.

Generally accepted actuarial tables are used as appropriate in overseas long term business operations. No details are given as the list would be too long and complex given the number of countries and variety of products involved.

31. PROVISIONS FOR OTHER RISKS AND CHARGES

	Integration £m	Deferred taxation £m	Pensions and post retirement benefits £m	Other provisions £m	Total £m
At 1 January 1999	29	229	115	48	**421**
Exchange adjustments	(1)	–	(1)	(1)	**(3)**
Charged	–	(36)	29	77	**70**
Transferred	–	(30)	–	–	**(30)**
Utilised	(17)	–	(21)	(21)	**(59)**
Acquisition of subsidiaries	–	(44)	5	3	**(36)**
At 31 December 1999	11	119	127	106	**363**

Included within provisions for liabilities and charges in the Parent Company balance sheet is deferred taxation of **£nil** (1998 £nil).

The integration provision relates to the reorganisation provisions established in 1996 and 1997 arising from the merger of Royal Insurance and Sun Alliance Groups on 19 July 1996. The remaining expenditure to be incurred mainly relates to commitments on property leases.

Other provisions comprise mainly the costs of reorganisations including those of the UK Life business **£34m** which is included in the long term technical account and USA general business **£14m** which is included in the general business technical account. The bulk of these costs are expected to be incurred within one year. In addition, various litigation provisions are held amounting to **£27m**, the timing and amount of payment of which are dependent upon legal processes.

During the year **£30m** of deferred taxation relating to an overseas operation was transferred to the long term business provision.

32. BORROWINGS

	Shareholder consolidated		Combined consolidated	
	1999 £m	1998 £m	1999 £m	1998 £m
Debenture loans				
Secured (note 3)				
5% – 10.47% mortgage loans	**16**	16	**21**	22
5.1% – 5.45% gilt repurchase agreements	**278**	–	**278**	–
Unsecured				
9.625% subordinated bonds 2003	**100**	100	**100**	100
5.57% – 6.13% commercial paper	**141**	157	**141**	157
Total debenture loans	**535**	273	**540**	279
Amounts owed to credit institutions – unsecured	**136**	170	**136**	170
Total borrowings	**671**	443	**676**	449
Repayable as follows:				
1 year or less	**448**	169	**453**	169
Between 2 and 5 years	**198**	249	**198**	255
After 5 years	**25**	25	**25**	25
	671	443	**676**	449

Notes:

1. Interest payable on amounts repayable within 5 years was **£30m** (1998 £44m) and after 5 years **£1m** (1998 £3m).
2. Loans from credit institutions of **£103m** (1998 £159m) under revolving credit facilities have been classified by reference to the earliest date on which repayment may be demanded by the lender. At 31 December 1999 total revolving credit facilities available to the Group were **£2,262m** (1998 £2,251m), of which **£nil** (1998 £nil) expire within 1 year, **£2,254m** (1998 £2,242m) expire within 2 to 5 years and **£8m** (1998 £9m) expire after 5 years.
3. The secured debenture loans are secured on certain properties of the Group.
4. There are no Parent Company borrowings.

33. OTHER CREDITORS

Other creditors including taxation and social security in the combined consolidated balance sheet includes a liability of **£201m** (1998 £309m) in respect of corporation tax payable.

At 31 December 1999 other creditors in the shareholder and combined consolidated balance sheets includes customer deposits and other liabilities of **£nil** (1998 £570m) relating to Codan Bank A/S.

34. DEFERRED TAXATION

	Provided		Unprovided	
	1999 £m	1998 £m	1999 £m	1998 £m
Unrealised gains/losses arising from investments other than long term	**172**	201	**658**	787
Other timing differences other than long term	**(53)**	28	**(209)**	(121)
	119	229	**449**	666

Unprovided deferred taxation reflects amounts not expected to crystallise in the foreseeable future.

In addition to the amounts stated above, deferred taxation in respect of unrealised investment gains is allowed for:

1. In the long term business provision amounting to **£482m** (1998 £405m) on a discounted basis with movements during the year being included in that provision; the unprovided amount is **£208m** (1998 £189m).
2. Within assets held for linked liabilities amounting to **£202m** (1998 £91m) with movements during the year being included in the tax attributable to long term business; the unprovided amount is **£12m** (1998 £23m).

35. OPERATING LEASES	Land and buildings 1999 £m	Land and buildings 1998 £m	Other 1999 £m	Other 1998 £m
Annual commitments under non-cancellable operating leases which expire:				
1 year or less	**10**	6	**6**	15
Between 2 and 5 years	**32**	23	**20**	18
After 5 years	**68**	64	**–**	–
	110	93	**26**	33

All material leases of land and buildings are subject to rent review periods of between three and five years.

36. MANAGED FUNDS

The Group administers the funds of a number of group pension funds in its own name but on behalf of others. The assets, as shown below, and corresponding liabilities of these funds have been included within the consolidated combined balance sheet.

	1999 £m	1998 £m
Land and buildings	**31**	40
Shares and other variable yield securities and units in unit trusts	**758**	528
Debt securities and other fixed income securities	**237**	233
Cash at bank and in hand	**38**	18
	1,064	819
Debtors	**8**	6
Creditors	**(42)**	(1)
Net assets	**1,030**	824

37. RECONCILIATION OF TOTAL GROUP OPERATING PROFIT BEFORE TAX TO NET CASH INFLOW	1999 £m	Restated 1998 £m
Total Group operating profit	**290**	909
Unrealised and realised gains	**(86)**	(742)
Change in technical provisions and equalisation provisions	**–**	188
Profits relating to long term business	**(235)**	(230)
Cash received from long term business	**150**	158
Depreciation	**62**	60
Amortisation of goodwill and goodwill in acquired claims provisions	**26**	1
Interest on subordinated liabilities	**10**	–
Change in debtors less creditors	**103**	(262)
Net cash inflow from operating activities	**320**	82

38. MOVEMENTS IN OPENING AND CLOSING PORTFOLIO INVESTMENTS NET OF FINANCING

	1999 £m
Net cash inflow for the period	**215**
Decrease in net portfolio investments	**(1,841)**
Increase in borrowings	**(222)**
Increase in long term subordinated liabilities	**(615)**
Issue of share capital	**(15)**
Movement arising from cash flows	**(2,478)**
Movement in long term business	**978**
Acquisitions and disposals of subsidiary undertakings	**1,839**
Changes in market values and exchange rates	**(10)**
Other	**(109)**
Total movement in portfolio investments net of financing	**220**
Portfolio investments net of financing	
At 1 January 1999	**45,798**
At 31 December 1999	**46,018**

39. PORTFOLIO INVESTMENTS

	1999 £m	1998 £m
Purchase of portfolio investments		
Land and buildings	**14**	434
Shares and other variable yield securities	**1,327**	1,484
Loans, debt securities and fixed income securities	**21,569**	11,181
	22,910	13,099
Sale of portfolio investments		
Land and buildings	**(503)**	(436)
Shares and other variable yield securities	**(2,786)**	(2,694)
Loans, debt securities and fixed income securities	**(21,416)**	(10,891)
	(24,705)	(14,021)
Net increase/(decrease) in deposits with credit institutions	**(46)**	110
Net portfolio investments	**(1,841)**	(812)

40. MOVEMENTS IN CASH, PORTFOLIO INVESTMENTS AND FINANCING	At 1 January 1999 £m	Cash flow £m	Long term business £m	Acquisitions and disposals of subsidiary undertakings (excl cash) £m	Market value and currency £m	Other £m	At 31 December 1999 £m
Land and buildings	2,664	(489)	173	30	8	–	**2,386**
Shares and other variable yield securities	18,107	(1,459)	1,433	(6)	604	63	**18,742**
Loans, debt securities and fixed income securities	24,497	153	(593)	1,821	(615)	(54)	**25,209**
Deposits with credit institutions	1,011	(46)	(29)	(4)	9	(108)	**833**
Net cash at bank and in hand	626	215	(7)	–	(12)	–	**822**
Share capital/premium	(658)	(15)	–	–	–	(15)	**(688)**
Borrowings	(449)	(222)	1	(2)	(4)	–	**(676)**
Long term subordinated liabilities	–	(615)	–	–	–	5	**(610)**
Total	45,798	(2,478)	978	1,839	(10)	(109)	**46,018**

41. ANALYSIS OF THE NET OUTFLOW OF CASH IN RESPECT OF ACQUISITIONS OF SUBSIDIARY UNDERTAKINGS	1999 £m	1998 £m
Cash consideration	**(1,786)**	(148)
Cash at bank and in hand acquired	**50**	6
Net outflow of cash in respect of acquisitions of subsidiary undertakings	**(1,736)**	(142)

42. DISPOSAL OF SUBSIDIARIES	Royal Maccabees Life Insurance Co £m	Codan Bank A/S £m	Other £m	Total £m
Net assets disposed of:				
Investments	1,567	239	25	**1,831**
Other assets	112	113	15	**240**
Other liabilities	(65)	(295)	(10)	**(370)**
Technical provisions for general business	–	–	(20)	**(20)**
Technical provisions for long term business	(1,409)	–	–	**(1,409)**
Profit on disposal before write off of goodwill	30	–	–	**30**
	235	57	10	**302**
Satisfied by cash consideration	235	57	10	**302**
Net inflow of cash in respect of disposals of subsidiaries	235	57	10	**302**

The consideration relating to the sale of the Group's branch Sun Direct, Germany amounted to **£17m**.

43. TRANSACTIONS WITH RELATED PARTIES

A number of the directors, other key managers, their close families and entities under their control have general and/or long term insurance policies with subsidiary companies of the Group. Such policies are on normal commercial terms except that executive directors and key managers are entitled to special rates which are also available to other members of staff. The Board has considered the financial effect of such insurance policies and other transactions with Group companies and has concluded that they are not material to the Group or the individuals concerned and, if disclosed, would not influence decisions made by users of these financial statements.

The Board has also concluded that there are no transactions with other directors or key managers that are material to their own financial affairs.

On 10 December 1999, Royal & Sun Alliance Linked Insurances Ltd (RSALI) and Phoenix Assurance plc, two wholly owned subsidiaries of the Group, entered into a financial reassurance arrangement to improve the regulatory solvency of RSALI. Due to the legally segregated nature of the long term business fund of Phoenix Assurance plc and profit recognition methods prescribed by the modified statutory basis of accounting for with profit life companies, the balance on the consolidated long term business technical account of the Group, which is stated after tax, includes **£22m** of profit arising from this transaction.

44. SHAREHOLDERS' INTEREST IN LONG TERM BUSINESS

The total shareholders' interest in long term business contained within the shareholder consolidated balance sheet comprises:

	UK £m	Other Europe £m	Americas £m	Asia Pacific £m	1999 £m	1998 £m
Shareholders' accrued interest	143	36	–	142	**321**	235
Value of long term business	1,479	111	73	121	**1,784**	1,506
Shareholders' funds and subordinated liabilities attributable	175	318	164	14	**671**	740
Total	1,797	465	237	277	**2,776**	2,481

Value of long term business is described in the accounting policies on page 46 and in note 19. The movement in value of long term business, other than the amortisation of acquired value of in-force business, is credited to other reserves within capital and reserves.

Shareholders' funds attributable represent those assets held outside the long term funds but which are assessed by the directors to be the amount maintained in support of the long term business.

SEGMENTAL INFORMATION

	General business		Personal		Commercial		Long term business	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
Net premiums written (note 1)								
UK	**3,141**	3,353	**1,734**	1,729	**1,407**	1,624	**1,950**	1,710
Other Europe	**1,440**	1,396	**908**	871	**532**	525	**961**	812
Americas (note 3)	**1,817**	1,544	**646**	549	**1,171**	995	**126**	205
Asia Pacific (note 3)	**761**	574	**446**	350	**315**	224	**247**	129
	7,159	6,867	**3,734**	3,499	**3,425**	3,368	**3,284**	2,856
Underwriting result/Long term technical income less charges (note 2)								
UK	**(308)**	(290)	**(118)**	(81)	**(190)**	(209)	**165**	172
Other Europe	**(169)**	(215)	**(106)**	(134)	**(63)**	(81)	**19**	26
Americas (note 4)	**(162)**	(101)	**–**	20	**(162)**	(121)	**35**	27
Asia Pacific (note 4)	**(104)**	(54)	**(24)**	(31)	**(80)**	(23)	**16**	5
	(743)	(660)	**(248)**	(226)	**(495)**	(434)	**235**	230
Group operating profit (based on longer term investment return) (note 6)								
UK	**151**	199	**49**	94	**102**	105	**165**	172
Other Europe	**26**	(38)	**15**	(24)	**11**	(14)	**19**	26
Americas (note 5)	**156**	184	**65**	79	**91**	105	**35**	27
Asia Pacific (note 5)	**(21)**	7	**23**	5	**(44)**	2	**24**	5
	312	352	**152**	154	**160**	198	**243**	230

Notes:

1. Net premiums written by source do not differ materially from net premiums written by destination.
2. The balance on the long term business technical account is gross of tax.
3. Included in long term business within Americas is **£76m** (1998 £163m) relating to the discontinued business Royal Maccabees Life Insurance Company and within Asia Pacific is **£89m** (1998 £nil) relating to the acquired business Tyndall Australia Limited.
4. Included in long term business within Americas is **£10m** (1998 £22m) relating to the discontinued business Royal Maccabees Life Insurance Company and within Asia Pacific is **£3m** (1998 £nil) relating to the acquired business Tyndall Australia Limited.
5. Included in long term business within Americas is **£10m** (1998 £22m) relating to the discontinued business Royal Maccabees Life Insurance Company and within Asia Pacific is **£7m** (1998 £nil) relating to the acquired business Tyndall Australia Limited.
6. Group operating profit (based on longer term investment return) of **£566m** (1998 £602m) comprises general business result **£312m** (1998 £352m), long term business result **£243m** (1998 £230m) and other activities result **£11m** (1998 £20m). Other activities mainly arise in the United Kingdom.

	Total		General business		Long term business	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
Total capital, reserves and long term subordinated liabilities (note 4)						
UK	**2,495**	3,350	**698**	1,700	**1,797**	1,650
Other Europe (note 3, 5)	**1,795**	1,386	**1,330**	931	**465**	455
Americas (note 2, 3, 5)	**2,984**	2,591	**2,747**	2,370	**237**	221
Asia Pacific (note 2)	**654**	468	**377**	313	**277**	155
	7,928	7,795	**5,152**	5,314	**2,776**	2,481
Associated undertakings	**221**	218				
Other businesses (note 1)	**(649)**	(453)				
Total capital, reserves and long term subordinated liabilities	**7,500**	7,560				

Notes:

1. The capital, reserves and long term subordinated liabilities attributed to other businesses include those of non insurance businesses and Group borrowings.
2. Included in long term business within Americas is **£nil** (1998 £187m) relating to the discontinued business Royal Maccabees Life Insurance Company and **£175m** relating to the acquired business Compañia de Seguros de Vida La Construcción and within Asia Pacific is **£100m** (1998 £nil) relating to the acquired business Tyndall Australia Limited.
3. Included in general business within Americas is **£477m** (1998 £nil) relating to the acquired business Orion Capital Corporation and within Other Europe is **£171m** (1998 £nil) relating to the acquired business Trygg-Hansa Försäkrings AB, Publikt.
4. The directors consider that in relation to reporting of profit and loss account information the reportable segments of the general business are commercial and personal. Such a segmentation is not considered appropriate in relation to the Group's total capital where risk based capital modelling is used to allocate capital amongst our regions and various operations. There are differences between actual regional total capital and that considered to be required on a risk based capital basis due to regulatory requirements at the individual operation level.
5. Included in general business within Americas is **£302m** (1998 £nil) of long term subordinated liabilities and within Other Europe is **£308m** (1998 £nil) of long term subordinated liabilities.

PRINCIPAL SUBSIDIARY COMPANIES

AS AT 31 DECEMBER 1999

		Principal activity
UNITED KINGDOM	Royal Insurance Holdings plc*	Holding company
	Royal & Sun Alliance Insurance plc	General insurance
	British Aviation Insurance Company Ltd (57.1%)	General insurance
	FirstAssist Group Ltd	Insurance services
	The Globe Insurance Company Ltd	General insurance
	Legal Protection Group Holdings Ltd	Holding company
	The London Assurance	General insurance
	The Marine Insurance Company Ltd	General insurance
	RSA Engineering Ltd	General insurance
	Phoenix Assurance plc	Composite insurance
	Royal International Insurance Holdings Ltd	General insurance
	Royal Reinsurance Company Limited	General insurance
	Royal & Sun Alliance Property Services Ltd	Estate agencies
	Royal & Sun Alliance Life & Pensions Ltd	Life insurance
	Royal & Sun Alliance Linked Insurances Limited	Life insurance
	Sun Alliance and London Insurance plc	General insurance
	Sun Alliance and London Assurance Company Ltd	Life insurance
	Royal & Sun Alliance Life Holdings Ltd	Holding company
	Royal & Sun Alliance Trust Company Ltd*	Trust company
	Sun Insurance Office Ltd	General insurance
	Swinton (Holdings) Ltd	Holding company
ARGENTINA	Royal & Sun Alliance Seguros (Argentina) SA	General insurance
	RSA Marketing (Latin America) SA (86.5%)	General insurance
AUSTRALIA	Royal & Sun Alliance Australia Holdings Ltd	Holding company
	Royal & Sun Alliance Insurance Australia Ltd	General insurance
	Royal & Sun Alliance Life Assurance Australia Ltd	Life insurance
	Tyndall Australia Limited	Life insurance
AUSTRIA	Sun Alliance Versicherungs AG	General insurance
BAHAMAS	Royal & Sun Alliance Insurance (Bahamas) Ltd (65.0%)	General insurance
BRAZIL	Royal & Sun Alliance Seguros (Brazil) SA	General insurance
CANADA	Roins Financial Services Ltd	Holding company
	Compagnie d'Assurance du Quebec (99.8%)	General insurance
	The Johnson Corporation	General insurance
	Royal & Sun Alliance Insurance Company of Canada	General insurance
	Royal & Sun Alliance Life Insurance Company of Canada	Life insurance
	Western Assurance Company	General insurance
CHILE	Compañia de Seguros La Republica SA (64.0%)	General insurance
	Compañia de Seguros de Vida La Construcción (51.0%)	Life insurance
COLOMBIA	Royal & Sun Alliance Seguros (Colombia) SA (79.4%)	General insurance
DENMARK	Codan Forsikring A/S (71.7%)	General insurance
	A/S Forsikringsselskabet Codan Liv (71.7%)	Life insurance
FRANCE	Royal & Sun Alliance SA	General insurance
GERMANY	Securitas Bremer Allgemeine Versicherungs AG (99.9%)	General insurance
	Securitas-Gilde Lebensversicherung AG (99.8%)	Life insurance

		Principal activity
GUERNSEY	Insurance Corporation of Channel Islands Ltd	General insurance
HONG KONG	Royal & Sun Alliance Insurance (Hong Kong) Ltd	General insurance
ISLE OF MAN	Royal & Sun Alliance International Financial Services Ltd	Life insurance
	Royal & Sun Alliance Eurolife Ltd	Life insurance
	Tower Insurance Company Ltd	General insurance
ITALY	Lloyd Italico Assicurazioni SpA	General insurance
	Lloyd Italico Vita SpA	Life insurance
	Royal & Sun Alliance Vita SpA	Life insurance
	Sun Alliance Vita SpA	Life insurance
NETHERLANDS	Royal & Sun Alliance Schadeverzekering NV	General insurance
	Sun Alliance Levensverzekering NV	Life insurance
NETHERLANDS ANTILLES	Royal & Sun Alliance Insurance (Antilles) NV (51.0%)	General insurance
NEW ZEALAND	Royal & Sun Alliance Insurance (New Zealand) Ltd	General insurance
	Royal & Sun Alliance Life & Disability (New Zealand) Ltd	Life insurance
PERU	Compañia de Seguros La Fenix Peruana (64.9%)	General insurance
PUERTO RICO	Royal & Sun Alliance Insurance (Puerto Rico) Company Inc (94.3%)	General insurance
SAUDI ARABIA	Al-Alamiya Insurance Co Ltd (EC) (50.01%)	General insurance
SINGAPORE	Royal & Sun Alliance Insurance (Singapore) Ltd	General insurance
SPAIN	Regal Insurance Club Compañia Española de Seguros SA	General insurance
	Royal & Sun Alliance SA (99.9%)	General insurance
	Royal & Sun Alliance Vida y Pensiones SA (99.9%)	Life insurance
SWEDEN	Holmia Försäkring AB (71.7%)	General insurance
	Trygg-Hansa Försäkrings AB, Publikt (71.7%)	General insurance
UNITED STATES OF AMERICA	Royal & Sun Alliance USA, Inc	Holding company
	Royal & Sun Alliance Personal Insurance Company	General insurance
	Royal Indemnity Company	General insurance
	Orion Capital Corporation	Holding company
	Security Insurance Company of Hartford	General insurance
	Guaranty National Insurance Company	General insurance
URUGUAY	Royal & Sun Alliance Seguros (Uruguay) SA	General insurance
VENEZUELA	Royal & Sun Alliance Seguros (Venezuela) SA (99.4%)	General insurance

Notes:

1. All UK companies are incorporated in Great Britain and are registered in England.
2. *100% direct subsidiaries of Royal & Sun Alliance Insurance Group plc.
3. Except where indicated all holdings are of equity shares and represent 100% of the nominal issued capital.
4. Some subsidiaries have been omitted from this statement to avoid providing particulars of excessive length but none materially affects the results or assets of the Group.

PRINCIPAL ASSOCIATED UNDERTAKINGS AND OTHER SIGNIFICANT SHAREHOLDINGS

	Country	Holding
Principal associated undertakings (see notes below)		
Federal Phoenix Assurance Co Inc (30.11.99)	Philippines	40.0%
Intrepid Re Holdings Limited	Bermuda	38.5%
Mutual & Federal Investments Ltd	South Africa	49.0%
Nissan Insurance Company (Europe) Ltd	Great Britain	24.8%
PT Royal & Sun Alliance Indrapura Insurance	Indonesia	46.3%
Royal & Sun Alliance Insurance (Malaysia) Bhd	Malaysia	45.0%
Syn Mun Kong Insurance Public Company Limited (30.9.99)	Thailand	20.0%
Other significant shareholdings (see notes below)		
Rimac-Internacional Compañia de Seguros y Reaseguros	Peru	14.5%
Rothschilds Continuation Holdings AG (merchant banking group)	Switzerland	21.5%

Notes:

1. Associated undertakings: where the figures included in the accounts are not for the year ended 31 December 1999, the relevant accounting date is shown in brackets.
2. The countries shown are those of incorporation and principal operation. The company shown as incorporated in Great Britain is registered in England.
3. Unless otherwise stated, all companies are engaged in the transaction of insurance or related business. All are owned by subsidiaries of the Group.
4. The Group's participating interest in Rothschilds Continuation Holdings AG, is accounted for as an investment in view of the disposition of the other shareholdings.

FINANCIAL CALENDAR

3 April 2000
Payment of first 2000 preference dividend

4 May 2000
Announcement of results for three months ended 31 March 2000

17 May 2000
Annual General Meeting

1 June 2000
Payment of final ordinary dividend for 1999

3 August 2000*
Announcement of results for six months ending 30 June 2000 and of interim ordinary dividend

1 October 2000
Payment of second 2000 preference dividend

9 November 2000*
Announcement of results for nine months ending 30 September 2000

1 December 2000*
Payment of interim ordinary dividend for 2000

1 March 2001*
Announcement of results for 2000 and of recommended final ordinary dividend

* Provisional dates

FIVE YEAR FINANCIAL REVIEW

CONSOLIDATED PROFIT AND LOSS ACCOUNT	1999 £m	Restated 1998 £m	Restated 1997 £m	Restated 1996 £m	Restated 1995 £m
Net premiums written					
General business	**7,159**	6,867	6,634	6,814	7,112
Long term business	**3,284**	2,856	2,591	2,546	2,291
Total	**10,443**	9,723	9,225	9,360	9,403
Balance on the technical accounts					
General business	**242**	288	535	310	869
Long term business gross of taxation	**235**	230	231	223	195
Investment income net of investment expenses and charges (note 1)	**1,572**	1,500	1,084	1,125	1,072
Allocated investment return transferred to the general business technical account	**(997)**	(999)	(983)	(991)	(1,030)
Unrealised gains/(losses) on investments	**(645)**	(139)	965	136	1,100
Income/(charges) from other activities/central expenses	**(15)**	(15)	(22)	(56)	(104)
Amortisation of goodwill	**(14)**	(1)	–	–	–
General business result	**312**	352	683	582	871
Long term business result	**243**	230	231	233	195
Other activities (including associated undertakings)	**11**	20	74	(22)	(90)
Group operating profit (based on longer term investment return)	**566**	602	988	793	976
Other movements in investments (note 1)	**(80)**	463	967	257	1,165
Change in the equalisation provisions	**(12)**	(51)	(84)	(90)	(2)
Other items	**(96)**	(150)	(61)	(213)	(37)
Profit on ordinary activities before tax	**378**	864	1,810	747	2,102
Tax on profit on ordinary activities (note 1)	**(270)**	(374)	(354)	(245)	(211)
Profit on ordinary activities after tax	**108**	490	1,456	502	1,891
Attributable to equity minority interests	**(21)**	(33)	(40)	(44)	(50)
Profit for the financial year attributable to shareholders	**87**	457	1,416	458	1,841
Earnings per ordinary share	**5.3p**	28.7p	91.0p	29.3p	121.3p
Operating earnings after tax per ordinary share (note 16 page 61)	**25.7p**	24.7p	42.4p	36.0p	48.9p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES					
Profit for the financial year attributable to shareholders	**87**	457	1,416	458	1,841
Movement in value of long term business	**169**	(115)	179	113	169
Exchange	**31**	(69)	(68)	(181)	8
Shareholders' consolidated recognised gains	**287**	273	1,527	390	2,018

MOVEMENTS IN SHAREHOLDERS' FUNDS					
Shareholders' funds at 1 January	**7,269**	7,333	6,341	6,160	4,330
Shareholders' consolidated recognised gains	**287**	273	1,527	390	2,018
Issue of share capital/increase in share premium	**15**	32	36	19	18
Purchase of own shares	**–**	–	(153)	–	–
Dividends	**(1,113)**	(369)	(334)	(305)	(256)
Other reserve movements (incl goodwill up to 1997)	**26**	–	(84)	77	50
Shareholders' funds at 31 December	**6,484**	7,269	7,333	6,341	6,160
Total return to shareholders	**19p**	17p	98p	25p	134p
Dividend per ordinary share	**72.7p**	23.0p	21.0p	19.0p	16.3p

Note:

1. Investment income net of expenses and charges has been reduced and tax on profit on ordinary activities reduced by an equal amount to reflect the change in accounting policy required by the adoption of Financial Reporting Standard 16 "Current Tax".

COMBINED CONSOLIDATED BALANCE SHEET	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
ASSETS					
Intangible assets	**1,035**	13	–	–	–
Investments					
Land and buildings	**2,386**	2,664	2,839	2,831	2,915
Interests in associated undertakings	**222**	218	314	235	274
Other financial investments	**44,784**	43,615	39,806	37,328	36,761
Value of long term business	**1,784**	1,506	1,596	1,399	1,286
Deposits with ceding undertakings	**115**	110	100	100	100
Total investments	**49,291**	48,113	44,655	41,893	41,336
Assets held to cover linked liabilities	**8,304**	6,675	5,645	4,980	4,723
Reinsurers' share of technical provisions					
Provision for unearned premiums	**507**	367	446	469	545
Long term business provision	**394**	377	298	176	188
Claims outstanding	**3,189**	2,254	2,333	2,326	2,309
Technical provisions for linked liabilities	**14**	12	11	–	10
	4,104	3,010	3,088	2,971	3,052
Debtors	**4,336**	4,229	4,106	3,312	3,773
Other assets	**1,119**	844	1,162	654	590
Prepayments and accrued income	**2,017**	1,895	1,840	1,863	1,967
Total assets	**70,206**	64,779	60,496	55,673	55,441
LIABILITIES					
Capital and reserves					
Called up share capital and share premium	**688**	658	615	561	553
Other reserves	**1,626**	1,462	1,578	1,399	1,286
Capital redemption reserve	**8**	8	8	–	–
Profit and loss account	**4,162**	5,141	5,132	4,381	4,321
Shareholders' funds	**6,484**	7,269	7,333	6,341	6,160
Equity minority interests in subsidiary undertakings	**406**	291	254	245	273
Long term subordinated liabilities	**610**	–	–	–	–
Total capital, reserves and long term subordinated liabilities	**7,500**	7,560	7,587	6,586	6,433
Fund for future appropriations	**4,840**	3,785	3,737	3,553	3,235
Technical provisions					
Provision for unearned premiums	**4,476**	3,755	3,652	3,698	3,912
Long term business provision	**26,433**	26,618	23,511	20,997	20,732
Claims outstanding	**14,162**	11,850	11,911	11,815	12,301
Equalisation provisions	**259**	250	194	112	26
	45,330	42,473	39,268	36,622	36,971
Technical provisions for linked liabilities	**8,318**	6,687	5,656	4,980	4,733
Provisions for other risks and charges	**363**	421	353	355	151
Borrowings	**676**	449	551	761	838
Other creditors	**2,797**	3,039	3,066	2,510	2,689
Accruals and deferred income	**382**	365	278	306	391
Total liabilities	**70,206**	64,779	60,496	55,673	55,441
Net assets per ordinary share (note 1)	**445p**	457p	464p	399p	397p

Note:

1. Net assets per share is calculated on equity shareholders' funds and the number of ordinary shares in issue at the end of the year.

SHAREHOLDER INFORMATION

REGISTRAR

Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA
Shareholder Helpline Telephone: +44(0) 870 600 3988, Internet address: http://www.lloydstsb-registrars.co.uk

Royal & SunAlliance has appointed Lloyds TSB Registrars as its registrar to manage the shareholder register, ensuring that all information held about the Group's shareholders is kept up to date, and to pay dividends.

As a shareholder of the Group, you will be sent information about Royal & SunAlliance. For example the Group's report & accounts, notice of our Annual General Meeting and dividend payment advice are sent at various times of the year and it is therefore essential for you to ensure that Lloyds TSB Registrars are kept up to date about any changes to your personal details, such as your name and home address. Any such changes should be notified to Lloyds TSB Registrars in writing at the address shown above. If you have changed your name, you will also need to enclose a copy of the marriage certificate or change of name deed with your letter. Please do not send the original document.

If you are receiving duplicate copies of the information sent to shareholders, it is likely that two or more accounts have been set up in your name when you have acquired shares on different occasions. If you would like to amalgamate those accounts, please contact Lloyds TSB Registrars.

You should also contact Lloyds TSB Registrars if your share certificate has been lost or stolen, if you want to transfer your shares to someone else, for example your spouse, if you have not received a dividend payment or have lost a dividend tax voucher or have other general queries about your shareholding. Lloyds TSB Registrars have set up a Shareholder Helpline to deal with these queries and the telephone number is shown above.

Many shareholders find it more convenient to have their dividends paid directly into their bank or building society account. If you would like to arrange this for your dividends, you will find a form, which can be used to instruct Lloyds TSB Registrars to pay all future dividends to an account of your choice, on the reverse of any previous dividend payment advice sent to you. Alternatively you can request a form to be sent to you by contacting the Lloyds TSB Registrars Shareholder Helpline. The Company has also made arrangements for those shareholders who would prefer to reinvest their cash dividends in Royal & SunAlliance shares. Details of the Company's Dividend Re-investment Plan ("DRIP") and a form of mandate to enable you to participate in the plan are sent to all shareholders who do not already participate in the DRIP in advance of each dividend payment date. If you would like to participate in the DRIP, please return the form of mandate to Lloyds TSB Registrars.

PERSONAL EQUITY PLANS

New investments in Personal Equity Plans ("PEPs") have not been permitted since 5 April 1999 when the Government replaced PEPs with Individual Savings Accounts ("ISAs"). Investors who hold shares in an existing Royal & SunAlliance Corporate PEP or Royal & SunAlliance Single Company PEP managed by Halifax Investment Services Limited ("Halifax") can obtain full details of their investment from:
Halifax Investment Services at Mellon House, Ingrave Road, Brentwood, Essex CM15 8TA.
Telephone: +44(0) 870 606 6418.

SHARE DEALING SERVICE

The Company has established an execution only postal share dealing service, through Cazenove & Co., for private investors who wish to buy or sell Royal & Sun Alliance Insurance Group plc shares. Further details can be obtained from:
Royal & Sun Alliance Share Dealing Service, Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN.
Telephone: +44(0) 20 7606 1768.

CAPITAL GAINS TAX

The market value at 31 March 1982 of each post consolidation ordinary share of 27.5p in the Company, for capital gains tax purposes after relevant adjustments, was 146.41p (25p shares 133.1p) for former Royal Insurance shareholders and 57.97p (25p shares 52.7p) for former Sun Alliance shareholders. For former Royal Insurance shareholders, an adjustment to tax cost is required to take account of the 1993 rights issue according to whether the rights were taken up or sold.

COMMUNICATIONS

Royal & SunAlliance is committed to full and open communication with its shareholders. The Company aims to ensure that all shareholders are kept well informed of the Group's activities, performance and strategy and your directors hope that you have found this document to be informative.

ANNUAL GENERAL MEETING

We are always pleased to receive the views of shareholders and hope that you will be able to attend the Company's Annual General Meeting, which this year will be held in the Grand Ballroom, Hotel Inter-Continental London, One Hamilton Place, Hyde Park Corner, London W1V 0QY at 11.30am on 17 May 2000. If you are unable to attend the Company's Annual General Meeting to ask a question in person, you may write to the Company at 30 Berkeley Square, London W1X 5HA or contact us through our Group website, which contains useful information for shareholders, at http://www.royalsunalliance.com

DISABLED SHAREHOLDERS

Royal & SunAlliance is committed to providing a quality service to all its shareholders. We would like to know if you have any special needs so that we can try to assist you. In particular, please let us know if you would like documentation to be provided to you in a special format or have any special requirements to enable you to attend and participate at the Company's Annual General Meeting.
We will do our best to meet your needs. To assist in letting us know if we can help you there is a response card and reply-paid envelope enclosed with this document. Alternatively, you can telephone the Lloyds TSB Registrars Shareholder Helpline on +44(0) 870 600 3988. Those shareholders who have text phone facilities may instead wish to contact Lloyds TSB Registrars on telephone number +44(0) 870 600 3950.

AMERICAN DEPOSITARY RECEIPTS (ADRs)

Each ADR represents five ordinary shares. Any enquiry relating to ADR holdings should be addressed to:
Citibank NA, ADR Department, Shareholder Services, 111 Wall Street, 20th Floor, New York, NY 10043.
Telephone: +1 877 248 4237.

SHAREHOLDER INFORMATION

For further information about Royal & SunAlliance, please contact our Group Communications team at:
Royal & Sun Alliance Insurance Group plc, 30 Berkeley Square, London W1X 5HA.
Telephone: +44(0) 20 7569 6136.
The Group's share price is shown on Ceefax BBC2 Page No. 223.

REGISTERED OFFICE AND WORLDWIDE GROUP OFFICE

30 Berkeley Square, London W1X 5HA.
Telephone: +44(0) 20 7636 3450.
Registered in England No. 2339826.

www.royalsunalliance.com

DESIGNED AND PRODUCED BY SAATCHI & SAATCHI DESIGN. TYPESET BY REAL TIME STUDIO. PRINTED BY EMPRESS LITHO LTD.

FC, IFC, PAGES 19, 20, BC – MICHAEL HEFFERNAN. FC, IFC, PAGE 21 – HAYLOFT. IFC, PAGE 18 – TIM HAZAEL.
IFC, PAGES 18, 20, 21 – GETTYONE STONE. IFC, PAGE 21 – INTERNATIONAL FEDERATION OF RED CROSS AND
RED CRESCENT SOCIETIES. IFC – HANK MORGAN/RAINBOW/PICTUREQUEST. PAGES 3, 5, 8, 16, 17 – CHRIS MOYSE.