

CN 100097 .

ROYAL REINSURANCE COMPANY LIMITED

**Report and Accounts
for the year ended 31st December 1996**



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Directors

R A Elms	(Chairman)	(Resigned 31/12/96)
S A Atkins		
T J Brown		(Resigned 31/1/97)
L N Campbell		
R A Gamble		
R O Hudson		
R K McCorriston		(Appointed 21/2/96)
G A Richards		

Secretary

N J Maguire

Registered Office: 34/36 Lime St, London, EC3M 7JE

Registered Number: 100097

The directors present to the members the financial statements of the Company for the year 1996, together with their report.

Principal activity

The principal activity of the Company is the transaction of general reinsurance business in Belgium and Singapore. The Company also transacts business written throughout the Group network.

Review of the year and future developments

The directors are satisfied with both the level of business and the financial position, and expect that the present level of activity will be sustained for the foreseeable future.

Profits and dividends

There was a profit attributable to the shareholders, after taxation for the year, of £1,592,000, which was transferred to reserves. The directors do not recommend the payment of a dividend.

Directors

The names of the directors holding office at 31st December 1996, and their interests (including the interests of spouses and children under 18) in the capital of Royal Insurance Holdings plc as at 1st January 1996 and Royal & Sun Alliance Insurance Group plc, as at 19th July 1996 and 31st December 1996, as recorded in the register maintained by the Company in accordance with the provisions of Section 325 of the Companies Act 1985 were as follows:

	Directors	Fully paid shares of 25p each		
		at 01.01.96	at 19.07.96	at 31.12.96
	S A Atkins	40,459	48,030	48,031
#	T J Brown (resigned 31/1/97)	-	-	-
	L N Campbell	18,479	26,931	27,179
#	R A Elms (resigned 31/12/96)	-	-	-
#	R A Gamble	-	-	-
	R O Hudson	23,481	12,940	12,940
	R K McCorriston (appointed 21/2/96)	+ 882	941	2,024
	G A Richards	1,705	3,820	3,854
#	Director of Royal Insurance plc. Interests in shares are recorded in the Directors' Report of that company.			
+	As at date of appointment.			

In addition the following directors have options to subscribe for shares of 25p each granted under the terms of employee share option schemes as follows:

	Number of options in Royal Insurance Holdings plc			
Directors		During the year		
	Held at 01.01.96	Granted	Exercised	Held at 18.07.96 #
S A Atkins	49,717			49,717
L N Campbell	79,127			79,127
R O Hudson	63,856			63,856
R K McCorrison	+ 52,296		15,422	36,874
G A Richards	76,795			76,795

	Number of options in Royal & Sun Alliance Insurance Group plc			
Directors		During the year		
	Held at 19.07.96	Granted	Exercised	Held at 31.12.96
S A Atkins	53,037	9,433		62,470
L N Campbell	84,408	9,433		93,841
R O Hudson	66,558	9,433		75,991
R K McCorrison	39,338		1,062	38,276
G A Richards	81,939	9,433	78,157	13,215

The merger event triggered the right to exercise all options within 6 months

+ As at date of appointment

The following directors had a defeasible interest in the following number of ordinary shares of 25p each under the Royal Insurance Holdings plc Senior Executive Share Incentive Plan.

	Number of appointed shares 01.01.96	Shares appointed during period	Appointed shares released during period	Number of appointed shares 18.07.96
S A Atkins	1,795	1,568	3,363	Nil
L N Campbell	3,323	1,813	5,136	Nil
R O Hudson	3,155	1,833	4,988	Nil
G A Richards	1,820	0	1,820	Nil

In accordance with the Rules of the Plan, all appointed shares vested into the participants own name on 17th July 1996, the day the court sanctioned the merger between Royal Insurance Holdings plc and Sun Alliance Group plc. The price of Royal Insurance Holdings plc ordinary shares on the day the shares vested was £3.83½ per share.

On 31st December 1996 the market price of the ordinary shares in Royal & Sun Alliance Insurance Group plc was £4.44½p.

According to the aforementioned register no director was at any time during the year interested in the shares of the Company or in the shares or debentures of any subsidiary of the ultimate holding company.

Mr R A Elms resigned as a director and chairman of the Company with effect from 31/12/96.

Mr T J Brown resigned as a director of the Company with effect from 31/1/97.

Mr R K McCorriston was appointed as a director of the Company with effect from 21/2/96.

There is no requirement under the Company's Articles of Association for directors to retire, by rotation or otherwise, at an annual general meeting.

Auditors

The Company's auditors are Coopers & Lybrand. In accordance with the Companies Act 1989 the Company has dispensed with the appointment of auditors annually.

By Order of the Board



N J Maguire
Company Secretary
London

3rd March 1997

Directors' 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 as at the end of the accounting period and of the result for that period. 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 to 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 so as to enable them to ensure the safeguarding of assets of the Company and to prevent and detect fraud and other irregularities.

Report of the auditors to the members of Royal Reinsurance Company Limited

We have audited the financial statements on pages 7 to 18.

Respective responsibilities of directors and auditors

As described above the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

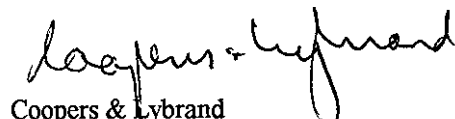
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31st December 1996 and the effect of the movement in those reserves during the year on the balance on the general business technical account and profit on ordinary activities before tax, are disclosed in note 14.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company at 31st December 1996 and of the profit and total recognised gains for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand
Chartered Accountants and Registered Auditors
London
March 1997

The financial statements are prepared in accordance with applicable UK accounting standards and the ABI Guidance on Accounting for Insurance Business issued in 1995 and amended in 1997 and the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985.

Presentation and policy changes

As a result of the merger of Royal Insurance Holdings plc and Sun Alliance Group plc, the Company has changed its accounting policy on the translation of revenue transactions (see note 14) and the presentation of the reinsurers' share of technical provisions. Overseas revenue transactions are translated into sterling at rates ruling at the year end. Previously these amounts were translated at the average rates of exchange ruling during the year. The reinsurers' share of technical provisions is presented on the assets side of the balance sheet. Previously these amounts were shown in arriving at net technical provisions on the liabilities side of the balance sheet.

In addition, the Insurance Companies (Reserves) Act 1995 require the Group to set aside additional provisions in the UK to mitigate exceptionally high loss ratios in future years in respect of certain classes of business which display a high degree of claims volatility. The provisions will be released to profits in years when such exceptionally high loss ratios arise. They are required by law to be included within technical provisions in the balance sheet and changes in the provision are taken through the general business technical account.

Translation and conversion of foreign currencies

Assets and liabilities in foreign currencies and overseas revenue transactions are translated into sterling at rates ruling at the year end. The resulting exchange adjustments, including the differences arising from the translation of the technical provisions at the beginning of the year at year end rates are taken to reserves.

General business technical account

General business is accounted for on an annual basis. Premiums written are accounted for in the year in which the related risks commence and include estimates where the amounts are not determined at the balance sheet date. Premiums written exclude taxes and duties levied on premiums. 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 provision.

Investment return

Income from investments is included, together with the related tax credit, 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 gains and losses are dealt with in the non-technical account and unrealised gains and losses, together with the related tax, are dealt with in the revaluation reserve. Realised gains and losses represent the net sale proceeds less the purchase price.

Taxation

Taxation in the non-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.

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: expected future rates of tax are used where applicable. 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.

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.

Differences between the estimated cost and subsequent settlement are dealt with in the appropriate technical account for the year in which the claims 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.

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

Investments

Investments are shown at market value, for which purpose unlisted investments are included at directors' valuation. Profits and losses on investment realisations are dealt with in the non-technical account.

Tangible assets and depreciation

Tangible assets comprise fixtures, fittings and equipment (including computers and motor vehicles) which are capitalised and depreciated over periods not exceeding their estimated useful lives (between three and ten years) after taking into account residual value.

Revaluation reserve

In the balance sheet, the revaluation reserve represents the difference between cost and market value of investments. Deferred taxation provided for on unrealised gains expected to arise in the foreseeable future is deducted from the revaluation reserve.

Operating leases

Payments made under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

Royal Reinsurance Company Limited
Profit and Loss Account
Technical Account - General Business
for the year ended 31st December 1996

	1996 £000	1995 £000
Premiums written - gross	175,826	142,242
- outward reinsurance	(157,704)	(124,769)
Premiums written, net of reinsurance	18,122	17,473
Change in the gross provision for unearned premiums	(25,136)	(13,838)
Change in the provision for unearned premiums, reinsurers' share	24,022	13,086
Earned premiums, net of reinsurance	17,008	16,721
Claims paid - gross amount	(75,942)	(63,030)
- reinsurers' share	69,483	54,266
- net of reinsurance	(6,459)	(8,764)
Change in the provision for claims		
- gross amount	(16,415)	19,473
- reinsurers' share	13,457	(20,471)
- net of reinsurance	(2,958)	(998)
Claims incurred, net of reinsurance	(9,417)	(9,762)
Acquisition costs	(17,718)	(15,829)
Change in deferred acquisition costs	381	(63)
Administrative expenses	(439)	-
Reinsurance commissions and profit participation	11,781	10,101
Net operating expenses	(5,995)	(5,791)
Change in the equalisation provision	(617)	-
Balance on the technical account for general business	979	1,168

All figures relate to continuing operations.

The notes on pages 14 to 18 form part of these accounts .

Royal Reinsurance Company Limited
Profit and Loss Account
Non-technical Account
for the year ended 31st December 1996

	1996 £000	1995 £000
Balance on the general business technical account (see page 9)	979	1,168
Investment income (see note 6)	914	728
Investment expenses and charges (see note 6)	(19)	(8)
Profit on ordinary activities before tax	1,874	1,888
Tax on profit on ordinary activities (see note 10)	(282)	(251)
Transfer to retained profits	1,592	1,637

All figures relate to continuing operations.

The notes on pages 14 to 18 form part of these accounts.

Royal Reinsurance Company Limited
Movements in Capital and Reserves including
Statement of Shareholder Recognised Gains
for the year ended 31st December 1996

	Share capital/ premium £000	Revaluation reserve £000	Other reserves £000	Profit and loss account £000	1996 £000	1995 £000
Capital and reserves at 1st January	127,373	1	20,355	(42,792)	104,937	103,696
Shareholder recognised gains/(losses)						
Profit for the year				1,592	1,592	1,637
Unrealised gains/(losses) on investments		(11)			(11)	178
Exchange			243	(141)	102	(574)
Shareholder recognised gains/(losses)	-	(11)	243	1,451	1,683	1,241
Capital and reserves at 31st December	127,373	(10)	20,598	(41,341)	106,620	104,937

The notes on pages 14 to 18 form part of these accounts.

Royal Reinsurance Company Limited
Balance Sheet
as at 31st December 1996

ASSETS	1996	1995
	£000	£000
Investments (see note 11)		
Other financial investments		
Debt securities and other fixed income securities		
Other government securities	3,111	4,547
Corporate bonds	2,786	2,017
Total other financial investments	5,897	6,564
Deposits with ceding undertakings	3,260	3,764
Total investments	9,157	10,328
Reinsurers' share of technical provisions		
Provision for unearned premiums	75,662	57,823
Claims outstanding	131,332	129,662
	206,994	187,485
Debtors		
Due from parent undertaking and fellow subsidiary undertakings	135,577	102,037
Debtors arising out of reinsurance operations	13,102	15,313
	148,679	117,350
Other assets		
Tangible assets (see note 12)	11	32
Cash at bank and in hand	13,316	7,826
	13,327	7,858
Prepayments and accrued income		
Accrued interest and rent	176	118
Deferred acquisition costs	2,374	2,216
Other debtors	345	607
	2,895	2,941
Total assets	381,052	325,962

The notes on pages 14 to 18 form part of these accounts.

Royal Reinsurance Company Limited
Balance Sheet
as at 31st December 1996

LIABILITIES

Capital and reserves (see page 11)

Called up share capital (see note 16)

Share premium account

Revaluation reserve

Other reserves

Profit and loss account

Equity shareholders' funds

Technical provisions

Provision for unearned premiums

Claims outstanding

Equalisation provision (see note 14)

Provisions for other risks and charges (see note 13)

Provision for taxation - deferred taxation (see note 15)

Creditors

Creditors arising out of reinsurance operations

Amounts owed to parent undertakings and fellow subsidiary undertakings

Other creditors including taxation and social security

Total liabilities

	1996 £000	1995 £000
Called up share capital (see note 16)	70,000	70,000
Share premium account	57,373	57,373
Revaluation reserve	(10)	1
Other reserves	20,598	20,355
Profit and loss account	(41,341)	(42,792)
Equity shareholders' funds	106,620	104,937
Technical provisions		
Provision for unearned premiums	83,473	65,216
Claims outstanding	154,060	151,915
Equalisation provision (see note 14)	617	-
	238,150	217,131
Provisions for other risks and charges (see note 13)		
Provision for taxation - deferred taxation (see note 15)	62	-
Creditors		
Creditors arising out of reinsurance operations	2,188	3,569
Amounts owed to parent undertakings and fellow subsidiary undertakings	33,744	-
Other creditors including taxation and social security	288	325
	36,220	3,894
Total liabilities	381,052	325,962

All creditors are payable within a period of five years.

The notes on pages 14 to 18 form part of these accounts.

The accounts on pages 7 to 18 were approved today by the Board of Directors and signed on its behalf by :

Director



Director



London, 3rd March 1997

	1996	1995
1. Exchange rates		
In respect of the major overseas currencies the rates of exchange used in these financial statements are:		
Belgian Franc	54.36	45.69
Singapore Dollar	2.39	2.20
U.S. Dollar	1.71	1.55
Deutsche Mark	2.64	2.22
French Franc	8.90	7.59
2. Segmental analysis of business by class and geographical area		
	1996 £000	1995 £000
Net premiums written		
Europe (excluding UK)	7,593	8,440
Far East and Australasia	10,529	9,033
	18,122	17,473
Net premiums are disclosed by origin. There is no material difference between the amounts shown and those by reference to destination (i.e. location of risk). All business written is within the reinsurance class, and is analysed as follows :-		
Gross premiums written	175,826	142,242
Gross premiums earned	150,690	128,404
Gross claims incurred	(92,357)	(43,557)
Gross operating expenses	(30,290)	(26,240)
Reinsurance balance	(26,447)	(57,439)
Profit/(Loss) before taxation		
Europe (including UK)	37	(174)
Far East and Australasia	1,837	2,062
	1,874	1,888
Net Assets as at 31st December		
Europe (including UK)	100,939	100,122
Far East and Australasia	5,681	4,815
	106,620	104,937
3. Prior years' claims provision		
The over provision in claims provisions at the beginning of the year compared to payments and provisions at the end of the year in respect of prior years claims was £2,950,000 (1995 : £2,785,000).		
	1996 £000	1995 £000
4. Net operating expenses : technical account - general business		
Net operating expenses include:		
Depreciation	10	6
Operating lease rentals - premises	113	125
Operating lease rentals - other assets	11	14
Total commissions for reinsurance business accounted for by the Company during the year, excluding payments to employees, amounted to £16,973,000 (1995 : £14,491,000).		
5. Directors' remuneration and loans		
In 1995 and 1996, no director received remuneration solely by virtue of performing services as an officer of the Company.		

	1996 £000	1995 £000
6. Investment return		
Other investment income		
Income from investments	914	728
Investment income	914	728
Investment expenses and charges		
Losses on the realisation of investments	(19)	(8)
Net investment income	895	720
Unrealised gains/(losses) on investments	(11)	178
Investment return	884	898

	1996 £000	1995 £000
7. Employee information		
Staff costs for all employees, including executive directors, consist of:		
Wages and salaries	304	369
Social security costs	41	46
Pension costs	38	44
	383	459

The average number of employees of the Company during the year, including executive directors, was:

Brussels
Singapore

	1996 Number	1995 Number
Brussels	6	6
Singapore	9	8
	15	14

8. Pension costs and post-retirement benefits

The Company participates in two overseas pensions schemes, one of which is a funded defined contribution scheme and the other a funded defined benefit scheme.

The total funding cost for the Company in 1996 was £37,939 (1995 : £44,445). There are no significant contributions outstanding or prepaid as at 31st December.

9. Auditors' remuneration

Remuneration - for audit*
- for other services
* 1996 estimated, 1995 actual

	1996 £	1995 £
Remuneration - for audit*	21,565	19,278
- for other services	19,053	14,648
	40,618	33,926

10. Taxation on profit on ordinary activities

Overseas Taxation

	1996 £000	1995 £000
Overseas Taxation	(282)	(251)

UK Corporation Tax for the current year is based on a rate of 33% (1995 33%).

Included in the above are:

Deferred taxation

	1996 £000	1995 £000
Deferred taxation	(55)	-
	(55)	-

11. Investments

The historical cost of total investments is £9,167,000 (1995: £10,327,000). Total investments include listed investments with a market value of £5,897,000 (1995: £6,564,000).

12. Tangible assets

	1996 £000
Cost	
At 1st January	184
Additions	-
Disposals	-
Exchange adjustments	(23)
At 31st December	161
Depreciation	
At 1st January	152
Charge for the year	10
Disposals	-
Exchange adjustments	(12)
At 31st December	150
Net book value	
At 31st December 1996	11
At 31st December 1995	32

All tangible assets relate to fixtures, fittings, tools and equipment.

13. Movements on provisions for other risks and charges

	Deferred taxation	
	1996 £000	1995 £000
At 1st January	-	-
	-	-
Charged/utilised	55	-
Exchange adjustments	7	-
At 31st December	62	-

14. Effect of Accounting Policy Changes

i) Equalisation provision

Equalisation provisions are established in the United Kingdom in accordance with the Insurance Companies (Reserves) Act 1995. 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 shown in the general business technical account. The provision has been made for the first time in 1996.

The effect of including the provision is as follows:

	1996 £000	1995 £000
Provision as at 1st January	-	-
Decrease in balance on the general business technical account and in the profit before tax	617	-
Provision as at 31st December	617	-

ii) Translation of overseas operations

The Company has changed its policy for translating the results of overseas operations from average rates for the period to closing rates.

The change has the effect of decreasing current year profit before taxation by £287,000 and net premiums written by £2,131,000. The effect of the change on the prior year result was not significant and therefore the comparative figures have not been restated.

15. Deferred taxation

On unrealised gains/(losses) arising from investments
Other timing differences

Provided		Unprovided	
1996 £000	1995 £000	1996 £000	1995 £000
-	-	-	-
62	-	-	-
62	-	-	-

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

16. Share capital

Authorised: 100,000,000 (1995 100,000,000) shares of 100p each
Issued and paid up: 70,000,000 (1995 70,000,000) shares of 100p each

1996 £000	1995 £000
100,000	100,000
70,000	70,000

17. Contingent Liabilities

Other than in the normal course of insurance business the Company had no material contingent liabilities as at 31st December 1996.

18. Leases

Annual commitments under non-cancellable operating leases were repayable as follows:

- 1 year or less
- Between 2 and 5 years

Land and Buildings		Other	
1996 £000	1995 £000	1996 £000	1995 £000
-	-	5	-
113	125	6	15
113	125	11	15

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

19. Cash flow statement

As permitted by FRS 1, the Company has not prepared a cash flow statement as it is a wholly owned subsidiary. The ultimate parent company presents a consolidated cash flow statement dealing with the cash flows of the group.

20. Asset valuation

The basis of valuation of assets in the accounts is set out in the accounting policies on page 8. The directors have considered the value at 31st December 1996 of the remaining assets of the Company without actually revaluing them, and are satisfied that these assets are worth in total not less than the aggregate amount at which they are stated in the accounts.

21. General business guarantee

UK group companies transacting general insurance business have entered into an arrangement whereby they mutually guarantee to meet and discharge all their general insurance business obligations.

22. Related party transactions

Advantage has been taken of the exemption provided in FRS8 from disclosing details of transactions with Royal & Sun Alliance Insurance Group plc and its subsidiaries and associated undertakings.

23. Parent company

The Company's ultimate holding company is Royal & Sun Alliance Insurance Group plc, registered in England and Wales. The immediate parent company and parent of the smallest group for which accounts including Royal Reinsurance Company Limited are drawn up is Royal Insurance plc, registered in England and Wales.

Copies of the consolidated accounts of Royal & Sun Alliance Insurance Group plc can be obtained from the registered office at : 1 Bartholomew Lane, London EC2N 2AB.