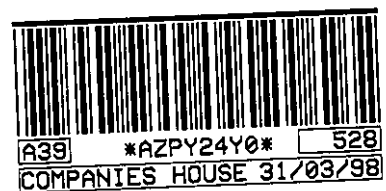


Company Number 100097

ROYAL REINSURANCE COMPANY LIMITED

Report and Accounts

for the year ended 31st December 1997



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Royal Reinsurance Company Limited

Directors

Directors

S. A. Atkins

L. N. Campbell

R. O. Hudson

R. K. McCorriston

G. A. Richards

Secretary

J. H. Berg

Registered office

1 Bartholomew Lane, London EC2N 2AB

Royal Reinsurance Company Limited

Directors' Report

for the year ended 31st December, 1997

Activities

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.

Profit and dividend

The profit for the year is shown in the profit and loss account on page 6. The directors do not recommend the payment of a dividend.

Directors

Mr T.J. Brown and Mr R.A. Gamble served as directors until they resigned on 31st January, 1997 and 31st December, 1997 respectively.

The other directors whose names appear on page 2 served throughout the year.

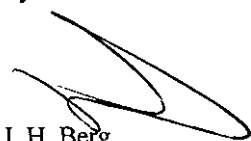
The interests of directors in the ordinary shares of Royal & Sun Alliance Insurance Group plc are as follows:-

	Shares held at <u>1st January, 1997</u>	Shares held at <u>31st December, 1997</u>
S. A. Atkins	48,613	48,825
L. N. Campbell	28,380	40,318
R. O. Hudson	13,074	30,935
R. K. McCorriston	2,539	6,350
G. A. Richards	3,854	5,902

Options to subscribe for shares

	Held at <u>1st January, 1997</u>	During 1997		Held at <u>31st December, 1997</u>
		<u>Granted</u>	<u>Exercised</u>	
S. A. Atkins	62,470	2,310	11,512	53,268
L. N. Campbell	93,841	-	12,473	81,368
R. O. Hudson	77,659	1,604	39,037	40,226
R. K. McCorriston	38,466	4,566	4,956	38,076
G. A. Richards	13,215	2,406	3,782(lapsed)	11,839

By order of the directors


J. H. Berg
Secretary
26th March, 1998

Royal Reinsurance Company Limited

Statement of Directors' Responsibilities and Auditors' Report

Directors' responsibilities

The directors are required by UK company law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 31st December, 1997. The directors also confirm that applicable accounting standards have been followed and that the accounts have been prepared on the going concern basis.

The directors have responsibility for ensuring that the Company keeps proper accounting records. The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

We have audited the accounts on pages 5 to 14.

Respective responsibilities of directors and auditors

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

Basis of opinion

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

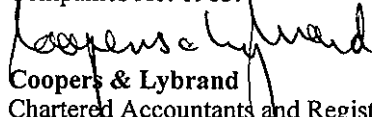
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error.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

Equalisation provisions

Our evaluation of the presentation of information in the accounts has had regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31st December, 1997 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 15.

Opinion

In our opinion, the accounts give a true and fair view of the state of the Company's affairs at 31st December, 1997 and of the profit, and total recognised gains and losses for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Coopers & Lybrand
Chartered Accountants and Registered Auditors
26 March, 1998

Royal Reinsurance Company Limited

Profit and Loss Account

for the year ended 31st December, 1997

Technical account - General business

	Notes	1997 £000	1996 £000
Gross premiums written	4	220,616	175,826
Outward reinsurance premiums		(202,225)	(157,704)
Net premiums written		18,391	18,122
Change in the gross provision for unearned premiums		(31,020)	(25,136)
Change in the provision for unearned premiums, reinsurers' share		30,531	24,022
Earned premiums, net of reinsurance		17,902	17,008
Claims paid			
Gross amount		(100,680)	(75,942)
Reinsurers' share		93,849	69,483
		(6,831)	(6,459)
Change in the provision for claims			
Gross amount		(10,449)	(16,415)
Reinsurers' share		6,733	13,457
		(3,716)	(2,958)
Claims incurred, net of reinsurance		(10,547)	(9,417)
Acquisition costs		(17,212)	(17,718)
Change in deferred acquisition costs		97	381
Administrative expenses		(142)	(439)
Reinsurance commissions and profit participation		11,283	11,781
Net operating expenses	6	(5,974)	(5,995)
Balance on the technical account before change in the equalisation provision		1,381	1,596
Change in the equalisation provision	15	(618)	(617)
Balance on the technical account for general business		763	979

All figures relate to continuing operations.

Royal Reinsurance Company Limited

Profit and Loss Account

for the year ended 31st December, 1997

Non-technical account

	Notes	1997 £000	1996 £000
Balance on the technical account for general business		763	979
Investment income	9	1,048	914
Investment expenses and charges	9	(69)	(19)
Profit on ordinary activities before taxation	4	1,742	1,874
Taxation on profit on ordinary activities	10	(549)	(282)
Profit on ordinary activities after taxation		1,193	1,592
Retained profits transfer		1,193	1,592

Statement of total recognised gains and losses for the year ended 31st December, 1997

	1997 £000	1996 £000
Profit for the financial year	1,193	1,592
Unrealised appreciation / (depreciation) of investments	50	(11)
Exchange	208	102
Total recognised gains	1,451	1,683

Reconciliation of movements in shareholders' funds for the year ended 31st December, 1997

	1997 £000	1996 £000
Shareholders' funds at 1st January	106,620	104,937
Total recognised gains	1,451	1,683
Shareholders' funds at 31st December	108,071	106,620

Royal Reinsurance Company Limited

Balance Sheet as at 31st December, 1997

	Notes	1997 £000	1996 £000
Assets			(as restated)
Investments	12		
Other financial investments			
Debt securities and other fixed income securities			
Other government securities		1,733	3,111
Corporate bonds		3,252	2,786
Deposits with credit institutions		2,398	12,776
Total other financial investments		7,383	18,673
Deposits with ceding undertakings		2,810	3,260
Total investments		10,193	9,157
Reinsurers' share of technical provisions			
Provision for unearned premiums		102,771	75,662
Claims outstanding		134,959	131,332
		237,730	206,994
Debtors			
Due from parent undertaking and fellow subsidiary undertakings		162,966	135,577
Debtors arising out of reinsurance operations		14,387	13,102
		177,353	148,679
Other assets			
Tangible assets	13	82	11
Cash at bank and in hand		11,982	540
		12,064	551
Prepayments and accrued income			
Accrued interest and rent		199	176
Deferred acquisition costs		2,159	2,374
Other debtors		555	345
		2,913	2,895
		440,253	381,052

Royal Reinsurance Company Limited

Balance Sheet as at 31st December, 1997

	Notes	1997 £000	1996 £000
Liabilities			
Capital and reserves			
Called up share capital	17	70,000	70,000
Share premium account		57,373	57,373
Revaluation reserve	11	40	(10)
Other reserves	11	21,369	20,598
Profit and loss account	11	(40,711)	(41,341)
Equity shareholders' funds		108,071	106,620
Technical provisions			
Provision for unearned premiums		110,343	83,473
Claims outstanding		158,747	154,060
Equalisation provision	15	1,235	617
		270,325	238,150
Provisions for other risks and charges			
Provision for taxation - deferred taxation	14	-	62
Creditors			
Creditors arising out of direct reinsurance operations		3,379	2,188
Amounts owed to parent undertakings and fellow subsidiary undertakings		57,686	33,744
Other creditors including taxation and social security		792	288
		61,857	36,220
		440,253	381,052

The accounts on pages 5 to 14 were approved by the directors on 26th March, 1998, and signed on their behalf by:-

Director



1. Accounting and disclosure requirements

The accounts of the Company are prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985.

2. Accounting policies

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 January 1997.

The Company has entered into mutual guarantees with Royal & Sun Alliance Insurance plc and certain of its UK subsidiaries for the payment of general insurance business liabilities.

(a) General insurance business

(i) Underwriting results

The underwriting result 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.

(ii) 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 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 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.

(b) 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'. Investment income is grossed up to include related tax credits on dividend income.

Notes on the Accounts (continued)

(c) Taxation

Taxation in the non-technical account is based on the profit 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 using expected future rates of tax where applicable. Credit is taken for relief for trading losses in the foreseeable future.

A provision for deferred taxation on unrealised gains is made where realisations giving rise to a taxation liability are anticipated in the foreseeable future.

(d) Investments

Investments are stated in the balance sheet at market values comprising stock exchange values for listed securities and directors' valuations for other investments. The differences between market values and book values of the investments together with the related tax is taken to revaluation reserve.

Profits and losses on the realisation of investments are taken to the non-technical account.

(e) Translation 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.

(f) 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.

(g) 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.

3. Exchange rates

In respect of the major overseas currencies the rates of exchange used in these accounts are:

	1997	1996
Belgian Franc	60.96	54.36
Singapore Dollar	2.77	2.39
US Dollar	1.65	1.71
German Deutschmark	2.96	2.64
French Franc	9.90	8.90

Royal Reinsurance Company Limited

Notes on the Accounts (continued)

4. Segmental analysis of business by class and geographical area

	1997 £000	1996 £000
Net premiums written		
Europe (Excluding UK)	8,881	7,593
Far East and Australasia	9,510	10,529
	<u>18,391</u>	<u>18,122</u>

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	220,616	175,826
Gross premiums earned	189,596	150,690
Gross claims incurred	(111,129)	(92,357)
Gross operating expenses	(34,781)	(30,290)
Reinsurance balance	<u>(42,305)</u>	<u>(26,447)</u>
Profit before taxation		
Europe (including UK)	81	37
Far East and Australasia	1,661	1,837
	<u>1,742</u>	<u>1,874</u>
Net assets as at 31st December		
Europe (including UK)	100,984	100,939
Far East and Australasia	7,087	5,681
	<u>108,071</u>	<u>106,620</u>

5. 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 £750,000 (1996 £2,950,000).

6. Net operating expenses: technical account - general business

	1997 £000	1996 £000
Net operating expenses include:		
Depreciation	30	10
Operating lease rentals - premises	124	113
Operating lease rentals - other assets	9	11

Total commissions for reinsurance business accounted for by the Company during the year, excluding payments to employees, amounted to £16,125,000 (1996 £16,973,000).

7. Employees and staff costs

	1997 £000	1996 £000
Staff costs for all employees, including executive directors, consist of:		
Wages and salaries	304	304
Social security costs	38	41
Pension costs	40	38
	<u>382</u>	<u>383</u>

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

	1997 Number	1996 Number
Brussels	5	6
Singapore	10	9
	<u>15</u>	<u>15</u>

Royal Reinsurance Company Limited

Notes on the Accounts (continued)

8. Pensions 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 1997 was £39,928 (1996 £37,939). There are no significant contributions outstanding or prepaid as at 31st December.

9. Investment activity account

	1997 £000	1996 £000
Other investment income		
Income from investments	1,048	914
Investment income	1,048	914
Investment expenses and charges		
Losses on the realisation of investments	(69)	(19)
Net investment income	979	895
Unrealised gains/ (losses) on investments	50	(11)
Investment return	1,029	884

10. Taxation

	1997 £000	1996 £000
UK Taxation		
Group relief payable	(549)	-
Corporation tax	-	-
Double taxation relief	280	-
	(269)	-
Overseas taxation	(280)	(282)
	(549)	(282)
UK Corporation Tax for the current year is based on a rate of 31.5% (1996 33%)		
Included in the above are:		
Deferred taxation	53	(55)

Under an agreement with the Inland Revenue, the United Kingdom corporation tax liabilities of the Company have been aggregated with those attributable to the general insurance business of other UK subsidiaries of Royal & Sun Alliance Insurance plc and assessed in the name of that company. Accordingly, any provision for United Kingdom taxation liabilities are transferred to Royal & Sun Alliance Insurance plc.

The potential liability for deferred taxation on unrealised appreciation of investments which is not expected to be payable in the foreseeable future and for which, therefore, no provision has been made is estimated to amount to £nil (1996 £nil).

11. Reserves

Reserves and reserve movements are as follows:

	Other reserves		Profit and loss account		Revaluation reserve	
	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000
Balance at 1st January	20,598	20,355	(41,341)	(42,792)	(10)	1
Retained profit for the year	-	-	1,193	1,592	-	-
Unrealised appreciation of investments	-	-	-	-	50	(11)
Exchange	771	243	(563)	(141)	-	-
Balance at 31st December	21,369	20,598	(40,711)	(41,341)	40	(10)

Royal Reinsurance Company Limited

Notes on the Accounts (continued)

12. Investments

The historical cost of other financial investments is £7,345,000 (1996 £21,943,000 : as restated). Total investments include listed investments with a market value of £7,383,000 (1996 £5,897,000).

13. Tangible assets

	1997 £000
Cost	
At 1st January	161
Additions	102
Disposals	-
Exchange adjustments	(20)
At 31st December	243
Depreciation	
At 1st January	150
Charge for the year	30
Disposals	-
Exchange adjustments	(19)
At 31st December	161
Net book value	
At 31st December, 1997	82
At 31st December, 1996	11

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

14. Movements on provisions for other risks and charges

	Deferred taxation	
	1997 £000	1996 £000
At 1st January	62	-
Charged/utilised	(53)	55
Exchange adjustments	(9)	7
At 31st December	-	62

15. 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 effect of including the provision is as follows:

	1997 £000	1996 £000
Provision as at 1st January	617	-
Decrease in balance on the general business technical account and in the profit before tax	618	617
Provision as at 31st December	1,235	617

16. Deferred taxation

	Provided		Unprovided	
	1997 £000	1996 £000	1997 £000	1996 £000
Timing differences	-	62	-	-
	-	62	-	-