C.N. 1824102

Swinchan Holdings Limited

Report and Accounts 1996

Swinchan Holdings Limited

Directors

T.A. Hayes, Chairman

T.S. Nelson

P.G. Taylor

Secretary

E.R. Wills, F.C.I.I.

Registered Office

1 Bartholomew Lane, London EC2N 2AB

Swinchan Holdings Limited

Directors' report for the year ended 31st December, 1996

Activities

The Company is the intermediate holding company for Surfeal Holdings Limited and Swinton (Holdings) Limited. The Company has not traded during the year.

Directors

The directors whose names appear on page 1 served throughout the year.

The interests of the directors in the ordinary shares in Royal & Sun Alliance Insurance Group plc (name changed from Sun Alliance Group plc on 19th July, 1996), are as follows

	Shares held at 1st January, 1996	Shares held at 31st December, 1996
T S Nelson	1,114	1,114
P G Taylor	41,669	26,536

Options to subscribe for shares

	Held at 1st January, 1996	During 1996 Granted	During 1996 Exercised	Held at 31st December, 1996
T S Nelson	302,397	13,493	169,116	146,774
P G Taylor	181,109	18,867	-	199,976

By order of the directors

26th February, 1997

Secretary

Swinchan Holdings Limited

Directors' responsibilities for accounts

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, 1996. 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.

Auditors' report

The report of the auditors to the members of Swinchan Holdings Limited

We have audited the accounts on pages 4 to 5.

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.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs at 31st December, 1996 and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

COOPERS & LYBRAND
Chartered Accountants
and Registered Auditors

London
2 March *, 1997*

Swinchan Holdings Limited

Balance sheet
at 31st December, 1996

	Notes	1996	1995
		£	£
Fixed assets			
Investments			
Shares in subsidiaries	4	**2**	2
Current assets			
Debtors: amount falling due within one year			
Sundry debtor		**25**	25
Creditor: amount falling due within one year			
Due to parent company		**25**	25
Net current assets		**-**	-
Total assets less current liabilities		**2**	2
Capital and reserves			
Called up share capital	5	**100**	100
Profit and loss account		**(98)**	(98)
Shareholders' funds		**2**	2

The accounts on pages 4 and 5 were approved by the directors on 26th February, 1997 and were signed on their behalf by:-

, Director

Swinchan Holdings Limited

Notes to the accounts

1. **Accounting policies**

   (a) The accounts are prepared under the historical cost convention and comply with applicable U.K. Accounting Standards.

   (b) Under section 228(1) of the Companies Act 1985 the Company is exempt from the obligation to prepare and deliver group accounts.

   (c) The investment in subsidiaries is shown at cost.

2. No emoluments were paid or are payable to the directors in respect of their services as directors in 1996 or 1995.

3. No remuneration was paid or is payable to the auditors in respect of the accounts for 1996 or 1995.

4. The Company owns the whole of the issued share capital of Swinton (Holdings) Limited and Surfeal Holdings Limited.

5. **Share capital**

	1996	1995
	£	£
Authorised, allotted, issued and fully paid 100 ordinary shares of £1 each	**100**	100

6. **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.

7. **Parent company**

   The Company's immediate and ultimate parent company is Royal & Sun Alliance Insurance Group plc which is registered in England and Wales. A copy of that company's accounts can be obtained from 1 Bartholomew Lane, London EC2N 2AB.

Contents

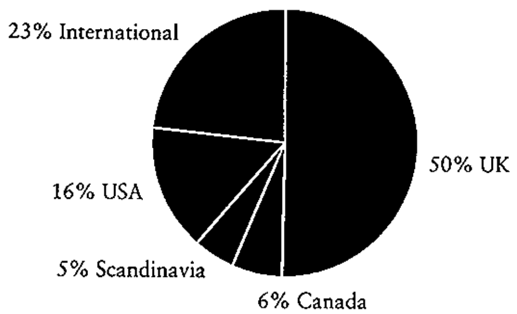
Financial Highlights

	1996	1995
Operating profit before exceptional item and tax*	£706m	£915m
Profit before tax	£648m	£1,031m
Attributable earnings per share	29.7p	52.0p
Total dividend for the year	19.0p	16.3p**
Shareholders' net assets as at 31st December	£6,341m	£6,160m
Solvency margin including minority interests	78%	73%

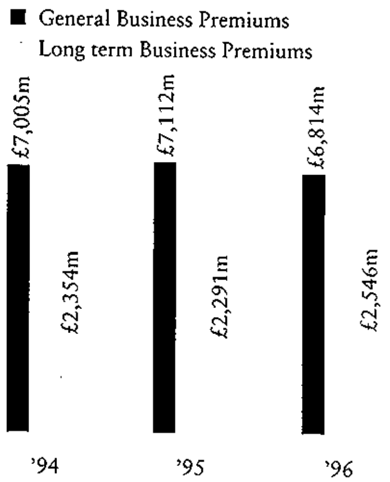
* The operating profit, before charging integration costs of £201m (1995 nil) and before transfers to claims equalisation provisions of £90m (1995 £2m) but after changes in claims reserving of £167m and the adverse effect of exchange rate movements of £32m, is £706m.

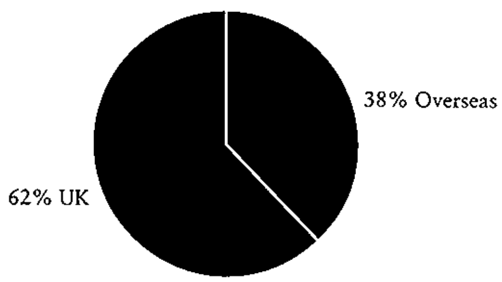
** 1995 total dividend calculated by reference to the weighted average of the respective Royal Insurance and Sun Alliance figures. Former Sun Alliance Group plc 17.25p; former Royal Insurance Holdings plc restated at 14.995p.

Proposal to seek shareholders' agreement to buy back up to 5% of share capital.

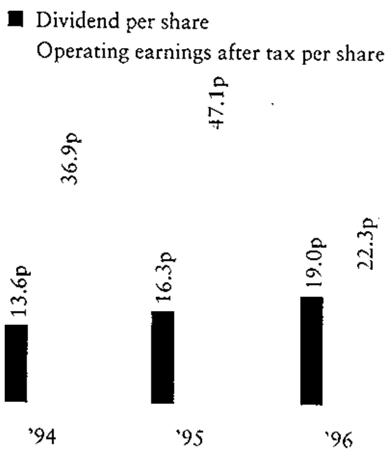


Geographical Distribution
General Business



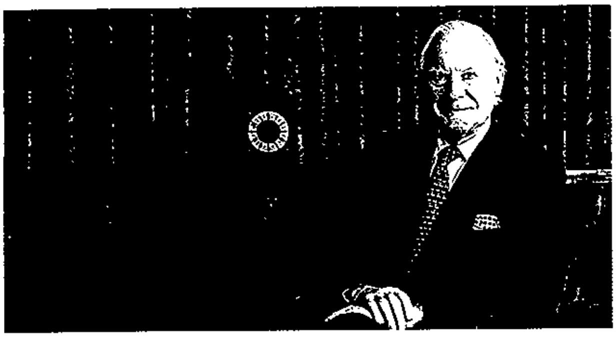


Geographical Distribution
Long term Business



Sir Christopher Benson

Chairman's Statement



1996 has been a year of momentous importance for your Company.

The decision of the Boards of Royal Insurance and Sun Alliance to merge was a bold, ground-breaking move, recognising that the UK insurance industry must change dramatically if it is to maintain its reputation and global leadership.

The merger was overwhelmingly supported by shareholders in both participating companies, as well as the investment and insurance communities at large. It has created a Group with a worldwide premium income of £9,360m and total assets of £55.7 billion. We are the largest composite insurer in the United Kingdom, the tenth largest in Europe and a significant global force.

I now have the honour to present the first year end results of the new Royal & Sun Alliance Group which show a profit before tax of £648m.

These results confirm the commercial logic underlying the merger. There was an admirable 'fit' of the previous groups in terms of their complementary strengths; for example, the major presence of the Royal in North America and that of Sun Alliance in continental Europe. Fusing the two groups enables us to deliver to our customers the benefits of our greater size: economies of scale, financial strength and worldwide coverage.

Indeed, each former group can trace its roots back through many other successful mergers; Sun Alliance to the Sun, founded in 1710, and the Royal to the Globe, which dated from 1803.

The process of integration was never expected to be easy. The number of UK staff will, in the course of rationalisation, fall by several thousand and some smaller establishments are closing. I am fully aware of the human cost of such steps, though this cost is inevitable if we are to ensure the long term success of the Group and its staff.

I recognise the contribution made by staff, remaining or leaving, and I particularly pay tribute to those executive and non-executive directors who have sacrificed their positions to enable the merger to take place. In addition, we mourn the tragic loss of Amschel Rothschild who is missed by his colleagues throughout the City.

In the circular outlining the proposed merger, the Directors of the new Group announced their unanimous decision to seek a Chairman unconnected with either the Royal or Sun Alliance. This has been achieved. Following the Annual General Meeting I will pass the role of Chairman to Patrick Gillam who joined the Board on 5th March 1997.

I have enjoyed chairing the new merged Royal & Sun Alliance Insurance Group in its crucial first year and I feel confident in handing over a healthy and thriving company to my successor. There are plenty of challenges for him to face in the future and I have absolute confidence that he, with the support of our outstanding management, will continue to maintain the Group's dedication to the highest standards of professionalism, customer service, loyalty to staff and investors alike.

Christopher Benson

Sir Christopher Benson, *Chairman*

Roger Taylor

Executive Deputy Chairman's Review

Strategically, this merger comes at a vitally important time. By bringing together two large and prosperous companies, we are well placed to benefit from worldwide change in the insurance industry.

The merger came against a background of political and economic conditions worldwide which are generally favourable to insurance. While major new markets such as China and India stand on the threshold of liberalisation, global demographic changes are stimulating widespread demand for pensions and health care products. Admittedly competition remains intense in most of our major markets but the combined strength of the new Group positions us strongly to withstand such competitive pressures and to take advantage of emerging opportunities.

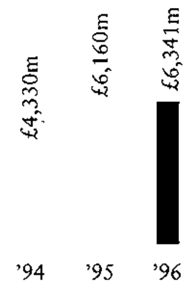
Our strategy for the immediate future is to complete the integration of the two organisations and to deliver the forecast cost savings whilst maintaining profitability. Looking further ahead, we have carried out a high level review of our strategic direction and, while more detailed work will continue over the next few months, I am able to share with you our preliminary conclusions.

The Group's overriding priority will be to build long term shareholder value. We intend to deliver, over time, levels of real dividend increases which will place us amongst the forefront of FTSE 100 companies. Thus this year we are proposing a final dividend payment of 12.5p, making 19.0p for the year as a whole. This represents a 17% increase over the weighted average dividend for 1995.

We are committed to maintaining a strong capital base with an appropriate structure taking into account the Group's underwriting and investment risk profile, the opportunities for profitable growth in our existing operations and the need to maximise returns to our shareholders. These factors give us scope this year to return some capital. We intend to avoid imposing any additional tax burden on the Group and have, therefore, decided to seek shareholders' permission at the Annual General Meeting to buy back up to 5% of issued capital. We believe that this active management of capital will provide a more efficient capital structure and will be in the long term interest of the Group as it will enhance earnings per share in future years.

As an insurance-based financial services group, we will concentrate upon our core businesses of general insurance, life, pensions and fund management in our key markets in Europe, the Americas and Asia Pacific. Over time we intend to strengthen our life, pensions and fund management operations. As financial markets become increasingly integrated, we will continue to review our range of activities to protect profitable product segments.

Shareholders' Funds



Integrating our life businesses in the UK into a single marketing group has positioned us to take advantage of returning consumer confidence in life products. Overseas we have a strong life business in Denmark and several of our other overseas life operations are well placed for strategic development. Already we have completed a small acquisition in Australia, so enabling our Australian life company to enhance its product range.

With general insurance businesses throughout Europe, Asia Pacific and much of the Americas, we are well placed to take advantage of the favourable economic conditions that are emerging. We intend to maintain and consolidate our position as leader in the UK general insurance market. There are many opportunities for strategic development, all of which will be examined closely to ensure that each opportunity enhances our business and adds shareholder value. For example, in January 1997 we purchased The Johnson Corporation in Canada, so providing our Canadian operations with access to the growing market for group insurance.

Similar opportunities arose in Hong Kong, where we have agreed to acquire the 49% stake in Taikoo Royal from Swire Pacific Limited, and in Venezuela, where we now have the majority interest in Royal Caribe. These acquisitions strengthen us further in two of the smaller but important markets of Asia and South America.

With general insurance businesses throughout Europe, Asia Pacific and much of the Americas, we are well placed to take advantage of the favourable economic conditions that are emerging.

We will not hesitate to dispose of businesses which do not fit our strategic direction and, since the announcement of the merger, we have disposed of the residual investment in EPIC and the South African company, Protea. As previously announced, we completed the termination of Sun Alliance's reciprocal reinsurance arrangement with Chubb in the USA by year end although our friendship will continue for many years to come.

Wherever we operate, and in whichever product line, we will aim to achieve a significant influence in our chosen markets. We believe this is vital for the profitability of each business. Our size, both overall and in specific markets, enables us to attract high calibre people and to achieve high quality portfolios of business. Both are essential for sustaining profitability.

As we reach the end of the first quarter 1997, we have substantially completed our integration plans in the UK and in many of our operations abroad. During the remainder of this year we will consolidate the benefits of the merger, so enabling the Group to take full advantage of the exciting prospects before us.

Roger Taylor, *Executive Deputy Chairman*

Richard Gamble

Group Chief Executive's Review

Profit is our objective. We pursue this through the key disciplines of professionalism, teamwork and focus on our customers.

OPERATING REVIEW

The operating profit of £706m before integration costs, is after a £167m increase in reserves, largely relating to recent changes in reserving for USA asbestos and environmental liabilities, and £32m for the adverse effect of exchange rate movements. Taking these factors into account, 1996 represented a year of strong underlying performance very similar to that experienced in 1995.

In the UK general business operations the profit of £326m was a good achievement in the light of intense competition, an increase in the frequency and average cost of personal lines claims especially in motor business, and with changes in claims reserving for mortgage indemnity and discontinued reinsurance of US asbestos and environmental liabilities.

An increase in weather losses in the USA more than offset the continued improvement in the core book of business. Reflecting the increased weather losses and the charge of £117m relating to the increase in reserves for asbestos and environmental claims, the general insurance business result was a loss of £14m.

Elsewhere in our general insurance operations there were excellent performances in Canada, with profits up 14% to £56m and Scandinavia up 67% to £25m.

The £16m reduction in the general business operations profit for the International Division to £87m was largely accounted for by increased costs in developing European direct marketing ventures and claims reserve strengthening in Italy. These factors more than offset improvements in other operations.

The long term business profit rose by 15% to £213m with increases in both the UK and overseas operations.

Improved performances were seen in the Estate Agency operation where the loss reduced to £2m and in Swinton, the insurance intermediary, where the loss fell to £4m.

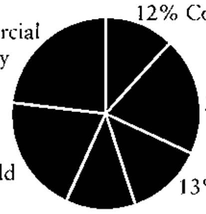
Although total income on investments net of interest on borrowings in sterling terms reduced from £921m to £887m, in underlying currency terms there was an increase of 2%.

INTEGRATION PROCESS

Planning of the integration process has been controlled by our four Group Executive Directors developing recommendations from over 75 task forces. Implementation of these plans is the responsibility of individual members of Senior Management, controlled through various Group Head Office functions.

Several key areas have been identified for producing savings by minimising duplication and spreading costs: premises and personnel in corporate functions at head office, divisional levels and at branch offices, marketing, advertising and information technology.

Worldwide
General Business Distribution
Net Premiums



We are balancing strict adherence to the merger timetable with consistent attention to our existing operational business.

I can confirm that we will achieve our projected annualised expense reductions of at least £175m by 1998. The cost to shareholders of these savings is now estimated at £201m, which has been provided for in the 1996 results, representing a pay-back now of just over one year.

OPERATING PHILOSOPHY

Our ambition is to become the best insurance company in the world, not necessarily the largest, and to use our new strengths to benefit our shareholders. To achieve this in the current operating environment of comparatively low interest rates, low inflation and increased competition, we will need to maximise the advantages of our merger in implementing several key disciplines.

We must always secure an adequate margin between premium income and the cost of claims and expenses. Such margins are vital in minimising the effects of cycles that are inevitable within the insurance business. Cost reduction programmes together with merger savings will make us a lower unit cost producer, thereby helping to protect our margins.

We are committed to disciplined underwriting. We will improve selectivity by shedding the less profitable business of the merged portfolios. Moreover we will enhance the adequacy of pricing through our combined underwriting databases and management information systems.

Worldwide we will pursue operating excellence to build a competitive advantage through the delivery of outstanding customer service and competitive, value-added products.

Our ambition is to become the best insurance company in the world, not necessarily the largest, and to use our new strengths to benefit our shareholders.

In developing our business we will achieve longer term profit growth through increased professionalism. To accomplish this during such a period of rapid change, we must create a culture of successful team building. We are fortunate that, in our staff, we have a powerful blend of insurance expertise and general business experience.

FUTURE PROSPECTS

The concept behind our merger was simple – if we really wanted to be the best in the global marketplace we needed two strong companies to create an even stronger one.

The benefits are already becoming apparent. Staff face broader opportunities for developing their careers as a result of the business and growth potential. Customers and brokers are benefiting from improved service and product ranges.

For shareholders, the significantly increased operating and distribution efficiencies in our domestic market, together with our stronger base for overseas expansion and the merger-related savings, offer enhanced earnings per share and dividend prospects.

Richard Gamble, *Group Chief Executive*

Directors and Management

Board of Directors

Chairman

Sir Christopher Benson
Age 63. Director of Sun Alliance from 1988; Chairman from 1993. Chairman of Albright & Wilson plc and the Funding Agency for Schools. Deputy Chairman of Thorn Lighting Group Limited. Member of the Panel on Takeovers and Mergers.

Non-Executive Deputy Chairman

Allan Gormly CBE**
Age 59. Director of Royal Insurance from 1990; Chairman from 1994; Non-Executive Deputy Chairman of the Company from July 1996. Deputy Chairman of BPB plc. Director of Bank of Scotland.

Executive Deputy Chairman

Roger Taylor*
Age 55. Director of Sun Alliance from 1986; Group Chief Executive from 1994 to 1996; Executive Deputy Chairman from July 1996.

Robert Ayling**
Age 50. Director of Sun Alliance from 1993. Chief Executive of British Airways Plc. Former Under Secretary at the Department of Trade.

John Baker**
Age 59. Director of Royal Insurance from 1995; Director of the Company from July 1996. Chairman of National Power plc and Medeva plc. Governor of the London Business School.

Nicholas Barber†**
Age 56. Director of Royal Insurance from 1991; Deputy Chairman from 1994; Director of the Company from July 1996. Director of Albright & Wilson plc. Former Chief Executive of Ocean Group plc. Governor of the London Business School.

Anthony Forbes
Age 59. Director of Royal Insurance from 1994; Director of the Company from July 1996. Former Joint Senior Partner of Cazenove & Co. Director of Carlton Communications Plc, The Merchants Trust PLC and Watmoughs (Holdings) PLC.

Richard Gamble*
Age 57. Director of Royal Insurance from 1989; Group Chief Executive from 1992; Director and Group Chief Executive of the Company from July 1996. Former Deputy Chief Financial Officer of British Airways Plc. Chairman of the Policyholders Protection Board. A trustee of Crimestoppers.

Patrick Gillam
Age 63. Director of the Company from March 1997. Chairman of Standard Chartered PLC. Formerly a Managing Director of The British Petroleum Company plc. Former Chairman of Asda Group plc. and Booker Tate Limited. Former Director of Commercial Union plc.

Arthur Hayes*
Age 54. Director of Sun Alliance from 1992; Group Executive Director from 1994. Director of Thistle Hotels plc.

John Kemp-Welch†
Age 61. Director of Sun Alliance from 1994. Chairman of the London Stock Exchange Limited. Member of the Panel on Takeovers and Mergers. Former Joint Senior Partner of Cazenove & Co.

Henry Keswick†**
Age 58. Director of Sun Alliance from 1975; Deputy Chairman from 1993 to 1996. Chairman of Jardine Matheson Holdings Limited. Director of Robert Fleming Holdings Limited and The Telegraph plc.

John Rowson†
Age 66. Director of Royal Insurance from 1994; Director of the Company from July 1996. Solicitor. Former Senior Partner of Herbert Smith.

Paul Spencer*
Age 47. Director of Royal Insurance from January 1996; Group Finance Director of the Company from July 1996. Former Associate Director-Treasurer of Hanson plc.

The Duke of Westminster OBE TD DL†
Age 45. Director of Sun Alliance from 1995. Chairman of Grosvenor Estate Holdings Limited. Colonel, Royal Armoured Corps, Territorial Army. Formerly Lieutenant Colonel, Commanding the Queen's Own Yeomanry, Territorial Army.

* Executive Director † Member of Audit & Compliance Committee ** Member of Remuneration Committee

Group Secretary
David Miller

Management Board

Roger Taylor
Chairman of the Management Board

Richard Gamble
Group Chief Executive

Arthur Hayes
Group Executive Director

Paul Spencer
Group Finance Director

David Barker
Group Director of Worldwide Life Operations

Peter Foreman
Group Director of UK General and Global Operations

Scott Nelson
Group Director of Finance

Robin Rowland
Group Director of International Operations

Peter Taylor
Group Director of Marketing, Human Resources & Communications

Group Overview

GENERAL BUSINESS

					1996 NET PREMIUMS WRITTEN	GENERAL BUSINESS OPERATIONS PROFIT
UK	Broker Division	Direct and Retail Division	Corporate Partnership Division	Global Risks Division	£3,435m	£326m
USA	Royal Insurance USA	Sun Alliance USA			£1,063m	(£14m)
CANADA					£413m	£56m
SCANDINAVIA	Denmark	Sweden			£350m	£25m
INTERNATIONAL	Asia, Pacfic, Africa	Europe, Middle East	Latin America, Caribbean		£1,553m	£87m
					£6,814m	£480m

LONG TERM BUSINESS

					1996 NET PREMIUMS WRITTEN	LONG TERM BUSINESS OPERATIONS PROFIT
WORLDWIDE LIFE	UK	International	North America	Scandinavia	£2,546m	£213m

FUND MANAGEMENT

					1996 ASSETS UNDER MANAGEMENT
WORLDWIDE ASSET MANAGEMENT	Investment Management	Property Investment	Fund Management	Trust Company	£48.5bn

UK

Peter Foreman, *Group Director*

	1996 £m	1995 £m
Net Premiums Written	3,435	3,301
Underwriting Result	(82)	45
General Business Operations Profit	326	453

Our merged UK General and Global Operations is the largest writer of general insurances within its home market. The general insurance operations profit in 1996 was £326m.

In the light of several adverse factors and the continuing intensity of competition in the UK, the 1996 profit was a good result reflecting our consistently disciplined underwriting, claims and financial control and the benefits of our multi-channel distribution strategy. Changes in reserving added £25m in respect of discontinued reinsurance of USA asbestos and environmental liabilities and £25m in domestic mortgage indemnity. The personal lines result was adversely affected by increases in both frequency and the average cost of claims. The household account also saw a rise in subsidence losses from the extended period of dry weather. Commercial lines produced an increased underwriting profit helped by another excellent property result and an improvement in the liability account.

NEW INTEGRATED STRUCTURE

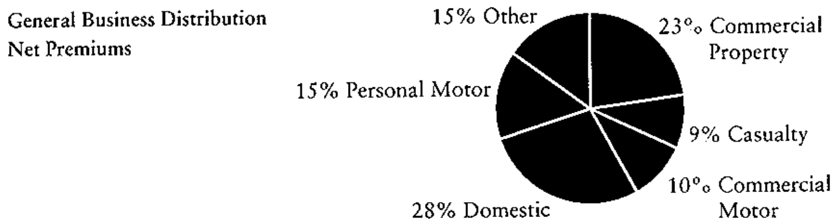
We have structured our UK General and Global Operations into four divisions – Broker, Corporate Partnership, Direct and Retail and Global Risks, each with its own managing director.

By the end of 1996 we had virtually completed management appointments for all four divisions and made considerable progress regarding staff appointments. Decisions regarding all key locations were announced by the end of September. Head offices have been established for the divisions in Liverpool (Broker), Horsham (Direct and Retail and Corporate Partnership) and London (Global Risks). Our engineering operation will be based in Manchester, where Swinton, our insurance intermediary subsidiary, also has its head office.

BROKER DIVISION

Broker Division predominantly assists professional insurance intermediaries in meeting the general insurance needs of their clients. The division is a major player within the UK broker market with a significant share in each of the two markets – commercial insurances and personal insurances – in which it operates. In addition, the division provides fleet insurance for the Motability scheme, which is the largest fleet operation in Europe with currently around 296,000 vehicles. The expertise being developed through this partnership considerably enhances our ability to secure other affinity group business.

Broker Division is the market leader for providing insurance and related services to property investors through a specialist unit based in London. In addition to the specialist centres for



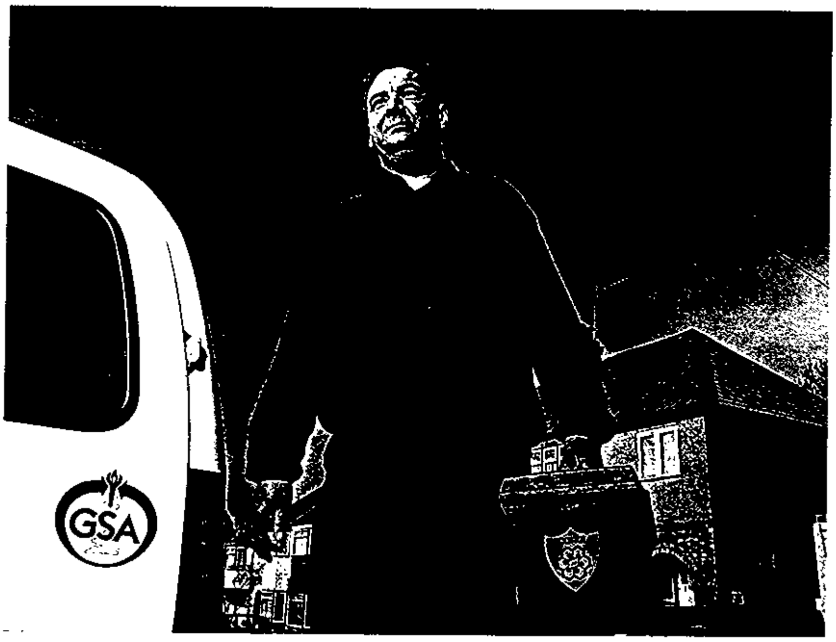
The success of Curriculum, our unique insurance facility for the education sector, lay behind the Royal being voted 'Underwriter of the Year' in partnership with Bowring, Marsh & McLennan at the 1996 British Insurance Industry Awards.

Motability and property investors, the division will operate its commercial insurance business through six regional centres and ten business development centres spread across key sites in the UK. We are establishing five customer service centres throughout the UK to manage personal insurances, together with a specialist high net worth unit based in London. The division is therefore well positioned to service the needs and development opportunities of brokers nationwide.

While competition remains intense across the division's markets, it is particularly aggressive in personal lines, where direct writers and new sources of supply are increasingly active. Brokers and insurers alike are being forced to reduce expenses. Key to achieving this efficiency is electronic data interchange, which is beginning to reshape the cost of handling through this channel.

Consolidation continues in the broker sector. At the same time, brokers are rationalising their placing strategies to focus on fewer insurers, who will need to deliver critical features of financial security, capacity, customer service and quality.

Our new, merged operation creates a formidable force within the market with wide opportunity for developing its already significant share. With representation spread well across the UK, our balanced broker base enables us to develop economies of operation which utilise the best features of both former companies. Through our extensive experience of the issues facing brokers and their clients we will continue to generate a wide range of high quality services and products.



Partnership with Royal SunAlliance is helping half of the UK's 12 electricity utilities to enter the gas market more effectively – through the provision of a competitive service for boiler breakdown insurance.

CORPORATE PARTNERSHIP DIVISION

Combining the corporate partnership business of the two organisations has created the largest supplier of 'own brand' insurances in the UK. Traditionally a large part of this business has come from banks and building societies. This market is changing fast but we are confident our services as a specialist underwriter, capable of providing a full range of bespoke insurance solutions, will still be in strong demand. Household insurance remains the mainstay of the product range, though our partners increasingly look to us to provide a broader range of insurance. The development of our health, creditor and extended warranty business has been a particularly encouraging feature of 1996.

We are also establishing relationships with different types of partners such as Post Office Counters Limited – Britain's largest retail chain – who wish to distribute a range of financial services to their wide customer base.

Our leading position as a supplier of high quality insurance services and claims management across a broad spectrum of products, combined with the cost advantages of the merger, means that we can both enhance our proposition to existing clients and also exploit opportunities brought by fresh entrants to the market.

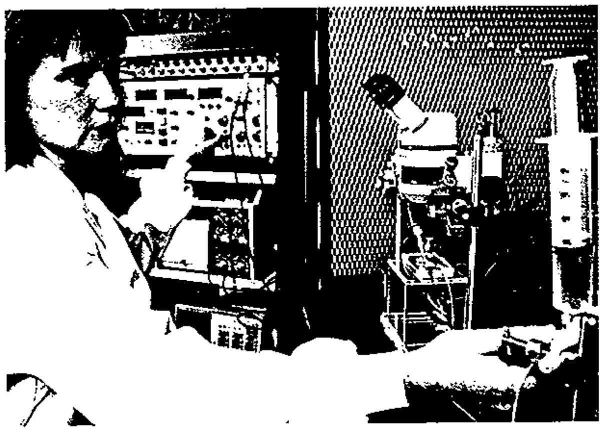
Combining the corporate partnership business of the two organisations has created the largest supplier of 'own brand' insurances in the UK.

DIRECT AND RETAIL DIVISION

We have established the Direct and Retail Division to serve the increasing number of clients who choose to arrange their insurance directly with insurers. There have been strong competitive pressures during integration of the division's operations in 1996. However, there are positive signs as we move into 1997, such as the amelioration in private motor rates.

During 1997 our three direct businesses – The Insurance Service, Royal Insurance Direct and Sun Alliance Connections – will be merged under a single brand to realise economies of scale and enhance opportunities for cross-selling. We are focusing mainly on off the page and telephone sales; thus one of our first steps was to withdraw operations from over 90 small branch locations throughout the UK.

Our Swinton insurance intermediary operation is a well-established retail brand with a million-strong customer base. Its proposition mainly relates to motor insurance and is based on choice and value for money. Swinton remains an autonomous intermediary business, managed under the overall umbrella of the Direct and Retail Division. Swinton will continue to offer its own brand product, underwritten by the Group alongside other insurers' products.


Leading pharmaceutical company Glaxo Wellcome is one of the many major international corporations which depend on the support of our Global Risks Division.

GLOBAL RISKS DIVISION

Global Risks Division comprises four separate businesses, each considerable in itself. They are linked by the common needs of large corporate customers and the international brokers that serve them, the specialist and international nature of the markets involved and the geographical diversity of the risks underwritten.

The four businesses are: **Global** – we are the largest insurer of multinational businesses in the UK and Australasia, providing a blend of risk transfer and risk management services. The Group is the lead insurer for over one third of the top 100 UK companies.

Engineering – combining the strengths of National Vulcan and British Engine, we are the clear UK market leader for engineering inspection and insurance services. Our depth of expertise in this business, together with the capacity we provide, represents a key centre of excellence for the Group worldwide.

Marine – we are one of the largest cargo and hull insurance companies in the London international marine market with a considerable share of marine and transit business throughout the rest of the UK.

Despite considerable competition in most markets, Global Risks Division is well placed to develop its unique mixture of service and technical expertise through both its global network and the deployment of proven relationship management.

Reinsurance – we have strong expertise in property, engineering and financial risks reinsurance. This business also includes the Group's interest in pools for atomic risks, onshore oil and gas risks and international aviation business.

Global Risks Division directly controls underwriting and servicing capabilities in 14 other countries. Together with support from other Group operations and links with quality partners elsewhere, this represents a closely managed network across some 121 countries, dedicated to serving this important customer segment. Despite considerable competition in most markets, the division is well placed to develop its unique mixture of service and technical expertise through both this global network and the deployment of proven relationship management.

USA

Robert Mendelsohn, *President and CEO*

	1996 £m	1995 £m
Net Premiums Written	1,063	1,434
Underwriting Result	(236)	(109)
General Business Operations Profit before reserve increases	103	134
General Business Operations Result after reserve increases	(14)	134

The result was affected by two major events; record weather losses of $164m and the strengthening of asbestos and environmental claims reserves by $200m.

ROYAL USA

An exceptional series of storms and hurricanes during 1996 resulted in the highest ever cost of weather claims in the company's history. The Northeast winter storms in January and February were followed by Hurricanes Bertha and Fran in the third quarter and severe storms affecting both the East Coast and Pacific Northwest in the final quarter.

In total, weather losses amounted to $153m compared to $86m in 1995. This increased cost more than offset the continued improvement in our core book of business arising from the changes we have initiated during the last few years.

Reflecting the $67m of additional weather losses and an exceptional charge of $200m, relating to a change in reserves (described later), the general insurance business operations result was a loss of $96m compared with a profit of $108m in 1995.

General insurance premiums written fell in dollar terms by 10%, reflecting the lower volumes of involuntary workers' compensation business and the maintenance of strict underwriting criteria.

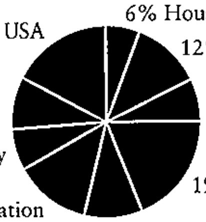
Despite the competitive market conditions, we continued to secure price increases in our householders, personal automobile and commercial package accounts.

We launched four new insurance products during the year. These extend our involvement in the key potentially profitable niche market areas of technology, financial products, international and property coverages.

1996 was notable for several initiatives. We commissioned an in-depth review of our asbestos and environmental reserve levels by an independent actuarial firm. Using state of the art methodology including an expanded database, this established our best estimate of the cost of asbestos and environmental liabilities.

The review confirmed that, as a result of our market focus on small commercial and personal lines during the years prior to 1986, when most of the asbestos and environmental liabilities arose, we had significantly less exposure to these type of claims than many of our peers. The 'main street' nature of the company's business, characterised by small policy limits and policy coverage aggregates, helped to minimise our exposure. However, it was decided to bring the reserving practice for asbestos and environmental claims into line with the emerging and more rigorous standards within the US insurance industry.

General Business Distribution
Net Premiums

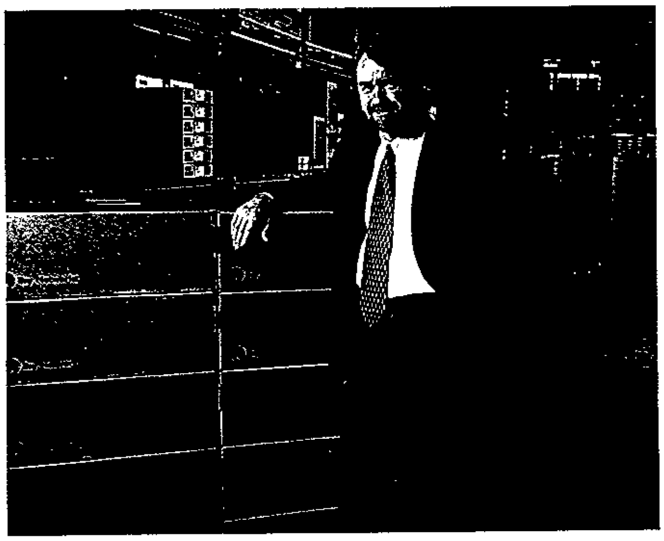


As a consequence, we increased our asbestos and environmental reserves in the fourth quarter of 1996 by $200m to $500m. Emerging losses from old business will now be charged against these reserves, thus realigning us with many of our competitors in eliminating the drag on future annual operating earnings.

Also, we successfully concluded lengthy negotiations with the State of New Jersey to withdraw from our unprofitable personal lines business while retaining the ability to write commercial lines business.

In addition, we launched four new insurance products during the year. These extend our involvement in the key potentially profitable niche market areas of technology, financial products, international and property coverages.

The merger of Royal and Sun Alliance was the catalyst for a re-evaluation of Royal USA by the key rating agencies, resulting in a series of upgradings from AM Best, Standard and Poor's and Moody's.



Roman Michalowski is President of New York-based Westcon, Inc., one of the fastest growing technology businesses in the USA. Since 1985 Westcon has relied upon Royal USA for insurance services which consistently match its growth.

While our marketplace remains challenging, we will sustain our disciplined approach to underwriting, customer service and professional management. We expect that recent improvements in our core book of business, together with the measures taken during 1996 and our enhanced financial position following the merger, will lead to significantly improved results in the future.

SUN ALLIANCE USA

Historically Sun Alliance operated in the US market through reciprocal ceding arrangements with the Chubb Corporation and ownership of the McGee underwriting agency.

That agency was sold in 1995. During that year we also agreed to reduce the amount of business ceded from the Chubb Corporation. These two events have led to a reduction in reported net premiums in 1996 from $590m to $311m.

Following the merger, Royal SunAlliance and Chubb have agreed to terminate these reciprocal reinsurance arrangements with effect from 1st January 1997. This is not expected to have a material effect on Group profit. The integration of the former Sun Alliance USA operation with that of Royal USA had already commenced by the end of 1996.

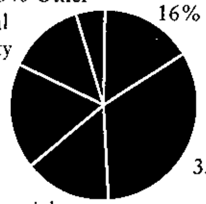
General Business

Canada

Bob Gunn, *President and CEO*

	1996 £m	1995 £m
Net Premiums Written	413	450
Underwriting Result	(6)	(13)
General Business Operations Profit	56	49

General Business Distribution
Net Premiums



In another outstanding year of business, our Canadian operation continued to outperform the industry with a record general business operations profit of C$132m.

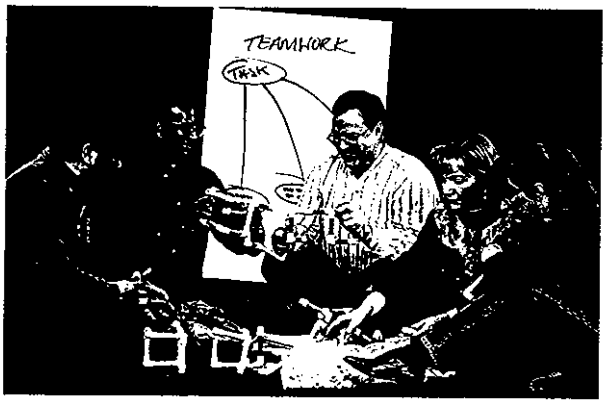
This represents a considerable gain on the 1995 profit of C$104m. Favourable claims experience, particularly in automobile, and a small reduction in the level of large losses contributed to the improvement.

Despite soft market conditions and a C$20m increase in the overall cost of weather claims, both our personal and commercial lines divisions achieved better results. Specialty lines produced a somewhat lower but still positive general insurance result. While automobile business was the most profitable account for all divisions, we also recorded significant improvements in property business.

Competition continued to intensify in 1996 with the formation of several new direct writers in addition to aggressive direct writing initiatives from the banking sector. The industry responded with more mergers and acquisitions as both insurers and brokers joined forces. Royal SunAlliance typified this response with our purchase in January 1997 of The Johnson Corporation, a highly successful group benefits consultant and property casualty insurer. This acquisition will enable us to develop further and faster into the growing market for group insurance.

INITIATIVES IN 1996

The worldwide merger raised few operational issues in Canada as Royal Insurance had already acquired Sun Alliance's property casualty business in 1994. The main focus was on ensuring that each new initiative achieved the key objectives of improving customer service, reducing costs and enhancing company culture. We believe that reshaping our culture into a more team-based environment remains key to our success.



In Canada, as throughout our operations, we encourage team-building exercises to boost initiative and promote greater success.

During the year we introduced several ground breaking initiatives, including broker call centres, claims response centres and a customer service centre. All have received excellent feedback from brokers and customers.

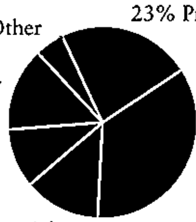
These and other initiatives will provide a vital competitive advantage and reinforce our reputation for professionalism, innovation and outstanding service.

Scandinavia

Peter Zobel, *Managing Director, Codan Insurance*

	1996 £m	1995 £m
Net Premiums Written	350	387
Underwriting Result	(8)	(25)
General Business Operations Profit	25	15

General Business Distribution
Net Premiums



Our Scandinavian general insurance operations, based in Denmark and Sweden, recorded a 67% rise in profit in 1996.

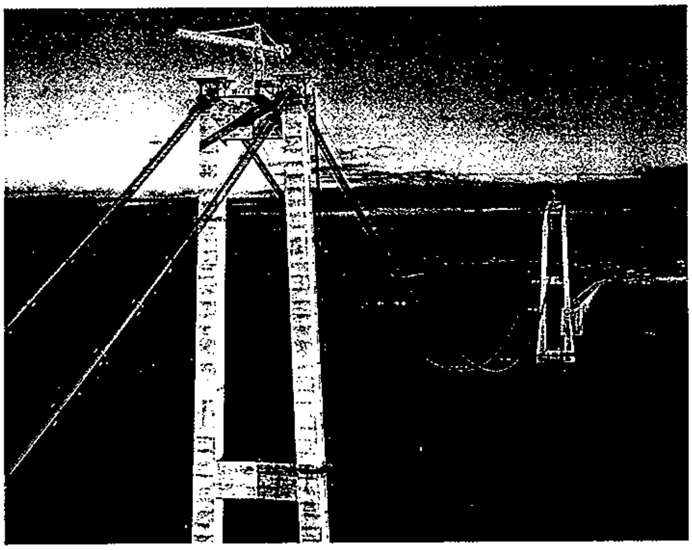
The improvement was totally accounted for by the Danish operations of Codan Insurance, the country's second largest insurer, in which Royal SunAlliance has a 71.5% majority shareholding. The improvement in the Danish result is a continuation of the trend seen in the past two years following remedial pricing and underwriting action and measures to reduce expenses.

Competition in the Danish market has intensified with the entry of banks into insurance through the establishment of their own insurance companies or in co-operation agreements with existing insurers. This development has had a consequent effect on the commercial lines market as traditional insurers have sought to maintain overall market shares.

In response, during 1996 Codan instituted a number of marketing initiatives. It established a 24 hour service to handle underwriting and claims issues. It introduced dialogue marketing for all personal lines customers to ensure that the company is in direct contact with individual policyholders. Codan also established close co-operation with Denmark's second largest credit institution for the sale of property insurance through its real estate arm.

Codan sells products primarily through its own insurance agents and, to a limited extent, through brokers and corporate business partners. In order to improve customer service and marketing effectiveness, the company has reorganised its insurance agency force to specialise in either personal or commercial business.

The company has commenced a review of all business procedures, including the outsourcing of computer operations, with the aim of further reducing expense levels.



Our subsidiary Codan led the insurance for constructing Europe's longest bridge – the Great Belt Bridge between Funen and Zealand in Denmark.

Results from Holmia, the Swedish subsidiary of Codan, continued to be affected by a worsening in the motor insurance account. Holmia has a 2% share of the Swedish market, largely concentrating on motor and accident business. Given the current difficult motor market, it is concentrating on development of its personal lines business.

International

Robin Rowland, *Group Director*

	1996 £m	1995 £m
Net Premiums Written	1,553	1,540
Underwriting Result	(107)	(87)
General Business Operations Profit	87	103

The merger has created an extremely strong network of international operations, many of which are sufficiently large to lead their chosen market segments.

International manages the Group's worldwide general insurance operations outside the UK, North America and Scandinavia. Its general business operations profit, including income from associated companies, was £87m (1995 £103m). While weather losses were lower, this was offset by increased costs in developing new direct marketing ventures. Over half of the operations achieved underwriting profits with premium growth in underlying currencies of 13%.

ASIA, PACIFIC AND AFRICA

We recorded increased profits in Australia where the Sun Alliance and the Royal operations had previously merged in 1992. Strong premium growth in our direct writing operations there, which now have over 1.3 million customers, more than compensated for restrained growth in commercial business, where rates have been softening.

New Zealand, where Sun Alliance had purchased the Royal operation in 1994, also saw growth curtailed by soft market conditions, particularly in the commercial fire market, but our continued focus on sound underwriting principles resulted in a higher level of profit.

In Asia the merger has considerably strengthened many of our market positions and our capability to meet customer needs. Our operations in Singapore, Malaysia, Indonesia and the Philippines had particularly encouraging profits.

The sheer pace of economic growth in countries such as Thailand is generating enormous opportunities for an experienced global insurer like Royal SunAlliance.

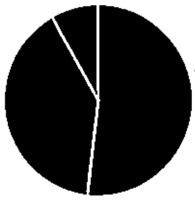
Results improved in Japan where we have the largest operation of any European insurer. We have now been granted direct writing licences for motor and household business. This will expand our current direct client base of 200,000 customers.

We gained improved results in Hong Kong where in January 1997 we agreed to acquire the outstanding 49% stake in Taikoo Royal, formerly owned by the Swire Group. Our leading position in this market provides a sound platform for exploiting opportunities arising from the change-over to Chinese sovereignty in July 1997.

In Thailand our commercial lines associate Sun Alliance (Insurance) Thailand had another good result. Our other Thai associate, Syn Mun Kong, continued to grow impressively as Thailand's most successful and profitable motor insurer.

There was a significant improvement in our African operations. This was largely accounted for by increased profits from our publicly-quoted South African associate Mutual & Federal, whose leading position in the market was enhanced by the acquisition of the general insurance business of Protea, the former Sun Alliance subsidiary.

General Business
Net Premiums
Geographical Distribution



EUROPE AND MIDDLE EAST

The restructuring of our businesses in Belgium, France and Holland has led to an improvement in results.

In Spain we have reached agreement with Bank Argentaria to purchase their insurance subsidiary's portfolio, together with the exclusive right for six years to distribute non-life products to its three million customers.

The benefits of combining our Royal and Sun Alliance operations in the Republic of Ireland place the Group in a strong market position. However, a rise in large fire losses led to a sharp deterioration in results.

We believe the Group's broad range of experience will enable us to provide superior levels of service to the millions of customers in our International operations.

Following a period of strong growth in Italy, results were affected this year by our strengthening of motor claims reserves.

Our operations in Saudi Arabia, which have historically been profitable, were adversely affected by a single large fire loss and unusually severe weather losses.

However, our operation in the Gulf withstood competitive conditions to deliver another satisfactory return.

LATIN AMERICA AND CARIBBEAN

In South America the merger has created a network across seven territories. These include the key insurance markets of Argentina, Brazil and Chile, where we see exciting long term potential for development. While in 1996 we focused on improving the general capability of our operations and integrating both groups' wholly-owned operations in Uruguay, our Latin America operations have achieved profitable growth.

We achieved good underwriting profits in the Caribbean, where hurricane losses were at a lower, but still significant, level than last year.

FUTURE PROSPECTS

The merger has created an extremely strong network of international operations, many of which are sufficiently large to lead their chosen market segments.

We believe the Group's broad range of experience will enable us to provide superior levels of service to the millions of customers in our operations introduced via brokers, our extensive agency networks, our numerous and important corporate partners and our direct operations.

We look forward to the future with confidence both for our existing operations as well as new opportunities in due course in China and India, always maintaining the Group's required focus on underwriting margins and customer service.

Worldwide Asset Management

Arthur Hayes, *Group Executive Director*

The merger has created an asset management operation which benefits from greater resources, economies of scale, enhanced technology and a stronger and more broadly-based team of fund managers and analysts.

NEW STRUCTURE

The investment management activities of both companies have been combined under the banner of Worldwide Asset Management (WAM). Additionally, WAM handles marketing and administration for all the Group's retail investment products and manages the Sun Alliance Trust Company.

Total assets under management at year end exceeded £48bn. As a result WAM is one of the largest asset managers in the UK as ranked by size of funds under management.

WAM consists of four principal operating units. Two of these handle investment activities:

Investment Management, whose main activity is the management of investment portfolios on behalf of the Group's life, general insurance and unit trust companies, together with the Group's shareholders' funds and pension funds.

Property Investments manages the Group's direct property investments. Located in more than twenty countries, these currently have a value of almost £3bn.

These investment activities are supported by teams of investment professionals based in our operations in the USA, Canada, Denmark, Germany, Australia and New Zealand. Our London operation co-ordinates all investment activities to ensure effective control of investment risk across the worldwide portfolio.

WAM aims to deliver, and indeed exceed, the successful investment record produced in recent years by the investment teams from both the Royal and Sun Alliance.

There are two further operating units within WAM:

Fund Management is responsible for the marketing and development activities of our unit trust operations which, prior to the merger, were under the management of the two life companies.

The **Trust Company** acts as corporate trustee and provides trust and administration services.

PERFORMANCE

Group net investment income was £887m (excluding realised gains), representing an increase of 2% after adjusting for currency movements. Activity during 1996 in the combined general fund resulted in an increased commitment to overseas equities – particularly Europe and the Far East. The reduction in US bond holdings followed the disengagement of the reinsurance arrangements with the Chubb Corporation. Within the UK life funds there was also an increased emphasis on overseas equities.

WAM aims to maintain, and indeed exceed, the successful investment record produced in recent years by the investment teams from both the Royal and Sun Alliance. As reported last year, Sun Alliance was awarded the Planned Savings/Micropal award for Best Life Insurance Fund Manager for 1995. Similarly the Royal attracted a number of independent awards including Micropal awards for best life and pensions ranges (smaller groups) over five years.

We sustained this record in 1996. The Group has once again figured prominently in the Planned Savings/Micropal awards, achieving a number of accolades including Best Individual Pension Fund Manager of the Year, first place in the five year Individual Pension (smaller groups category) and first place in the one year Unit Trusts (smaller groups category). Our success was further acknowledged by the Sunday Times/Micropal award of International Fund Manager of the Year.


In another award-winning year for our investment managers, the WAM team was named the Sunday Times/Micropal International Fund Manager of the Year.

THE FUTURE

We have rapidly integrated the two investment teams from the Royal and Sun Alliance into the the new structure. In combining the teams we have taken advantage of the opportunity to reduce organisational costs. The investment management team will be relocated to new premises in the City of London in the first quarter of 1997.

Together the Royal and Sun Alliance Unit Trusts represent an operation with over 100,000 retail customers and total funds under management in excess of £1bn. The scale of this operation provides a solid base for us to develop our retail funds business, using well-targeted products, high levels of customer service and leading-edge technology and processing.

Through its four operating units WAM is well placed to enhance its position as a leading fund management house, dedicated to producing superior investment performance for clients through the active management of their assets.

Worldwide Life

David Barker, *Group Director*

Worldwide Life	1996 £m	1995 £m
Net Premiums Written	2,546	2,291
Long Term Business Operations Profit	213	185
New Annual Premiums	219	220
New Single Premiums	993	693

Strong performances from our life operations in the UK and overseas have reinforced the benefits of the merger and position the Group well for future growth.

The long term business profit rose by 15% to £213m with increases in both the UK and overseas operations. The embedded value of the life business increased by £113m to £1,399m.

UK LIFE

Long term profits from our UK life and pensions business grew to £150m, representing an increase of 13% over 1995. Expense savings in recent years have contributed to this improved profitability. Further expense savings resulting from the merger should lead to even greater profitability in future years.

New single premiums rose by 89% to £640m. We recorded particularly strong sales of with profit bonds, which totalled £330m. New annual premium growth at 5% to £101m was less dramatic, but is encouraging given the difficulties the industry as a whole faced in producing regular premium business during 1996. Sales of protection products continued to be strong, confirming us as a leading player in this market.

As demand grows for personal pension products, Royal SunAlliance is well placed to serve the needs of new generations of families and individuals.

1996 saw continued consolidation in the marketplace. While some companies have withdrawn from the direct sales market, both the Royal and Sun Alliance had been planning to expand this distribution channel. With a post-merger salesforce of around 1,000, we have the opportunity to develop into one of the UK's leading direct salesforces.

In the IFA channel, we have been very successful at selling with profit bond and protection products. As a merged Group one of our chief strategies will be to grow our personal pensions business. We see this as our key market of the future. Our excellent product range, which comprises the best features of both the Royal's newly developed products and Sun Alliance's highly competitive offerings, will enable us to increase sales in 1997 and beyond.

Our other main UK distribution channel is Royal Insurance Property Services whose much improved performance is described later in this section.

In addition to these channels, during 1996 we received valuable support from Sun Alliance Connections, which sells primarily savings endowment business, and Sun Alliance Invest on Line, which offers single premium investment products. We have also launched a pilot term assurance product to be sold by Post Office Counters Limited.

UK Life	1996 £m	1995 £m
Net Premiums Written	1,577	1,256
Long Term Business Operations Profit	150	133
New Annual Premiums	101	96
New Single Premiums	640	339

In 1996 we maintained annual bonus rates for the principal categories of life and pensions business for both Royal and Sun Alliance at the previous year's levels. Terminal bonuses received relatively minor adjustment. The strength of our life funds will enable us to continue to reflect the company's investment performance in delivering fair, consistent and optimum returns to policyholders.

From 1st January 1997, we have operated as a single marketing group, with a unified salesforce and sales management selling the consolidated range of life and pensions products of Royal SunAlliance. This was a key milestone in the merger process. As an integrated unit we are now able to plan for the future with considerable confidence.

ROYAL INSURANCE PROPERTY SERVICES

Royal Insurance Property Services (RIPS), our national estate agency chain, had a good year. Taking advantage of the turnaround in the UK housing market, we recorded a 15% increase in house sales which was well above the market average. Moreover, life and pensions sales increased by over 50% on the preceding year. As a result, RIPS revenue rose by 22% to £99m, so reducing the operating loss from £18m to £2m.

The cost containment programmes introduced in 1995 have proved beneficial and expenses remain well under control. We have had similar success with measures started in 1995 to maximise profitability in our financial services business. Not only have we sold significantly more life policies, but we have also doubled the number of new general insurance policies. These figures demonstrate RIPS growing significance to the Group as a major distribution channel for a wide range of financial services.

Professional fee income from valuations rose, reflecting both the increased housing activity and increased productivity.

While the general election may cause some uncertainty in the housing market, we expect further strengthening as sentiment improves. The actions taken to maximise income and reduce expenditure will enable us to take advantage of this improvement. With the encouraging rise in new instructions, and our continuing recruitment of financial advisers, we anticipate further profitable growth in 1997.

Our Isle of Man operation had a record year for both new business and profits, significantly out-performing the offshore market.

OVERSEAS LIFE

Despite adverse movement in exchange rates, profits from the Group's life operations outside the UK increased by 21% to £63m. Rising investment markets created more favourable new business conditions in most

Overseas Life	1996 £m	1995 £m
Net Premiums Written	969	1,035
Long Term Business Operations Profit	63	52
New Annual Premiums	118	124
New Single Premiums	353	354

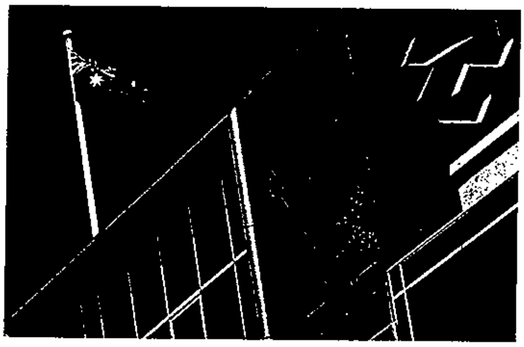
countries, though these were tempered by concern about long term economic prospects and a general lack of consumer confidence, especially in terms of regular premium commitments.

Exchange rate movements masked an underlying increase in new annual premiums and in new single premiums.

Although the merger of our overseas businesses has been relatively straightforward, it has had an impact in several areas. In November we sold our life business in South Africa, at a premium to embedded value, as part of the sale of the Protea Group. In Spain and Italy we are well advanced in integrating the pre-existing Royal and Sun Alliance operations; in both countries we have secured a useful increase in presence.

Important progress was made in a number of operations. The Isle of Man company had a record year for both new business and profits, significantly out-performing the offshore market. Although changes proposed by the Inland Revenue may have an adverse effect on production from the UK in the future, this source represents a relatively small and diminishing segment of the company's business.

Our two Italian operations continued to show progress. They were boosted by the acquisition of a 49% holding in Investment SIM, an independent distribution network for financial products targeted at the upper end of the market. In Spain both our businesses made strong improvements in their direct sales activities.



Strategic acquisition keeps pace with our merger activities. In Australia, for example, we have acquired a major interest in Connelly Temple, a specialist superannuation and pensions master trust manager.

In Australasia new regular premium business recovered from the difficult conditions of 1995 with a markedly improved result in Australia. However, single premium business proved difficult to obtain. Towards the end of the year we acquired a majority interest in Connelly Temple, a leading independent master trust manager. We expect master trusts to be the most dynamic segment of the rapidly growing Australian superannuation market.

Profits increased in North America, primarily reflecting improvements from the US company. Overall, new business levels fell compared to 1995 with a reduction in the US more than offsetting a good performance in Canada, where we achieved record sales of annual premium life and single premium investment products. The closure to new business of the US disability income portfolio adversely affected sales but contributed to the improvement in the overall result.

In Scandinavia Codan generated record profits despite modest growth in new business. Active pursuit of the pensions market produced more encouraging results in the second half of the year. During 1996 we reached agreement with Fokus Bank to establish a joint venture bancassurance company in Norway. This will commence operations in the first half of 1997.

Segmental Information

	Total		General business		Long term business		Associated undertakings	
	1996	1995	1996	1995	1996	1995	1996	1995
	£m	£m	£m	£m	£m	£m	£m	£m
Net premiums written								
UK	5,012	4,557	3,435	3,301	1,577	1,256		
USA	1,255	1,671	1,063	1,434	192	237		
Canada	455	525	413	450	42	75		
Scandinavia	599	650	350	387	249	263		
International	2,039	2,000	1,553	1,540	486	460		
	9,360	9,403	6,814	7,112	2,546	2,291		
Balance on technical accounts (see note 1)								
UK	(178)	178	(328)	45	150	133		
USA	(226)	(102)	(236)	(109)	10	7		
Canada	(3)	(11)	(6)	(13)	3	2		
Scandinavia	12	10	(23)	(20)	35	30		
International	(103)	(81)	(118)	(94)	15	13		
	(498)	(6)	(711)	(191)	213	185		
Operating profit								
UK	342	650	179	507	163	143	-	-
USA	(3)	147	(13)	139	10	8	-	-
Canada	58	52	55	48	3	4	-	-
Scandinavia	60	45	25	14	35	31	-	-
International	126	128	70	81	16	12	40	35
	583	1,022	316	789	227	198	40	35
Interest on borrowings	(64)	(70)						
Other businesses	(14)	(37)						
Operating profit before tax	505	915						
Gains/(losses) on disposal of subsidiaries	4	(37)						
Merger expenses	(16)	-						
Change in equalisation provisions	(90)	(2)						
Gains on the realisation of investments	245	155	232	153	-		13	2
Profit on ordinary activities before tax	648	1,031						
Net assets								
UK	3,234	3,362	1,704	1,998	1,530	1,364	-	-
USA	1,495	1,718	1,339	1,555	156	163	-	-
Canada	396	317	380	301	16	16	-	-
Scandinavia	843	876	621	630	222	246	-	-
International	1,351	1,421	799	815	225	237	327	369
	7,319	7,694	4,843	5,299	2,149	2,026	327	369
Other businesses (see note 3)	(733)	(1,261)						
Group net assets	6,586	6,433						

Notes:
1. The balance on the long term business technical account is gross of tax.
2. Net premiums written by source do not differ materially from net premiums written by destination.
3. The net assets attributed to other businesses include the net assets of non-insurance businesses and of the parent companies including group borrowings.

Group Finance Director's Report

Paul Spencer, *Group Finance Director*

The Annual Report 1996 is presented in two documents: this document, the Annual Review and Summary Financial Statements and the Directors' Report and Accouns. This year both documents are being sent to shareholders. In future years you may elect to continue to receive both or just the Annual Review and Summary Financial Statements. Directors believe that this gives the shareholders a better choice.

An objective of the newly merged Group is to set and follow best practice in our financial reporting. In this document and the Directors' Report and Accounts we have included all the relevant items that are recommended by the Accounting Standards Board for inclusion in the 'Operating and Financial Review'.

Following the merger of the Royal and Sun Alliance companies on 19th July 1996 we have started the major work of integrating the two companies, not just in our business operations and Head Office functions but in many other areas such as our approach to risk, investment policy, reserving policy and our methods of accounting and reporting. Details of our accounting policies can be found on pages 16 to 19 of the Directors' Report and Accounts.

Merger accounting

The financial statements are presented using merger accounting principles bringing all results and cashflows of the two groups into the financial statements from 1st January 1996 even though the merger became effective on 19th July. Accounting policies have been aligned where appropriate and figures for 1995 restated onto a combined basis so that they can be compared against 1996.

Operating performance

1996 has been a successful year for the new Group. Details of divisional performance can be found in the Operations review beginning on page 10. The financial highlights are shown below.

Financial highlights	1996	1995
Operating profit before exceptional item and tax*	**£706m**	£915m
Profit on ordinary activities before tax	**£648m**	£1,031m
Attributable earnings per ordinary share	**29.7p**	52.0p
Total dividend per ordinary share for the year	**19.0p**	16.3p
Shareholders' net assets	**£6,341m**	£6,160m

*See exceptional item, reserving and exchange below.

Exceptional item, reserving and exchange

These are referred to more fully in the Group Chief Executive's review and operations review. The profit for 1996, before charging integration costs of £201m and transfers to claims equalisation provisions of £90m but after changes in claims reserving of £167m and the adverse effect of exchange rate movements of £32m, is £706m. In aggregate these adjustments have depressed earnings per ordinary share in 1996. However, the impact on subsequent years' profits will be to benefit earnings.

Integration

The drive to complete integration continues. Comprehensive plans and financial targets for integration were developed by integration task forces in the period after the merger was announced. These were updated in November in a detailed budget plan and form the basis for the provision included in these financial statements and our programme for implementation.

Savings are still targeted at a minimum of £175m per annum from 1998. The costs expected to be incurred in achieving these are forecast to be around £201m. This provision covers both the cost of redundancy and other staff payments, the cost of property and lease disposals, the large cost of changes to our IT systems and costs attributable to items such as rebranding and changing all our signage.

Inevitably the complexity of integration, involving extensive systems changes and consolidation as well as business restructuring, will impact the pace at which these will be achieved. Some areas of integration are being achieved very quickly but others, for instance computer systems, while on track will take longer.

Acquisitions/disposals/capital expenditure

Following the merger we are beginning to focus the Group and there have been a number of acquisitions and disposals during the year. These are described in more detail in the Executive Deputy Chairman's review and operations reviews. The net cash proceeds to the Group from these transactions including the disposal of EPIC was approximately £189m. We are continuing to develop the merged Group and capital expenditure of £31m has been approved.

Taxation

The tax charge on the profit on ordinary activities for the year of £159m was 25%. The increase on the 1995 rate of 19% reflects mainly the utilisation in 1995 of tax losses in the UK and Canada which were not available in 1996.

Equalisation provisions

The Insurance Companies (Reserves) Act 1995 introduced the requirement to establish equalisation provisions for certain classes of business from the end of 1996. These provisions will be built up over a number of years and are an additional protection in the event of a major UK catastrophe. The UK legislation follows the example of that in place in a number of European Union countries and enhances the competitive position of UK general insurers in that amounts set aside are allowable for tax relief which gives a cashflow benefit to the Group. These provisions are over and above the ultimate cost of outstanding claims. Headline profit figures are presented before charging these amounts.

Cashflow

The detailed cashflow statement is presented under the much improved Financial Reporting Standard 1 on page 27 of the Directors' Report and Accounts. From this it can be seen that the Group had a positive cashflow from operating activities of £568m (1995 £870m). After payment of dividends and interest the cash available for investment was £306m, £73m less than in 1995.

Capital and reserves

Group total capital and reserves increased by £153m to £6,586m. This was largely as a consequence of the profit for the year (after tax and dividends) of £159m and the unrealised gains of £328m arising from the movement in investment markets offset by exchange adjustments of £294m as a result of the strengthening of sterling.

Balance sheet/management of risk

As a global business, 47% of our income arises from outside the UK and the balance sheet represents assets and liabilities held, in local currency, in all territories in which the Group trades. Investments are held in currencies to match broadly the currencies of the liabilities. At the end of 1996, we estimated that net assets were 41% in sterling, 20% in US dollars and 39% in other currencies, largely consistent with the currency spread of our general insurance and life operations. It can also be seen that 47% of shareholders' investments are held in fixed interest securities. The maturities of the bonds broadly match the expected payments of our claims and liabilities to our policyholders.

Our claims provisions are continually assessed by the Group's actuaries and statisticians and periodically reviewed by outside consulting actuaries. Their ability to assess the required claims reserves for the varying forms of risks worldwide continues to improve with the Group's long record and experience in the insurance business.

The principal UK subsidiaries of the Group are regulated by the Department of Trade and Industry and, as with other UK insurance companies, are required to maintain approved assets to provide a margin for solvency. The assets of Royal Insurance plc and Sun Alliance & London Insurance plc exceed in aggregate the minimum requirement by a substantial margin. In overseas countries, where we have major businesses, adherence to similar regulatory requirements is required.

The headline non-life solvency margin (total capital and reserves excluding equalisation provisions and the value of long term business divided by net premiums written) stands at 78% (1995 73%).

Reinsurance protection is maintained to control the level of risk exposure from underwriting in each area of business. Risks are monitored to ensure that aggregations of risk remain within set limits.

Treasury

Borrowings of £753m at 31st December 1996 were £75m lower than last year reflecting the £76m conversion of 7.25% convertible bonds 2007.

£271m of borrowings at 31st December 1996 were in bonds with maturities of six to eleven years, or in mortgages with longer maturities. We intend to repay £150m of notes in March 1997 using cash and short term investments. It is our policy to retain a surplus of undrawn facilities. Our remaining £332m of borrowings were more than covered by £507m of facilities with maturities of five years or more. The terms for these facilities were recently renegotiated at favourable rates to reflect the strength of the new merged Group.

Gearing as a percentage of total capital and reserves was 11% (1995 13%). Interest costs on borrowings amounted to £64m (1995 £70m).

Derivatives are only used to manage currency and interest rate risk on borrowings and for efficient portfolio management. Controls are in place to ensure that derivatives are only used in accordance with established policies and procedures.

The Group's general insurance operations have claims paying ratings of AA – from Standard & Poor's and Aa3 from Moody's Investors Service in the UK, and of A from A M Best in the USA.

Dividends

The total dividend of 19p per ordinary share is an increase of 17% compared with a 1995 total dividend calculated by reference to the weighted average of the respective Royal Insurance and Sun Alliance figures. For the former Sun Alliance Group plc the 1995 dividend was 17.25p and former Royal Insurance Holdings plc 14.995p restated.

Summary Directors' Report

The directors of Royal & Sun Alliance Insurance Group plc submit their summary report and the summary financial statements of the Group for the year ended 31st December 1996.

Principal activities

The Company is the holding company of the Royal & Sun Alliance group of companies whose principal activity is the transaction of insurance business and the provision of related financial services, in the United Kingdom and overseas. A review of the year and future developments are described in the Executive Deputy Chairman's review, the Group Chief Executive's review, the operations review and the Group Finance Director's report in previous pages.

Directors

P J Gillam was appointed a director on 5th March 1997. The other directors named on page 8 served during the year together with The Hon. Amschel Rothschild who died on 8th July 1996 and Sir Ewen Fergusson, P F Foreman, The Lord Kindersley, T S Nelson, Sir Roger Neville, P G Taylor and I M Trotter who resigned from the board on 19th July 1996. The undermentioned, who were appointed directors on 19th July 1996, together with P J Gillam will retire at the forthcoming Annual General Meeting:

J W Baker
N C F Barber
A D A W Forbes
R A Gamble
A G Gormly
J A Rowson
P Spencer

They will be proposed for re-election together with Sir Christopher Benson and T A Hayes who will retire by rotation.

Summary financial statements

The Annual Report for this year is presented in two documents. The summary financial statements on pages 38 and 39 do not, on their own, contain sufficient information to allow for a full understanding of the results and state of affairs of the Group. For further information, the Directors' Report and Accounts should be consulted.

Corporate Governance

A statement on corporate governance appears on page 36.

Auditors

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

By order of the directors
D J Miller
Group Secretary
London, 5th March 1997

Remuneration Committee Report

Statement of policy: executive director remuneration general policy

The salary and other benefits of executive directors and certain senior executives are determined by a Remuneration Committee of non-executive directors. The Committee's objective is to set remuneration so as to attract and retain high calibre executives by offering above average levels of reward for consistently superior business performance. Executives are encouraged to acquire and retain a significant shareholding in the Company.

The Committee's current policy is to base pensionable salaries on the mid-market pay levels of companies of comparable size and complexity, both international financial services companies and other listed companies. Levels of bonus are set above the market average to reward the achievement of challenging business objectives. In framing its policy, the Committee has complied with Section A and has fully considered Section B of the best practice provisions annexed to the Listing Rules of the London Stock Exchange, which in turn reflect the Report of the Study Group on Directors' Remuneration chaired by Sir Richard Greenbury.

The individual salary, bonus and benefit levels of executive directors and senior executives are reviewed annually by the Remuneration Committee, having regard to responsibilities and performance.

Continuity of contracts of employment post-merger

Following the merger, the terms and conditions of employment for all employees of the new Group, including executive directors, are under review in order to achieve Group-wide consistency and conformity with current good practice. Meanwhile subsisting contracts of employment with the relevant Royal Insurance or Sun Alliance company remain in force.

Directors' remuneration and share options

Remuneration for executives consists of three principal elements: a base salary, incentives based on personal performance targets and the performance of the Group or an individual business unit over the shorter and longer term, and pension provision.

Details of individual directors' remuneration are set out on pages 32 and 33, and of directors' share options on page 35 of this document.

The grant of executive share options remains entirely at the discretion of the Committee. The exercise of share options with a date of grant in October 1995 or later requires the Group to achieve an average total shareholder return exceeding the median of the FTSE 100 companies for a period of three years.

Royal Insurance bonus system

Since 1st January 1993 all directors of Royal Insurance plc and senior managers of Royal Insurance participated in a single annual incentive plan: The Senior Executive Share Incentive Plan (SESIP). The bonuses were paid in cash but participants were encouraged to invest a minimum of one half of their bonus in shares in Royal Insurance Holdings plc which they were required to retain for a period of five years in return for which, depending on corporate performance, they would receive an additional grant of shares. This plan was discontinued with effect from 30th June 1996 following the announcement of the merger. Participants subsequently received any entitlement accrued to that date including the cash value of any shares.

Sun Alliance bonus system

Bonuses granted by the Committee each year include any entitlement of executive directors under the Managers Performance Incentive Bonus Scheme (MPIBS) and the staff profit-related bonus scheme, details of which are provided on page 6 of the Directors' Report and Accounts. The MPIBS plan was discontinued with effect from 30th June 1996.

Integration bonus system

Following the merger the Group is committed to make a substantial reduction in its expenses whilst at the same time developing its business profitability. The management bonus schemes described above were therefore terminated with effect from 30th June 1996, and an integration bonus scheme was introduced, specifically designed to reward managers (including executive directors) on the basis of their achievements towards the Group's merger objectives. The whole of any bonus will be paid in cash. The scheme provides discretion for up to half of the annual target bonus to be paid in advance if progress towards both cost reduction and profit targets is ahead of plan at the six months stage. It is intended to review the position at the end of 1997.

Interests of directors in long term incentive schemes

Royal Insurance

No directors received, nor were any potentially entitled to receive, any benefits under any other long term incentive schemes, apart from participation in the Group's executive and savings related share option schemes and the SESIP scheme described above.

At the 1996 Annual General Meeting of Royal Insurance Holdings plc, shareholders approved the introduction from 1st January 1997 of a new Long Term Incentive Plan. Following its introduction, directors and senior managers would have been ineligible for any further grant of executive share options. Following the merger the Long Term Incentive Plan has been withdrawn and participation in executive and savings related share option schemes will therefore continue.

Sun Alliance

No directors received, nor were any potentially entitled to receive, any benefits under long term incentive schemes, apart from participation in the Group's executive and the savings related share option schemes.

Pensionable remuneration

The basic salary of executive directors is the only element of remuneration which is pensionable. (In the case of executive directors who participate in the Royal Insurance Profit Related Pay Scheme, 'basic salary' for this purpose is the notional basic salary, disregarding the separate treatment of the profit-related pay element.) All executive directors are eligible for membership of either 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.

The employer's contribution for 1996 for the Royal Insurance scheme was based upon 15% of basic salaries; in the case of the Sun Alliance scheme there were no employer's contributions. The schemes provide members with a pension of up to two-thirds of pensionable salary, excluding any incentive payments, at age 62. Executives who joined either scheme after May 1989 are subject to the statutory earnings cap (currently £82,200) on Inland Revenue approved pension schemes. Benefits are secured in respect of some executives under the Royal Insurance Supplementary Pension Scheme, which is an unapproved and unfunded plan, to secure benefits in respect of that part of their salary exceeding the earnings cap.

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. Dismissal by the employer, without notice and in the absence of specific grounds, may require payment of up to two years' pay in lieu of the corresponding notice period. If not so terminated, the contract can continue until the director attains the age of 62. In the case of the executive directors proposed for election or re-election at the forthcoming Annual General Meeting, the normal retirement dates are as follows:

R A Gamble	18th September 2001
T A Hayes	31st March 2005
P Spencer	2nd January 2012

Non-executive directors

Non-executive directors do not have service contracts and are not entitled to bonus payments or pension arrangements.

Rotation

All directors are subject to retirement by rotation under the Articles of Association.

Composition of Remuneration Committee

N C F Barber (Chairman), R J Ayling, J W Baker, A G Gormly and Henry Keswick.

Nicholas Barber
Chairman, Remuneration Committee

Directors' Remuneration

1. Directors of Royal & Sun Alliance Insurance Group plc

The remuneration paid to the continuing directors of the Company following the merger of Royal Insurance and Sun Alliance for the full years ended 31st December was as follows:

	Salary & fees £'000	Incentive payments £'000	Benefits in kind £'000	Total 1996 £'000	Total 1995 £'000
Executive directors					
R A Gamble (notes 1, 2 and 5)	375	159	13	547	386
T A Hayes (note 5)	263	94	9	366	262
P Spencer (notes 1, 3 and 5)	225	78	15	318	–
R J Taylor (note 5)	377	147	10	534	375
Non-executive directors					
R J Ayling	24	–	–	24	24
J W Baker (note 1)	22	–	–	22	19
N C F Barber (note 1)	38	–	–	38	40
Sir Christopher Benson	108	–	–	108	92
A D A W Forbes (note 1)	33	–	–	33	19
A G Gormly (note 1)	89	–	–	89	110
J Kemp-Welch	24	–	–	24	24
Henry Keswick	39	–	–	39	45
J A Rowson (note 1)	22	–	–	22	19
The Duke of Westminster (note 4)	27	–	–	27	18

Notes:

1. These directors were appointed on 19th July 1996 on the merger of Royal Insurance and Sun Alliance. The remuneration shown are for each of the full years 1996 and 1995 or from the date of appointment whether paid by Royal Insurance or Sun Alliance. The 1996 remuneration included in the table above paid to former Royal Insurance directors since 19th July 1996 after their appointment as directors of the Company was as follows:

	Salary & fees £'000	Incentive payments £'000	Benefits in kind £'000	Total £'000
R A Gamble	169	86	6	261
P Spencer	102	54	7	163
J W Baker	10	–	–	10
N C F Barber	13	–	–	13
A D A W Forbes	21	–	–	21
A G Gormly	25	–	–	25
J A Rowson	11	–	–	11

2. As a result of the High Court sanctioning the merger on 17th July 1996, 22,582 shares of 25p in Royal Insurance Holdings plc vested to R A Gamble in accordance with the rules of the Royal Insurance Holdings plc Senior Executive Share Incentive Plan. The market price of the shares of Royal Insurance Holdings plc on that day was 383.5p per share.
3. Appointed to the Board of Royal Insurance Holdings plc on 1st January 1996.
4. Appointed 1st February 1995.
5. The Company presently makes no contribution to the Sun Alliance pension fund in respect of the pensions for T A Hayes (1995 £20,000) and R J Taylor (1995 £28,000). Contributions to the Royal Insurance pension fund for R A Gamble were £56,000 (1995 £44,000) and P Spencer were £34,000 (1995 see note 3).

2. Former directors of Royal & Sun Alliance Insurance Group plc

Remuneration paid to former directors for services as directors of the Company up to 19th July 1996 and for the year ended 31st December 1995 was as follows:

	Salary & fees £'000	Incentive payments £'000	Benefits in kind £'000	Total 1996 £'000	Total 1995 £'000
Executive directors					
M L Dew (note 2)	–	–	–	–	138
P F Foreman (notes 1 and 6)	93	25	7	125	87
T S Nelson (note 1)	126	30	8	164	232
R Petty (note 3)	–	–	–	–	139
P G Taylor (note 1)	126	30	5	161	230
I M Trotter (notes 1 and 6)	95	25	7	127	88
Non-executive directors					
Sir Ewen Fergusson (note 4)	13	–	–	13	24
The Lord Kindersley (note 4)	16	–	–	16	28
Sir Roger Neville (note 4)	11	–	–	11	20
The Hon Amschel Rothschild (note 5)	11	–	–	11	12

Notes:

1. Resigned as directors of the Company on 19th July 1996 on the merger of Royal Insurance and Sun Alliance, but continued in employment with the merged Group for the remainder of 1996. The remuneration paid to these former directors after 19th July 1996 was:

	Salary & fees £'000	Incentive payments £'000	Benefits in kind £'000	Total £'000
P F Foreman	78	40	6	124
T S Nelson	105	50	6	161
P G Taylor	105	50	4	159
I M Trotter	79	26	5	110

   In addition, I M Trotter received a lump sum of £214,716 in January 1997 on the termination of his employment contract.

2. Retired on 30th November 1995.
3. Retired on 30th September 1995.
4. Resigned as directors of the Company on 19th July 1996 on the merger of Royal Insurance and Sun Alliance. In addition to the remuneration stated, Sir Ewen Fergusson, The Lord Kindersley and Sir Roger Neville each received superannuation gratuity payments of £20,000 in February 1997.
5. Died on 8th July 1996.
6. Appointed on 1st July 1995.

Directors' Share Interests

The interests of directors in the ordinary shares of 25p of the Company, as declared and recorded in accordance with the Companies Act 1985, were as follows:

	Shares held at 1st January 1996 or on appointment	Shares held at 31st December 1996
R J Ayling	600	600
J W Baker	1,856	1,868
N C F Barber	5,334	5,334
Sir Christopher Benson	38,117	38,714
A D A W Forbes	5,335	5,335
R A Gamble	74,765	75,549
A G Gormly	11,890	11,890
T A Hayes	6,726	46,726
J Kemp-Welch	10,000	20,000
J Kemp-Welch (as Trustee)	50,000	50,000
Henry Keswick	27,267	28,548
J A Rowson	2,217	2,217
P Spencer	533	533
R J Taylor	119,815	125,466
The Duke of Westminster	126,000	126,000
The Duke of Westminster (as Trustee)	80,000	128,000

J Kemp-Welch was also interested as Trustee in £250,000 7.25% Convertible Subordinated Bonds 2008 of the Company at 1st January and 31st December 1996.

On 4th March 1997 the interests of directors in the ordinary shares were as follows:

	Shares held at 4th March 1997
R A Gamble	75,677
A G Gormly	11,908
J A Rowson	2,235
R J Taylor	125,640

All other directors' holdings were unchanged from that stated at 31st December 1996.

Options to subscribe for ordinary shares in the Company were as follows:

	Held at 1st January 1996 or on appointment	During 1996 Granted	During 1996 Exercised (see note 2)	Held at 31st December 1996	Option price (see note 3) p	Exercise dates
R A Gamble	432,491					
		23,584			424	17.10.1999
				456,075	278*	3.6.1992 to 17.10.1999*
	18,121†			18,121†		
	450,612	23,584		474,196		
T A Hayes	308,892		67,844			
		14,904			424	17.10.1999
				255,952	347*	20.4.1993 to 17.10.1999*
	8,830†			8,830†		
	317,722	14,904	67,844	264,782		
P Spencer	186,360					
		23,584			424	17.10.1999
				209,944	369*	17.10.1999 to 20.2.2001*
		5,407†		5,407†		
	186,360	28,991		215,351		
R J Taylor	455,513					
		20,095			424	17.10.1999
				475,608	321*	6.5.1991 to 17.10.1999*
	12,096†			12,096†		
	467,609	20,095		487,704		

Notes:

1. Figures marked † are shares subject to option under savings related share option schemes in which Group employees generally participate. All other options were granted under the executive share option schemes and are normally exercisable within five, six or seven years of the relevant exercise date.
2. The weighted average price at which T A Hayes exercised executive share options was 258.65p per share, the official closing middle market price at the date of exercise being 457p per share.
3. Option prices and exercise dates marked * relate to a number of grants and are the weighted average option price of shares under option and the range of exercise dates.
4. The official closing middle market price at its highest during the year was 457p and at its lowest was 355p per share; on the last dealing day of the year it was 444.5p per share.
5. The exercise of options granted since 1995 under the Royal Insurance Holdings 1988 Share Option Scheme and under the Royal & Sun Alliance 1996 Executive Share Option Scheme 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.
6. 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.

Corporate Governance

In the year to 31st December 1996 and in the preparation of the Annual Report 1996, the Company complied with the provisions of the Code of Best Practice published in December 1992 by the Cadbury Committee. The directors have reviewed the effectiveness of internal financial control in the Group for the year to 31st December 1996 as part of their responsibility to establish and maintain systems of internal financial control. These systems which monitor the risks, in particular, of the Group's composite insurance business activities are designed to provide reasonable but not absolute assurance against material avoidable loss or mis-statement of financial information.

The Board determines Group strategy and financial and other business objectives, and management operates a comprehensive financial performance monitoring process involving monthly and detailed quarterly financial reporting, annual budgets and projections for subsequent years. A project appraisal and monitoring system is applied to capital expenditure. The Underwriting and Life & Asset Management Committees of the Board receive and consider reports on the performance and plans of the Group's business divisions.

The Audit & Compliance Committee of the Board meets regularly. It 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 financial statements and of the effectiveness of Group Internal Audit. It considers the appointment of and fees for the external auditors who have unrestricted access to it. Compliance reports and reports from the Group Finance Director, Group Chief Internal Auditor and external auditors are regularly considered. With effect from 1997, the remit of the Committee has been explicitly widened to include responsibility for the review of worldwide compliance with all legal and regulatory requirements.

The Group considers, approves and promulgates to operational management, policy for the control of risk in relation to underwriting, investment, treasury and other business risks. Adherence on a worldwide basis to each aspect of Group policy is monitored by Group management, reporting to the relevant Committee or the Board, through reporting and assessment procedures approved by the Board as appropriate for each category of risk.

A systematic process of self appraisal is in place in each business unit, incorporating risk profiling, which is a structured and disciplined approach to assessing key business and financial risks and the effective management controls required to mitigate them. Operating units are required regularly to review their internal financial control systems and report to Group management at least annually on their effectiveness. Business operations are required to initiate programmes for improvement where necessary.

The Group Internal Audit function operates on a global basis and carries out regular reviews of the operational and control procedures having due regard to the key business and financial risks identified. Formal reports are prepared of all such reviews for relevant management and key findings provided to the Audit & Compliance Committee. The Group Chief Internal Auditor reports to the Group Finance Director but has unrestricted access to the Audit & Compliance Committee. The Director, Group Legal Department, reports on compliance matters to that Committee.

Particular care has been taken to identify and control any special and enhanced risks arising from the integration process following the merger. Control procedures are regularly reviewed by senior management and Group Internal Audit.

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.

Composition of Audit & Compliance Committee

Henry Keswick (Chairman), N C F Barber, J Kemp-Welch, J A Rowson and The Duke of Westminster.

By order of the directors
D J Miller
Group Secretary
London, 5th March 1997

Statements of Responsibilities and Auditors' Reports

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 and of 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 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 Group and to prevent and detect fraud and other irregularities.

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

We have examined the summary financial statements on pages 38 to 39.

Respective responsibilities of directors and auditors

The summary financial statements are the responsibility of the directors. Our responsibility is to report to you our opinion on their preparation and consistency with the directors' report and accounts.

Basis of opinion

We conducted our work in accordance with the auditing guideline, "The auditors' statement on the summary financial statement" adopted by the Auditing Practices Board.

Opinion

In our opinion the summary financial statements of Royal & Sun Alliance Insurance Group plc are consistent with the Directors' Report and Accounts of Royal & Sun Alliance Insurance Group plc for the year ended 31st December 1996, and comply with the requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London, 5th March 1997

AUDITORS' REPORT ON CORPORATE GOVERNANCE

In addition to our audit of the financial statements, we have reviewed the directors' statements on page 36 concerning the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43 (j) and 12.43 (v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

With respect to the directors' statements on going concern and internal financial control on page 36, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statements on page 36 appropriately reflect the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43 (j).

Coopers & Lybrand
Chartered Accountants
London, 5th March 1997

Summary Consolidated Profit and Loss Account

	1996 £m	1995 £m
Gross premiums written		
General business	8,147	8,679
Long term business	2,619	2,371
	10,766	11,050
Net premiums written		
General business	6,814	7,112
Long term business	2,546	2,291
	9,360	9,403
Balance on the general business technical account	(711)	(191)
Balance on the long term business technical account, gross of tax	213	185
Income from associated undertakings	53	37
Other investment income (1996: including gain on disposal of associated undertaking of £81m)	1,215	1,169
Investment expenses and charges	(96)	(95)
Other charges – other activities	(14)	(37)
Operating profit before tax	505	915
Gains on the realisation of investments	245	155
Change in equalisation provisions	(90)	(2)
	660	1,068
Merger expenses	(16)	–
Disposal of subsidiaries	4	(37)
Profit on ordinary activities before tax	648	1,031
Tax on profit on ordinary activities	(159)	(196)
Profit on ordinary activities after tax	489	835
Attributable to equity minority interests	(25)	(40)
Profit for the financial year attributable to shareholders	464	795
Dividends	(305)	(256)
Transfer to retained profits	159	539
Earnings per ordinary share	29.7p	52.0p
Operating earnings after tax per ordinary share	22.3p	47.1p

All figures relate to continuing operations. The total emoluments of the directors of the Company, including Royal Insurance directors from the date of appointment to the Board, were £2,294,000 (1995 £1,995,000). Details of individual director's remuneration are shown on pages 32 and 33.

Summary Movements in Shareholders' Funds including Statement of Shareholders' Recognised Gains

	1996 £m	1995 £m
Shareholders' funds at 1st January (restated)	6,160	4,330
Profit for the financial year	464	795
Unrealised gains on investments	328	1,196
Exchange	(294)	65
Taxation on reserve movements	(108)	(38)
Shareholders' consolidated recognised gains	390	2,018
Dividends	(305)	(256)
Other movements in shareholders' funds	96	68
Shareholders' funds at 31st December	6,341	6,160

As at 31st December 1996

Summary Consolidated Balance Sheet

ASSETS	1996 £m	1995 £m
Investments		
Land and buildings	2,831	2,915
Interests in associated undertakings	327	369
Other financial investments	37,236	36,666
Value of long term business	1,399	1,286
Deposits with ceding undertakings	100	100
Total investments	41,893	41,336
Assets held to cover linked liabilities	4,980	4,723
Reinsurers' share of technical provisions	2,971	3,052
Debtors	3,312	3,773
Other assets	654	590
Prepayments and accrued income	1,863	1,967
Total assets	55,673	55,441

LIABILITIES	1996 £m	1995 £m
Capital and reserves		
Called up share capital and share premium	561	553
Revaluation reserve	3,668	3,612
Other reserves	(107)	(173)
Profit and loss account	2,219	2,168
Shareholders' funds	6,341	6,160
Equity minority interests in subsidiary undertakings	245	273
Total capital and reserves	6,586	6,433
Fund for future appropriations	3,553	3,235
Technical provisions	36,622	36,971
Technical provisions for linked liabilities	4,980	4,733
Provisions for other risks and charges	355	151
Borrowings	761	838
Other creditors	2,510	2,689
Accruals and deferred income	306	391
Total liabilities	55,673	55,441

The summary financial statements on pages 38 and 39 were approved on 5th March 1997 by the Board of Directors and are signed on its behalf by:

Sir Christopher Benson	R J Taylor	R A Gamble
Chairman	*Executive Deputy Chairman*	*Group Chief Executive*

Financial Calendar

1st April 1997	Payment of first 1997 preference dividend
9th May 1997	Annual general meeting
20th May 1997	Announcement of results for three months ending 31st March 1997
1st July 1997	Payment of final ordinary dividend for 1996
7th August 1997*	Announcement of results for six months ending 30th June 1997 and of interim ordinary dividend
1st October 1997	Payment of second 1997 preference dividend
6th November 1997*	Announcement of results for nine months ending 30th September 1997
1st December 1997*	Payment of interim ordinary dividend for 1997
5th March 1998*	Announcement of results for 1997 and of recommended final ordinary dividend

*Provisional dates

Shareholder Information

Capital Gains Tax

The market value as at 31st March 1982, of each ordinary share in the Company, for capital gains tax purposes after relevant adjustments was for former Royal Insurance shareholders 133.1p, and for former Sun Alliance shareholders 52.7p. 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.

Registrar

Lloyds Bank Registrars, The Causeway, Worthing, West Sussex BN99 6DA.
Telephone: 01903 833376/833401

Shareholder Information

Group Investor Relations, Royal & Sun Alliance Insurance Group plc, 1 Cornhill, London EC3V 3QR
Telephone: 0171 283 4300 Ceefax Page No. 222
Internet address: http://www.royal-and-sunalliance.co.uk/

Registered Office

1 Bartholomew Lane, London EC2N 2AB
Telephone: 0171 588 2345

Group Head Office

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Telephone: 0171 283 4300

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On 19th July 1996, Sun Alliance Group plc (Sun Alliance) was renamed Royal & Sun Alliance Insurance Group plc and became the Parent Company of the new Group formed by the merger of Royal Insurance Holdings plc (Royal Insurance) and Sun Alliance.

The Annual Report of the new Group is presented in two documents. They are the Annual Review and Summary Financial Statements and this document, the Directors' Report and Accounts, which contains the Group Finance Director's Report, the Directors' Report, the Financial Statements and the Auditors' Report on the Financial Statements. The Annual Review and Summary Financial Statements contains the Chairman's Statement, the Executive Deputy Chairman's Review, the Group Chief Executive's Review, the Operations Review and Summary Financial Statements. This year both documents which form the Annual Report are being sent to all shareholders. In future years shareholders will have the choice of receiving either the Annual Review and Summary Financial Statements or the full Annual Report.

Group Finance Director's Report

Paul Spencer, *Group Finance Director*

The Annual Report 1996 is presented in two documents: this document, the Directors' Report and Accounts and the Annual Review and Summary Financial Statements. This year both documents are being sent to shareholders. In future years you may elect to continue to receive both or just the Annual Review and Summary Financial Statements. Directors believe that this gives the shareholders a better choice.

An objective of the newly merged Group is to set and follow best practice in our financial reporting. In this report and the Annual Review we have included all the relevant items that are recommended by the Accounting Standards Board for inclusion in the 'Operating and Financial Review'.

Following the merger of the Royal and Sun Alliance companies on 19th July 1996 we have started the major work of integrating the two companies, not just in our business operations and Head Office functions but in many other areas such as our approach to risk, investment policy, reserving policy and our methods of accounting and reporting. Further details can be found in the Annual Review and details of our accounting policies can be found on pages 16 to 19.

Merger accounting

The financial statements are presented using merger accounting principles bringing all results and cashflows of the two groups into the financial statements from 1st January 1996 even though the merger became effective on 19th July. Accounting policies have been aligned where appropriate and figures for 1995 restated onto a combined basis so that they can be compared against 1996.

Operating performance

1996 has been a successful year for the new Group. Details of divisional performance can be found in the Annual Review. The financial highlights are shown below.

Financial highlights	1996	1995
Operating profit before exceptional item and tax*	£706m	£915m
Profit on ordinary activities before tax	£648m	£1,031m
Attributable earnings per ordinary share	29.7p	52.0p
Total dividend per ordinary share for the year	19.0p	16.3p
Shareholders' net assets	£6,341m	£6,160m

*See exceptional item, reserving and exchange below.

Exceptional item, reserving and exchange

These are referred to more fully in the Annual Review. The profit for 1996, before charging integration costs of £201m and transfers to claims equalisation provisions of £90m but after changes in claims reserving of £167m and the adverse effect of exchange rate movements of £32m, is £706m. In aggregate these adjustments have depressed earnings per ordinary share in 1996. However, the impact on subsequent years' profits will be to benefit earnings.

Integration

The drive to complete integration continues. Comprehensive plans and financial targets for integration were developed by integration task forces in the period after the merger was announced. These were updated in November in a detailed budget plan and form the basis for the provision included in these financial statements and our programme for implementation.

Savings are still targeted at a minimum of £175m per annum from 1998. The costs expected to be incurred in achieving these are forecast to be around £201m. This provision covers both the cost of redundancy and other staff payments, the cost of property and lease disposals, the large cost of changes to our IT systems and costs attributable to items such as rebranding and changing all our signage.

Inevitably the complexity of integration, involving extensive systems changes and consolidation as well as business restructuring, will impact the pace at which these will be achieved. Some areas of integration are being achieved very quickly but others, for instance computer systems, while on track will take longer.

Acquisitions/disposals/capital expenditure

Following the merger we are beginning to focus the Group and there have been a number of acquisitions and disposals during the year. These are described in more detail in the Executive Deputy Chairman's review and operations reviews. The net cash proceeds to the Group from these transactions including the disposal of EPIC was approximately £189m. We are continuing to develop the merged Group and capital expenditure of £31m has been approved.

Taxation

The tax charge on the profit on ordinary activities for the year of £159m was 25%. The increase on the 1995 rate of 19% reflects mainly the utilisation in 1995 of tax losses in the UK and Canada which were not available in 1996.

Equalisation provisions

The Insurance Companies (Reserves) Act 1995 introduced the requirement to establish equalisation provisions for certain classes of business from the end of 1996. These provisions will be built up over a number of years and are an additional protection in the event of a major UK catastrophe. The UK legislation follows the example of that in place in a number of European Union countries and enhances the competitive position of UK general insurers in that amounts set aside are allowable for tax relief which gives a cashflow benefit to the Group. These provisions are over and above the ultimate cost of outstanding claims. Headline profit figures are presented before charging these amounts.

Cashflow

The detailed cashflow statement is presented under the much improved Financial Reporting Standard 1 on page 27. From this it can be seen that the Group had a positive cashflow from operating activities of £568m (1995 £870m). After payment of dividends and interest the cash available for investment was £306m, £73m less than in 1995.

Capital and reserves

Group total capital and reserves increased by £153m to £6,586m. This was largely as a consequence of the profit for the year (after tax and dividends) of £159m and the unrealised gains of £328m arising from the movement in investment markets offset by exchange adjustments of £294m as a result of the strengthening of sterling.

Balance sheet/management of risk

As a global business, 47% of our income arises from outside the UK and the balance sheet represents assets and liabilities held, in local currency, in all territories in which the Group trades. Investments are held in currencies to match broadly the currencies of the liabilities. At the end of 1996, we estimated that net assets were 41% in sterling, 20% in US dollars and 39% in other currencies, largely consistent with the currency spread of our general insurance and life operations. It can also be seen that 47% of shareholders' investments are held in fixed interest securities. The maturities of the bonds broadly match the expected payments of our claims and liabilities to our policyholders.

Our claims provisions are continually assessed by the Group's actuaries and statisticians and periodically reviewed by outside consulting actuaries. Their ability to assess the required claims reserves for the varying forms of risks worldwide continues to improve with the Group's long record and experience in the insurance business.

The principal UK subsidiaries of the Group are regulated by the Department of Trade and Industry and, as with other UK insurance companies, are required to maintain approved assets to provide a margin for solvency. The assets of Royal Insurance plc and Sun Alliance & London Insurance plc exceed in aggregate the minimum requirement by a substantial margin. In overseas countries, where we have major businesses, adherence to similar regulatory requirements is required.

The headline non-life solvency margin (total capital and reserves excluding equalisation provisions and the value of long term business divided by net premiums written) stands at 78% (1995 73%).

Reinsurance protection is maintained to control the level of risk exposure from underwriting in each area of business. Risks are monitored to ensure that aggregations of risk remain within set limits.

Treasury

Borrowings of £753m at 31st December 1996 were £75m lower than last year reflecting the £76m conversion of 7.25% convertible bonds 2007.

£271m of borrowings at 31st December 1996 were in bonds with maturities of six to eleven years, or in mortgages with longer maturities. We intend to repay £150m of notes in March 1997 using cash and short term investments. It is our policy to retain a surplus of undrawn facilities. Our remaining £332m of borrowings were more than covered by £507m of facilities with maturities of five years or more. The terms for these facilities were recently renegotiated at favourable rates to reflect the strength of the new merged Group.

Gearing as a percentage of total capital and reserves was 11% (1995 13%). Interest costs on borrowings amounted to £64m (1995 £70m).

Derivatives are only used to manage currency and interest rate risk on borrowings and for efficient portfolio management. Controls are in place to ensure that derivatives are only used in accordance with established policies and procedures.

The Group's general insurance operations have claims paying ratings of AA – from Standard & Poor's and Aa3 from Moody's Investors Service in the UK, and of A from A M Best in the USA.

Dividends

The total dividend of 19p per ordinary share is an increase of 17% compared with a 1995 total dividend calculated by reference to the weighted average of the respective Royal Insurance and Sun Alliance figures. For the former Sun Alliance Group plc the 1995 dividend was 17.25p and former Royal Insurance Holdings plc 14.995p restated.

The directors of Royal & Sun Alliance Insurance Group plc submit their report and the accounts of the Group for the year ended 31st December 1996.

Principal activity

The Company is the holding company of the Royal & Sun Alliance group of companies whose principal activity is the transaction of insurance business and the provision of related financial services, in the United Kingdom and overseas.

Share capital and scheme of arrangement

On 14th June 1996 the authorised share capital was increased to £850,000,000 by the creation of 1,000,000,000 ordinary shares of 25p each.

Under a scheme of arrangement sanctioned by the High Court under Section 425 of the Companies Act 1985 and effective on 19th July 1996 the shareholders of Royal Insurance Holdings plc received, in place of every 1,000 shares held (and so in proportion for any other number of shares), 1,067 new shares of 25p each fully paid in Royal & Sun Alliance Insurance Group plc.

Details of shares issued by the Company on 19th July and throughout the year are shown in note 31 on page 41.

Review of the year and future developments

These are described in the Executive Deputy Chairman's review, the Group Chief Executive's review and the operations review beginning on page 4 of the Annual Review and Summary Financial Statements. The Group profit, appropriations and financial position are shown on pages 20 to 25.

Dividends

The directors recommend a final dividend of 12.5p per share for payment on 1st July 1997 to holders of ordinary shares on the register at the close of business on 21st March 1997. This, together with the interim dividend of 6.5p per share paid on 2nd December 1996, will make a total dividend for the year of 19.0p per share. A scrip dividend offer is being made in respect of the final dividend.

The preferential dividend at the rate of 3.6875% for the period from 1st October 1996 to 31st March 1997 is to be paid on 1st April 1997 to holders of preference shares on the register at the close of business on 28th February 1997.

Directors

P J Gillam was appointed as a director on 5th March 1997. The other directors named on page 8 of the Annual Review and Summary Financial Statements served during the year together with The Hon Amschel Rothschild who died on 8th July 1996 and Sir Ewen Fergusson, P F Foreman, The Lord Kindersley, T S Nelson, Sir Roger Neville, P G Taylor and I M Trotter who resigned from the Board on 19th July 1996. P J Gillam and the following, who were appointed directors on 19th July 1996, will retire at the forthcoming Annual General Meeting:

J W Baker
N C F Barber
A D A W Forbes
R A Gamble
A G Gormly
J A Rowson
P Spencer

They will be proposed for re-election together with Sir Christopher Benson and T A Hayes who will retire by rotation.

Corporate governance

A statement on corporate governance appears on page 7.

United Kingdom employment policy

The Group remains committed to employee involvement and equality of opportunity. Financial and other information on matters concerning employees is provided by in-house publications and in various other ways, centrally and through the business divisions. Regular negotiations, consultations and discussions on a wide range of subjects are held between Group management and recognised staff representative bodies under agreed procedures at joint meetings at national and local levels.

The continuing policy of the Group is to make available to the disabled, on recruitment or subsequently, the fullest opportunities for employment, training, career development and promotion.

To encourage employees to identify themselves more fully and directly with the Group's profitability, the Group has profit-related pay schemes for UK staff. For employees of Sun Alliance, a bonus under the profit-related bonus scheme is payable if operating profits exceed a threshold which is designed to provide appropriate cover for a growing dividend. For employees of Royal Insurance, a pay conversion profit-related pay scheme operated during 1996 in addition to a profit share scheme.

The Group operates both savings related and executive share option schemes.

Substantial share interests

No interests at 4th March 1997 had been declared to the Company in accordance with Part VI of the Companies Act 1985.

Supplier payment policy

The Group's policy is to pay suppliers in accordance with terms of business as agreed with them upon entering into binding contracts and to adhere to the payment terms with regard to the provision of relevant goods or services supplied in accordance with the contracts.

Charitable and political contributions

The Company and its subsidiaries made charitable donations in the United Kingdom of £915,800 during the year and no political donations.

Auditors

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

By order of the directors
D J Miller
Group Secretary
London, 5th March 1997

Corporate Governance

In the year to 31st December 1996 and in the preparation of the Annual Report 1996, the Company complied with the provisions of the Code of Best Practice published in December 1992 by the Cadbury Committee. The directors have reviewed the effectiveness of internal financial control in the Group for the year to 31st December 1996 as part of their responsibility to establish and maintain systems of internal financial control. These systems which monitor the risks, in particular, of the Group's composite insurance business activities are designed to provide reasonable but not absolute assurance against material avoidable loss or mis-statement of financial information.

The Board determines Group strategy and financial and other business objectives, and management operates a comprehensive financial performance monitoring process involving monthly and detailed quarterly financial reporting, annual budgets and projections for subsequent years. A project appraisal and monitoring system is applied to capital expenditure. The Underwriting and Life & Asset Management Committees of the Board receive and consider reports on the performance and plans of the Group's business divisions.

The Audit & Compliance Committee of the Board meets regularly. It 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 financial statements and of the effectiveness of Group Internal Audit. It considers the appointment of and fees for the external auditors who have unrestricted access to it. Compliance reports and reports from the Group Finance Director, Group Chief Internal Auditor and external auditors are regularly considered. With effect from 1997, the remit of the Committee has been explicitly widened to include responsibility for the review of worldwide compliance with all legal and regulatory requirements.

The Group considers, approves and promulgates to operational management, policy for the control of risk in relation to underwriting, investment, treasury and other business risks. Adherence on a worldwide basis to each aspect of Group policy is monitored by Group management, reporting to the relevant Committee or the Board, through reporting and assessment procedures approved by the Board as appropriate for each category of risk.

A systematic process of self appraisal is in place in each business unit, incorporating risk profiling, which is a structured and disciplined approach to assessing key business and financial risks and the effective management controls required to mitigate them. Operating units are required regularly to review their internal financial control systems and report to Group management at least annually on their effectiveness. Business operations are required to initiate programmes for improvement where necessary.

The Group Internal Audit function operates on a global basis and carries out regular reviews of the operational and control procedures having due regard to the key business and financial risks identified. Formal reports are prepared of all such reviews for relevant management and key findings provided to the Audit & Compliance Committee. The Group Chief Internal Auditor reports to the Group Finance Director but has unrestricted access to the Audit & Compliance Committee. The Director, Group Legal Department, reports on compliance matters to that Committee.

Particular care has been taken to identify and control any special and enhanced risks arising from the integration process following the merger. Control procedures are regularly reviewed by senior management and Group Internal Audit.

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.

Composition of Audit & Compliance Committee
Henry Keswick (Chairman), N C F Barber, J Kemp-Welch, J A Rowson and The Duke of Westminster.

By order of the directors
D J Miller
Group Secretary
London, 5th March 1997

Statement of policy: executive director remuneration general policy

The salary and other benefits of executive directors and certain senior executives are determined by a Remuneration Committee of non-executive directors. The Committee's objective is to set remuneration so as to attract and retain high calibre executives by offering above average levels of reward for consistently superior business performance. Executives are encouraged to acquire and retain a significant shareholding in the Company.

The Committee's current policy is to base pensionable salaries on the mid-market pay levels of companies of comparable size and complexity, both international financial services companies and other listed companies. Levels of bonus are set above the market average to reward the achievement of challenging business objectives. In framing its policy, the Committee has complied with Section A and has fully considered Section B of the best practice provisions annexed to the Listing Rules of the London Stock Exchange, which in turn reflect the Report of the Study Group on Directors' Remuneration chaired by Sir Richard Greenbury.

The individual salary, bonus and benefit levels of executive directors and senior executives are reviewed annually by the Remuneration Committee, having regard to responsibilities and performance.

Continuity of contracts of employment post-merger

Following the merger, the terms and conditions of employment for all employees of the new Group, including executive directors, are under review in order to achieve Group-wide consistency and conformity with current good practice. Meanwhile subsisting contracts of employment with the relevant Royal Insurance or Sun Alliance company remain in force.

Directors' remuneration and share options

Remuneration for executives consists of three principal elements: a base salary, incentives based on personal performance targets and the performance of the Group or an individual business unit over the shorter and longer term, and pension provision.

Details of individual directors' remuneration are set out on pages 10 and 11, and of directors' share options on page 13 of this document.

The grant of executive share options remains entirely at the discretion of the Committee. The exercise of share options with a date of grant in October 1995 or later requires the Group to achieve an average total shareholder return exceeding the median of the FTSE 100 companies for a period of three years.

Royal Insurance bonus system

Since 1st January 1993 all directors of Royal Insurance plc and senior managers of Royal Insurance participated in a single annual incentive plan: The Senior Executive Share Incentive Plan (SESIP). The bonuses were paid in cash but participants were encouraged to invest a minimum of one half of their bonus in shares in Royal Insurance Holdings plc which they were required to retain for a period of five years in return for which, depending on corporate performance, they would receive an additional grant of shares. This plan was discontinued with effect from 30th June 1996 following the announcement of the merger. Participants subsequently received any entitlement accrued to that date including the cash value of any shares.

Sun Alliance bonus system

Bonuses granted by the Committee each year include any entitlement of executive directors under the Managers Performance Incentive Bonus Scheme (MPIBS) and the staff profit-related bonus scheme, details of which are provided on page 6. The MPIBS plan was discontinued with effect from 30th June 1996.

Integration bonus system

Following the merger the Group is committed to make a substantial reduction in its expenses whilst at the same time developing its business profitability. The management bonus schemes described above were therefore terminated with effect from 30th June 1996, and an integration bonus scheme was introduced, specifically designed to reward managers (including executive directors) on the basis of their achievements towards the Group's merger objectives. The whole of any bonus will be paid in cash. The scheme provides discretion for up to half of the annual target bonus to be paid in advance if progress towards both cost reduction and profit targets is ahead of plan at the six months stage. It is intended to review the position at the end of 1997.

Interests of directors in long term incentive schemes

Royal Insurance

No directors received, nor were any potentially entitled to receive, any benefits under any other long term incentive schemes, apart from participation in the Group's executive and savings related share option schemes and the SESIP scheme described above.

At the 1996 Annual General Meeting of Royal Insurance Holdings plc, shareholders approved the introduction from 1st January 1997 of a new Long Term Incentive Plan. Following its introduction, directors and senior managers would have been ineligible for any further grant of executive share options. Following the merger the Long Term Incentive Plan has been withdrawn and participation in executive and savings related share option schemes will therefore continue.

Sun Alliance

No directors received, nor were any potentially entitled to receive, any benefits under long term incentive schemes, apart from participation in the Group's executive and the savings related share option schemes.

Pensionable remuneration

The basic salary of executive directors is the only element of remuneration which is pensionable. (In the case of executive directors who participate in the Royal Insurance Profit Related Pay Scheme, 'basic salary' for this purpose is the notional basic salary, disregarding the separate treatment of the profit-related pay element.) All executive directors are eligible for membership of either 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.

The employer's contribution for 1996 for the Royal Insurance scheme was based upon 15% of basic salaries; in the case of the Sun Alliance scheme there were no employer's contributions. The schemes provide members with a pension of up to two-thirds of pensionable salary, excluding any incentive payments, at age 62. Executives who joined either scheme after May 1989 are subject to the statutory earnings cap (currently £82,200) on Inland Revenue approved pension schemes. Benefits are secured in respect of some executives under the Royal Insurance Supplementary Pension Scheme, which is an unapproved and unfunded plan, to secure benefits in respect of that part of their salary exceeding the earnings cap.

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. Dismissal by the employer, without notice and in the absence of specific grounds, may require payment of up to two years' pay in lieu of the corresponding notice period. If not so terminated, the contract can continue until the director attains the age of 62. In the case of the executive directors proposed for election or re-election at the forthcoming Annual General Meeting, the normal retirement dates are as follows:

R A Gamble	18th September 2001
T A Hayes	31st March 2005
P Spencer	2nd January 2012

Non-executive directors

Non-executive directors do not have service contracts and are not entitled to bonus payments or pension arrangements.

Rotation

All directors are subject to retirement by rotation under the Articles of Association.

Composition of Remuneration Committee

N C F Barber (Chairman), R J Ayling, J W Baker, A G Gormly and Henry Keswick.

Nicholas Barber
Chairman, Remuneration Committee

Directors' Remuneration

1. **Directors of Royal & Sun Alliance Insurance Group plc**

The remuneration paid to the continuing directors of the Company following the merger of Royal Insurance and Sun Alliance for the full years ended 31st December was as follows:

	Salary & fees £'000	Incentive payments £'000	Benefits in kind £'000	Total 1996 £'000	1995 £'000
Executive directors					
R A Gamble (notes 1, 2 and 5)	375	159	13	547	386
T A Hayes (note 5)	263	94	9	366	262
P Spencer (notes 1, 3 and 5)	225	78	15	318	–
R J Taylor (note 5)	377	147	10	534	375
Non-executive directors					
R J Ayling	24	–	–	24	24
J W Baker (note 1)	22	–	–	22	19
N C F Barber (note 1)	38	–	–	38	40
Sir Christopher Benson	108	–	–	108	92
A D A W Forbes (note 1)	33	–	–	33	19
A G Gormly (note 1)	89	–	–	89	110
J Kemp-Welch	24	–	–	24	24
Henry Keswick	39	–	–	39	45
J A Rowson (note 1)	22	–	–	22	19
The Duke of Westminster (note 4)	27	–	–	27	18

Notes:

1. These directors were appointed on 19th July 1996 on the merger of Royal Insurance and Sun Alliance. The remuneration shown are for each of the full years 1996 and 1995 or from the date of appointment whether paid by Royal Insurance or Sun Alliance. The 1996 remuneration included in the table above paid to former Royal Insurance directors since 19th July 1996 after their appointment as directors of the Company was as follows:

	Salary & fees £'000	Incentive payments £'000	Benefits in kind £'000	Total £'000
R A Gamble	169	86	6	261
P Spencer	102	54	7	163
J W Baker	10	–	–	10
N C F Barber	13	–	–	13
A D A W Forbes	21	–	–	21
A G Gormly	25	–	–	25
J A Rowson	11	–	–	11

2. As a result of the High Court sanctioning the merger on 17th July 1996, 22,582 shares of 25p in Royal Insurance Holdings plc vested to R A Gamble in accordance with the rules of the Royal Insurance Holdings plc Senior Executive Share Incentive Plan. The market price of the shares of Royal Insurance Holdings plc on that day was 383.5p per share.
3. Appointed to the Board of Royal Insurance Holdings plc on 1st January 1996.
4. Appointed 1st February 1995.
5. The Company presently makes no contribution to the Sun Alliance pension fund in respect of the pensions for T A Hayes (1995 £20,000) and R J Taylor (1995 £28,000). Contributions to the Royal Insurance pension fund for R A Gamble were £56,000 (1995 £44,000) and P Spencer were £34,000 (1995 see note 3).

2. Former directors of Royal & Sun Alliance Insurance Group plc

Remuneration paid to former directors for services as directors of the Company up to 19th July 1996 and for the year ended 31st December 1995 was as follows:

	Salary & fees £'000	Incentive payments £'000	Benefits in kind £'000	Total 1996 £'000	Total 1995 £'000
Executive directors					
M L Dew (note 2)	–	–	–	–	138
P F Foreman (notes 1 and 6)	93	25	7	125	87
T S Nelson (note 1)	126	30	8	164	232
R Petty (note 3)	–	–	–	–	139
P G Taylor (note 1)	126	30	5	161	230
I M Trotter (notes 1 and 6)	95	25	7	127	88
Non-executive directors					
Sir Ewen Fergusson (note 4)	13	–	–	13	24
The Lord Kindersley (note 4)	16	–	–	16	28
Sir Roger Neville (note 4)	11	–	–	11	20
The Hon Amschel Rothschild (note 5)	11	–	–	11	12

Notes:

1. Resigned as directors of the Company on 19th July 1996 on the merger of Royal Insurance and Sun Alliance, but continued in employment with the merged Group for the remainder of 1996. The remuneration paid to these former directors after 19th July 1996 was:

	Salary & fees £'000	Incentive payments £'000	Benefits in kind £'000	Total £'000
P F Foreman	78	40	6	124
T S Nelson	105	50	6	161
P G Taylor	105	50	4	159
I M Trotter	79	26	5	110

   In addition, I M Trotter received a lump sum of £214,716 in January 1997 on the termination of his employment contract.

2. Retired on 30th November 1995.
3. Retired on 30th September 1995.
4. Resigned as directors of the Company on 19th July 1996 on the merger of Royal Insurance and Sun Alliance. In addition to the remuneration stated, Sir Ewen Fergusson, The Lord Kindersley and Sir Roger Neville each received superannuation gratuity payments of £20,000 in February 1997.
5. Died on 8th July 1996.
6. Appointed on 1st July 1995.

Directors' Share Interests

The interests of directors in the ordinary shares of 25p of the Company, as declared and recorded in accordance with the Companies Act 1985, were as follows:

	Shares held at 1st January 1996 or on appointment	Shares held at 31st December 1996
R J Ayling	600	600
J W Baker	1,856	1,868
N C F Barber	5,334	5,334
Sir Christopher Benson	38,117	38,714
A D A W Forbes	5,335	5,335
R A Gamble	74,765	75,549
A G Gormly	11,890	11,890
T A Hayes	6,726	46,726
J Kemp-Welch	10,000	20,000
J Kemp-Welch (as Trustee)	50,000	50,000
Henry Keswick	27,267	28,548
J A Rowson	2,217	2,217
P Spencer	533	533
R J Taylor	119,815	125,466
The Duke of Westminster	126,000	126,000
The Duke of Westminster (as Trustee)	80,000	128,000

J Kemp-Welch was also interested as Trustee in £250,000 7.25% Convertible Subordinated Bonds 2008 of the Company at 1st January and 31st December 1996.

On 4th March 1997 the interests of directors in the ordinary shares were as follows:

	Shares held at 4th March 1997
R A Gamble	75,677
A G Gormly	11,908
J A Rowson	2,235
R J Taylor	125,640

All other directors' holdings were unchanged from that stated at 31st December 1996.

Options to subscribe for ordinary shares in the Company were as follows:

	Held at 1st January 1996 or on appointment	During 1996 Granted	During 1996 Exercised (see note 2)	Held at 31st December 1996	Option price (see note 3) p	Exercise dates
R A Gamble	432,491					
		23,584			424	17.10.1999
				456,075	278*	3.6.1992 to 17.10.1999*
	18,121†			18,121†		
	450,612	23,584		474,196		
T A Hayes	308,892		67,844			
		14,904			424	17.10.1999
				255,952	347*	20.4.1993 to 17.10.1999*
	8,830†			8,830†		
	317,722	14,904	67,844	264,782		
P Spencer	186,360					
		23,584			424	17.10.1999
				209,944	369*	17.10.1999 to 20.2.2001*
		5,407†		5,407†		
	186,360	28,991		215,351		
R J Taylor	455,513					
		20,095			424	17.10.1999
				475,608	321*	6.5.1991 to 17.10.1999*
	12,096†			12,096†		
	467,609	20,095		487,704		

Notes:

1. Figures marked † are shares subject to option under savings related share option schemes in which Group employees generally participate, further details of which are shown in note 31 on page 42. All other options were granted under the executive share option schemes and are normally exercisable within five, six or seven years of the relevant exercise date.
2. The weighted average price at which T A Hayes exercised executive share options was 258.65p per share, the official closing middle market price at the date of exercise being 457p per share.
3. Option prices and exercise dates marked * relate to a number of grants and are the weighted average option price of shares under option and the range of exercise dates.
4. The official closing middle market price at its highest during the year was 457p and at its lowest was 355p per share; on the last dealing day of the year it was 444.5p per share.
5. The exercise of options granted since 1995 under the Royal Insurance Holdings 1988 Share Option Scheme and under the Royal & Sun Alliance 1996 Executive Share Option Scheme 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.
6. 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.

Auditors' Report on Corporate Governance

Report by the auditors to Royal & Sun Alliance Insurance Group plc on corporate governance matters
In addition to our audit of the financial statements, we have reviewed the directors' statements on page 7 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion
We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion
With respect to the directors' statements on going concern and internal financial control on page 7, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statements on page 7 appropriately reflect the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

Coopers & Lybrand
Chartered Accountants
London, 5th 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 and of 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 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 Group and to prevent and detect fraud and other irregularities.

Report of the auditors to the members of Royal & Sun Alliance Insurance Group plc

We have audited the financial statements on pages 16 to 49.

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 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 mis-statement, 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 requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31st December 1996 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 20 on page 36.

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 31st December 1996 and of the profit, total recognised gains and cash flows of the Group 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, 5th March 1997

Effects of merger on Group financial statements

On 19th July 1996, Sun Alliance Group plc (Sun Alliance) was renamed Royal & Sun Alliance Insurance Group plc and became the Parent Company of the new Group formed by the merger of Royal Insurance Holdings plc (Royal Insurance) and Sun Alliance. Merger accounting principles have been used and the results have been presented as if the new Group had been established throughout the current and prior years.

Alignment of accounting policies and presentation

The new Group's accounting policies are set out on pages 17 to 19. The process of aligning policies and presentation across the new Group has resulted in the following principal changes:

a) General business is accounted for on an annual basis. Previously Sun Alliance used a fund basis of accounting for London market marine and aviation business.
b) Overseas revenue transactions are translated at rates ruling at the year end. Previously Royal Insurance used average rates of exchange during the year to translate revenue transactions.
c) The reinsurers' share of technical provisions is presented on the assets side of the balance sheet. Previously Royal Insurance presented these amounts on the liabilities side of the balance sheet in arriving at net technical provisions.
d) Balances arising from insurance broking transactions are presented gross. Previously Sun Alliance took advantage of the transitional provision within Financial Reporting Standard 5 permitting the offset of balances between insurance brokers and the Group.
e) The value of long term business, being the value of the shareholders' interest in the long term funds in excess of that recognised under the modified statutory solvency basis of reporting long term business, is included within investments in the consolidated balance sheet. Previously Sun Alliance did not include this value in the financial statements but disclosed it in the Group Chief Executive's review.
f) British Aviation Insurance Company Ltd is accounted for as a subsidiary of the Group. Previously this company was an associated undertaking of both Royal Insurance and Sun Alliance.
g) Sun Alliance and Royal Insurance Australia Holdings Ltd is accounted for as a subsidiary of the Group. This company was previously an associated undertaking of Royal Insurance and a subsidiary of Sun Alliance.
h) Scrip acceptances received under the scrip dividend alternative are subsequently added back to reserves. Previously Sun Alliance made no adjustment to reserves for scrip dividend acceptances which were accounted as shares issued at a premium.
i) Goodwill arising on acquisitions is written off to other reserves in the consolidated balance sheet along with the merger reserve arising on consolidation of Royal Insurance and Sun Alliance. Previously Sun Alliance wrote goodwill off against the consolidated profit and loss account reserve.

Other policy and presentation changes

In addition the following changes have been made during the year for the reasons stated:

a) The Insurance Companies (Reserves) Act 1995 requires the Group to set aside equalisation provisions in the UK to mitigate exceptionally high loss ratios 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 provisions are taken through the general business technical account. In certain other countries similar legislation has applied for a number of years and adjustments have been made to incorporate these provisions in the financial statements on a consistent basis.
b) The format of the consolidated cash flow statement has been revised in accordance with the changes to Financial Reporting Standard 1 'Cash flow statements'.
c) The Group has adopted the disclosure requirements of Financial Reporting Standard 8 'Related party disclosures' which was effective for the first time this year.
d) Following an amendment to the ABI Guidance on Accounting for Insurance Business, reversionary bonuses on long term policies are no longer shown separately in the long term business technical account and are now included in the change in long term business provision. Separate disclosure of total bonuses on long term policies included in the long term business technical account are now shown in note 6 on page 30.

The effect of the above changes is set out on page 23 and in notes 1, 20 and 21.

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. Changes in presentation and accounting policy are set out on page 16.

Group accounts

The merger of Royal Insurance and Sun Alliance has been accounted for using the merger accounting principles set out in Financial Reporting Standard 6 'Acquisitions and mergers'.

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

The consolidated shareholders' cash flow statement has been drawn up in accordance with Financial Reporting Standard 1 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 accounts. Other associated undertakings which do not represent a material part of the Group's income or assets, are dealt with as ordinary investments. The figures included for interests in principal associated undertakings are for the accounting periods indicated on page 49.

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 in the case of general insurance business and, in the case of long term business, are included within the long term business technical account.

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 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. 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, 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, together with 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 full 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 set up. 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.

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 and unrealised gains and losses attributable to investments matching the long term business provision and investments held to cover linked liabilities are dealt with in the long term business technical account. All other realised gains and losses, including the Group's share of realised gains and losses of associated undertakings, are dealt with in the non-technical account and all other 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 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. 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. No provision is made for taxation which might arise on the distribution of profits retained by overseas subsidiaries or associated undertakings.

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.

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 Scandinavia, Canada and the United States paid on an annuity basis are included after reflecting interest to be earned.

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.

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.

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.

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 the United States are included at amortised value. 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.

Value of long term business

This item represents the directors' assessment of the value attributable to shareholders of the future cash flows on a discounted basis arising from in-force long term business policies in excess of that recognised under the modified statutory solvency basis of reporting long term business with no allowance for the value of cash flows from future business. A corresponding amount, other than the element thereof relating to subsidiaries at the date of acquisition, is credited to the revaluation reserve.

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.

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.

Goodwill

Goodwill, being the difference between the cost of acquisition and fair values of the assets acquired arising on the acquisition of subsidiary companies and associated undertakings, is written off against other reserves in the year of acquisition with any subsequent adjustments to costs or fair values being restricted to the following year.

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.

Scrip dividends

Full provision is made in the profit and loss account for dividends declared. The provision for dividends that relates to scrip acceptances subsequently received under the scrip dividend alternative is added back to reserves.

Consolidated Profit and Loss Account
Technical Account – General Business

	Notes	1996 £m	1995 £m
Gross premiums written		8,147	8,679
Outward reinsurance premiums		(1,333)	(1,567)
Premiums written, net of reinsurance		6,814	7,112
Change in the gross provision for unearned premiums		(24)	(84)
Change in the provision for unearned premiums, reinsurers' share		(24)	43
Earned premiums, net of reinsurance		6,766	7,071
Claims paid			
Gross amount		(5,807)	(5,841)
Reinsurers' share		943	877
		(4,864)	(4,964)
Change in the provision for claims			
Gross amount		(317)	(219)
Reinsurers' share		203	230
		(114)	11
Claims incurred, net of reinsurance		(4,978)	(4,953)
Acquisition costs		(1,844)	(1,951)
Change in deferred acquisition costs		(58)	19
Administrative expenses	2	(718)	(565)
Reinsurance commissions and profit participation		211	190
Net operating expenses	4	(2,409)	(2,307)
Balance on the technical account before change in equalisation provisions		(621)	(189)
Change in equalisation provisions	20	(90)	(2)
Balance on the technical account for general business		(711)	(191)

All figures relate to continuing operations.

The notes on pages 28 to 49 form part of these accounts.

Consolidated Profit and Loss Account
Technical Account – Long term Business

	Notes	1996 £m	1995 £m
Gross premiums written		2,619	2,371
Outward reinsurance premiums		(73)	(80)
Earned premiums, net of reinsurance		2,546	2,291
Investment income	*11*	2,426	2,060
Unrealised gains on investments		438	2,100
Total technical income		5,410	6,451
Claims paid			
Gross amount		(2,500)	(2,353)
Reinsurers' share		60	74
		(2,440)	(2,279)
Change in the provision for claims			
Gross amount		(20)	(34)
Reinsurers' share		8	13
		(12)	(21)
Claims incurred, net of reinsurance		(2,452)	(2,300)
Change in long term business provision			
Gross amount		(1,277)	(1,385)
Reinsurers' share		5	18
		(1,272)	(1,367)
Change in technical provisions for linked liabilities, net of reinsurance		(359)	(627)
Change in other technical provisions, net of reinsurance		(1,631)	(1,994)
Acquisition costs		(355)	(340)
Change in deferred acquisition costs		20	22
Administrative expenses		(186)	(194)
Net operating expenses	*2, 4*	(521)	(512)
Investment expenses and charges	*11*	(44)	(44)
Tax attributable to the long term business	*12*	(274)	(169)
Total technical charges		(4,922)	(5,019)
Technical income less charges		488	1,432
Transfers to the fund for future appropriations		(339)	(1,294)
Balance on the technical account for long term business		149	138

All figures relate to continuing operations.

The notes on pages 28 to 49 form part of these accounts.

Consolidated Profit and Loss Account
Non-technical Account

	Notes	1996 £m	1995 £m
Balance on the general business technical account (see page 20)		(711)	(191)
Balance on the long term business technical account (see page 21)		149	138
Tax credit attributable to balance on the long term business technical account		64	47
Balance on the long term business technical account gross of tax		213	185
Investment income (1996: including gain on disposal of associated undertaking of £81m)	2, 11	1,268	1,206
Investment expenses and charges	2, 11	(96)	(95)
Other charges – other activities	2, 25	(14)	(37)
Operating profit before tax	14	505	915
Gains on the realisation of investments		245	155
Change in equalisation provisions	20	(90)	(2)
		660	1,068
Merger expenses	5	(16)	–
Gains/(losses) on disposal of subsidiaries	24	4	(11)
Goodwill write down on business planned for disposal	24	–	(26)
Profit on ordinary activities before tax		648	1,031
Tax on profit on ordinary activities	12	(159)	(196)
Profit on ordinary activities after tax		489	835
Attributable to equity minority interests		(25)	(40)
Profit for the financial year attributable to shareholders		464	795
Dividends	13	(305)	(256)
Transfer to retained profits		159	539
Earnings per ordinary share	14	29.7p	52.0p
Operating earnings after tax per ordinary share	14	22.3p	47.1p

All figures relate to continuing operations.

The notes on pages 28 to 49 form part of these accounts.

For the year ended 31st December 1996

Statement of Total Recognised Gains and Losses

	Notes	Revaluation reserve £m	Profit and loss account £m	1996 £m	1995 £m
Profit for the financial year		–	464	464	795
Unrealised gains on investments		328	–	328	1,196
Exchange		(113)	(181)	(294)	65
Taxation on reserve movements		(111)	3	(108)	(38)
Shareholders' consolidated recognised gains arising in the year		104	286	390	2,018
Prior year adjustment	20	–	(26)	(26)	
Total shareholders' consolidated recognised gains		104	260	364	

For the year ended 31st December 1996

Movements in Shareholders' Funds

	Notes	Share capital/ premium £m	Revaluation reserve £m	Other reserves (see below) £m	Profit and loss account £m	1996 £m	1995 £m
Shareholders' funds at 1st January as previously reported by							
Royal Insurance		670	991	(381)	1,396	2,676	1,882
Sun Alliance		377	1,752	–	511	2,640	1,768
Merger reserve adjustment		(494)	–	494	–	–	–
Accounting policy alignment	1d	–	869	(286)	287	870	702
Merged shareholders' funds at 1st January		553	3,612	(173)	2,194	6,186	4,352
Prior year adjustment	20	–	–	–	(26)	(26)	(22)
Shareholders' funds restated at 1st January		553	3,612	(173)	2,168	6,160	4,330
Shareholders' consolidated recognised gains arising in the year		–	104	–	286	390	2,018
Increase in share capital	31	10	–	–	–	10	4
Increase in share premium		9	–	–	–	9	14
Merger reserve arising during the year		–	–	74	–	74	7
Goodwill written (off)/back	24	–	–	(8)	–	(8)	34
Dividends	13	–	–	–	(305)	(305)	(256)
Transfer on realisation	24	–	(52)	–	52	–	–
Other reserve movements		(11)	4	–	18	11	9
Shareholders' funds at 31st December		561	3,668	(107)	2,219	6,341	6,160

Other reserves as restated at 1st January represent the cumulative amount of goodwill written off (adjusted for disposals) of £667m and the merger reserve of £494m arising as a result of the merger of Royal Insurance and Sun Alliance on 19th July 1996. As at 31st December 1996 the cumulative amount of goodwill written off (adjusted for disposals) is £675m.

The merger reserve arising during the year relates principally to the conversion of Royal Insurance bonds under the terms of the scheme of arrangement.

Included in the balance on the consolidated profit and loss account is a reserve of an overseas subsidiary attributable to the Group of £240m (1995 £283m) which was established on a discretionary basis as a contingency fund.

The notes on pages 28 to 49 form part of these accounts.

Consolidated Balance Sheet

ASSETS	Notes	Shareholder consolidated 1996 £m	Shareholder consolidated 1995 £m	Combined consolidated 1996 £m	Combined consolidated 1995 £m
Investments					
Land and buildings	16	920	946	2,831	2,915
Interests in associated undertakings	23	327	369	327	369
Other financial investments	16	14,259	14,668	37,236	36,666
Value of long term business	17	1,399	1,286	1,399	1,286
Deposits with ceding undertakings		82	82	100	100
Interests in life and banking operations	25	418	420	–	–
Total investments		17,405	17,771	41,893	41,336
Assets held to cover linked liabilities	16	–	–	4,980	4,723
Reinsurers' share of technical provisions					
Provision for unearned premiums		469	545	469	545
Long term business provision		–	–	176	188
Claims outstanding		2,241	2,224	2,326	2,309
Technical provisions for linked liabilities		–	–	–	10
		2,710	2,769	2,971	3,052
Debtors					
Debtors arising out of direct insurance operations	18	1,855	1,889	1,929	1,980
Debtors arising out of reinsurance operations		489	572	501	582
Other debtors		746	824	534	658
Bank customer advances		–	–	348	553
		3,090	3,285	3,312	3,773
Other assets					
Tangible assets	19	208	230	241	261
Cash at bank and in hand		304	226	413	329
		512	456	654	590
Prepayments and accrued income					
Accrued interest and rent		208	223	473	541
Deferred acquisition costs – long term		–	–	579	589
Deferred acquisition costs – general		716	783	716	783
Other prepayments and accrued income		81	45	95	54
		1,005	1,051	1,863	1,967
Total assets		24,722	25,332	55,673	55,441

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 notes on pages 28 to 49 form part of these accounts.

Consolidated Balance Sheet

LIABILITIES	Notes	Shareholder consolidated 1996 £m	Shareholder consolidated 1995 £m	Combined consolidated 1996 £m	Combined consolidated 1995 £m
Capital and reserves					
Ordinary share capital		390	380	390	380
Preference share capital		125	125	125	125
Called up share capital	31	515	505	515	505
Share premium account		46	48	46	48
Revaluation reserve		3,668	3,612	3,668	3,612
Other reserves		(107)	(173)	(107)	(173)
Profit and loss account		2,219	2,168	2,219	2,168
Equity shareholders		6,216	6,035	6,216	6,035
Non-equity shareholders		125	125	125	125
Shareholders' funds (see page 23)		6,341	6,160	6,341	6,160
Equity minority interests in subsidiary undertakings		245	273	245	273
Total capital and reserves		6,586	6,433	6,586	6,433
Fund for future appropriations		–	–	3,553	3,235
Technical provisions					
Provision for unearned premiums		3,698	3,912	3,698	3,912
Long term business provision	30	–	–	20,997	20,732
Claims outstanding		11,546	12,029	11,815	12,301
Equalisation provisions	20	112	26	112	26
		15,356	15,967	36,622	36,971
Technical provisions for linked liabilities		–	–	4,980	4,733
Provisions for other risks and charges	27	323	125	355	151
Deposits received from reinsurers		27	29	36	37
Creditors					
Creditors arising out of direct insurance operations		250	254	304	311
Creditors arising out of reinsurance operations		296	509	327	538
Debenture loans including convertible debt	29	526	615	533	624
Amounts owed to credit institutions	29	227	213	228	214
Other creditors including taxation and social security		671	716	924	940
Proposed dividend	13	195	166	195	166
Banking customer deposits	25	–	–	724	697
		2,165	2,473	3,235	3,490
Accruals and deferred income		265	305	306	391
Total liabilities		24,722	25,332	55,673	55,441

Except for certain debenture loans and amounts owed to credit institutions shown in note 29, all creditors are payable within a period of five years.

The notes on pages 28 to 49 form part of these accounts.

Parent Company Balance Sheet

	Notes	1996 £m	1995 £m
Fixed assets			
Investments in subsidiary undertakings	22	6,034	3,523
Current assets			
Amounts owed by Group undertakings		778	460
Other debtors		55	10
		833	470
Creditors – amounts falling due within one year			
Borrowings	29	(150)	(99)
Amounts owed to Group undertakings		(8)	(7)
Other creditors including taxation and social security		(19)	(20)
Proposed dividend	13	(195)	(92)
		(372)	(218)
Net current assets		461	252
Total assets less current liabilities		6,495	3,775
Creditors – amounts falling due after more than one year			
Borrowings including convertible debt	29	(154)	(303)
Provisions for liabilities and charges	27	–	(5)
Net assets		6,341	3,467
Capital and reserves			
Ordinary share capital		390	204
Preference share capital		125	125
Called up share capital	31	515	329
Share premium account		46	48
Revaluation reserve		5,265	3,006
Profit and loss account		515	84
Shareholders' funds	21	6,341	3,467
analysed between			
Equity shareholders		6,216	3,342
Non-equity shareholders		125	125

The notes on pages 28 to 49 form part of these accounts.

The accounts on pages 16 to 49 were approved on 5th March 1997 by the Board of Directors and are signed on its behalf by:

Sir Christopher Benson	R J Taylor	R A Gamble
Chairman	*Executive Deputy Chairman*	*Group Chief Executive*

Consolidated Shareholders' Cash Flow Statement

	Notes	1996 £m	1995 £m
Operating activities			
Net cash inflow from general business		451	771
Shareholders' net cash inflow from long term business		105	117
Other operating cash flows attributable to shareholders		12	(18)
Net cash inflow from operating activities	36	568	870
Merger expenses paid	5	(16)	–
Servicing of finance			
Interest paid		(63)	(70)
Dividends paid on non-equity shares		(9)	(7)
Dividends paid to minorities		(6)	(10)
		(78)	(87)
Taxation paid		(83)	(27)
Capital expenditure			
Purchases less sales of tangible assets		(53)	(106)
Acquisitions and disposals			
Acquisition of interests in associated undertakings		(1)	(18)
Acquisition of subsidiary undertakings	40	(6)	(31)
Disposal of interests in associated undertakings	23	113	–
Disposal of subsidiary undertaking	41	83	23
		189	(26)
Dividends paid on equity shares		(256)	(203)
Financing	39		
Issue of ordinary share capital		17	21
Increase/(decrease) in borrowings		18	(63)
Net cash outflow from financing		35	(42)
Cash available for investment		306	379
Cash flows were invested as follows:			
Increase in cash holdings		81	7
Net portfolio investments	37, 38		
Land and buildings		53	(37)
Shares and other variable yield securities		103	147
Loans, debt securities and other fixed income securities		(67)	471
Deposits with credit institutions		136	(209)
		225	372
Net investment of cash flows		306	379

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 notes on pages 28 to 49 form part of these accounts.

1. Merger of Royal Insurance and Sun Alliance

The combination of the businesses of Royal Insurance and Sun Alliance meets the definition of a merger as set out in Financial Reporting Standard 6 'Acquisitions and mergers'. The principles of merger accounting have been followed in presenting the combined Group's 1996 accounts.

The merger was effected on 19th July 1996 by means of a scheme of arrangement sanctioned by the High Court whereby all of Royal Insurance's issued share capital (other than one share held by the Company) was cancelled and new share capital was issued by Royal Insurance to the Company by capitalisation of the reserve arising from the cancellation. Under the scheme, the Company issued new shares to the former Royal Insurance shareholders on the basis of 1,067 ordinary shares of 25p each in the Company for every 1,000 Royal Insurance shares of 25p each previously held. On 18th July the market price of the ordinary shares of the Company was 365p and the market price of the ordinary shares of Royal Insurance was 389.5p.

In adopting merger accounting, the results of the former Royal Insurance and Sun Alliance groups have been brought together for the whole of 1996 and prior years with adjustments to achieve uniformity of accounting policies. The principal policy and presentation changes are listed on page 16. Merger accounting requires that the share premium account of Royal Insurance together with the difference between the nominal value of the shares issued to former shareholders in Royal Insurance and the nominal value of the shares received in exchange is shown as a movement on other reserves. By 31st December 1996, 736,710,336 ordinary shares of 25p each with a fair value of £2,699m had been issued by the Company in exchange for 690,450,172 ordinary shares of 25p in Royal Insurance. Legal and other advisers' costs incurred in relation to the merger are shown in the non-technical account.

The results prior and subsequent to the merger together with net assets at the date of the merger are shown below. For both Royal Insurance and Sun Alliance the financial year begins on 1st January. The post merger operating profit before tax includes the integration costs and the full year's charge for change in equalisation provisions.

a) Analysis of 1996 results	To date of merger Royal Insurance £m	Sun Alliance £m	Adjustments £m	Post merger Royal & Sun Alliance £m	Total £m
Net premiums written					
General business	1,836	1,887	7	3,084	6,814
Long term business	541	612	–	1,393	2,546
	2,377	2,499	7	4,477	9,360
Balance on technical accounts					
General business	(93)	(39)	–	(579)	(711)
Long term business, gross of tax	44	48	–	121	213
Investment income (net of expenses and charges)	415	285	(7)	479	1,172
Other charges	(3)	(10)	–	(1)	(14)
Operating profit before tax	228	225	(3)	55	505
Gains on the realisation of investments	135	59	(4)	55	245
Change in equalisation provisions	–	–	–	(90)	(90)
	363	284	(7)	20	660
Merger expenses	(8)	(8)	–	–	(16)
Gains/(losses) on disposal of subsidiaries	–	(2)	–	6	4
Profit on ordinary activities before tax	355	274	(7)	26	648
Tax and minority interests	(91)	(88)	7	(12)	(184)
Profit for the financial year attributable to shareholders	264	186	–	14	464
Unrealised gains on investments, net of tax	(103)	(24)	(6)	353	220
Exchange	(16)	(32)	–	(246)	(294)
Shareholders' consolidated recognised gains	145	130	(6)	121	390

The net adjustment to shareholders' consolidated recognised gains relates to the inclusion of British Aviation Insurance Company Ltd as a subsidiary and the treatment adopted for Sun Alliance and Royal Insurance Australia Holdings Ltd referred to in notes (f) and (g) on page 16. The figures up to the date of the merger are stated at the rates of exchange used at 30th June 1996.

1. Merger of Royal Insurance and Sun Alliance *(continued)*

b) Analysis of 1995 results	Royal Insurance £m	Sun Alliance £m	Adjustments £m	Total £m
Net premiums written				
General business	3,524	3,571	17	7,112
Long term business	1,029	1,262	–	2,291
	4,553	4,833	17	9,403
Balance on technical account				
General business	(158)	(33)	–	(191)
Long term business, gross of tax	91	94	–	185
Investment income (net of expenses and charges)	583	539	(11)	1,111
Other charges	(18)	(19)	–	(37)
Operating profit before tax	439	480	(4)	915
Gains on the realisation of investments	59	103	(7)	155
Change in equalisation provisions	–	(2)	–	(2)
	498	581	(11)	1,068
Loss on disposal of subsidiary and goodwill	–	(37)	–	(37)
Profit on ordinary activities before tax	498	544	(11)	1,031
Tax and minority interests	(106)	(144)	14	(236)
Profit for the financial year attributable to shareholders	392	400	3	795
Unrealised gains on investments	527	504	165	1,196
Exchange	14	51	–	65
Taxation on reserve movements	(38)	–	–	(38)
Shareholders' consolidated recognised gains	895	955	168	2,018

The figures stated above are as reported in the 1995 accounts of Royal Insurance and Sun Alliance except that the policy change to recognise equalisation provisions results in a reduction of £4m in the shareholders' consolidated recognised gains of Sun Alliance. The net adjustment to shareholders' consolidated recognised gains is made up of the £149m increase in the value of long term business relating to Sun Alliance, additional profit for the financial year of £3m and unrealised gains of £6m relating to the inclusion of British Aviation Insurance Company Ltd as a subsidiary, and additional unrealised gains of £10m relating to the consolidation treatment adopted for Sun Alliance and Royal Insurance Australia Holdings Ltd as referred to in notes (e), (f) and (g) on page 16. The remaining policy changes noted on page 16 do not have a significant effect on the 1995 results.

c) Net assets

The net assets of the Group on the date of the merger were:

	£m
Using the respective 1995 policies	
Royal Insurance	2,826
Sun Alliance	2,932
Value of long term business	853
Other adjustments	(25)
Net assets at 19th July 1996	6,586

d) Adjustment to opening shareholders' funds

The accounting policy alignments result in shareholders' funds at 1st January 1996 increasing by £870m (1995 £702m). This increase is made up of the value of long term business relating to Sun Alliance of £853m (1995 £704m) and other accounting policy alignment adjustments of £17m (1995 decrease of £2m). Goodwill of £259m has been transferred from the profit and loss account to other reserves.

2. Exceptional items

a) As a result of the integration of the businesses of Royal Insurance and Sun Alliance groups following the merger on 19th July 1996, exceptional costs have been charged to the consolidated profit and loss account in 1996 as follows:

	£m
Technical account	
General business administrative expenses	182
Long term business net operating expenses	29
Non-technical account	
Investment expenses and charges	6
Other activities	3
Total costs of integration (of which £201m is attributable to shareholders)	220

b) An exceptional gain of £81m has been included in investment income in the non-technical account arising from the gain on the sale of an associated undertaking (see also note 11 and note 23).

3. Exchange rates

In respect of the major overseas currencies, the rates of exchange used in these financial statements are US Dollar 1.71 (1995 1.55), Canadian Dollar 2.35 (1995 2.12) and Danish Kroner 10.09 (1995 8.60).

4. Net operating expenses

	General business		Long term business	
	1996	1995	1996	1995
	£m	£m	£m	£m
Net operating expenses in the technical accounts include:				
Depreciation	72	84	10	11
Operating lease rentals – premises	71	75	11	12
Operating lease rentals – other assets	20	17	–	3

In addition, other charges in the non-technical account include depreciation of £9m (1995 £11m) and operating lease rentals – premises of £12m (1995 £14m) and operating lease rentals – other assets of £1m (1995 £2m).

5. Merger expenses

Merger expenses relate to legal and other advisers' costs incurred in merging Royal Insurance and Sun Alliance.

6. Long term insurance business

Net new business written during the year was as follows:

	1996	1995
	£m	£m
Annual premiums	219	220
Single premiums	993	693
	1,212	913

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 £657m (1995 £571m).

7. Employee information	1996 £m	1995 £m
Staff costs for all employees, including executive directors, comprise:		
Wages and salaries	892	911
Social security costs	72	73
Pension costs	65	71
	1,029	1,055

	1996 Number	1995 Number
The average number of employees of the Group during the year, including executive directors, was as follows:		
UK	27,789	30,054
USA	4,630	4,730
Canada	2,424	2,364
Scandinavia	2,540	2,667
International	7,888	7,205
	45,271	47,020

8. 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, Canada 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 is 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 1996 was **£65m** (1995 £71m) of which **£12m** (1995 £13m) related to the Sun Alliance UK scheme and **£29m** (1995 £25m) related to the main Royal Insurance UK scheme, including **£9m** (1995 £5m) in respect of early retirements.

Independent qualified actuaries carry out valuations of the major schemes except for the Sun Alliance UK scheme, 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 (Royal Insurance UK 30th June 1996, Sun Alliance UK 31st March 1994, USA 1st January 1996 and Canada 1st January 1994), the market value of the assets of these schemes was **£3,020m** (1995 £2,718m). Of this amount, **£1,085m** related to the Royal Insurance UK scheme and **£1,597m** to the Sun Alliance UK scheme and their actuarial values were sufficient to cover 122% 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 were based on assumptions for the major UK schemes as follows:

	Royal Insurance	Sun Alliance
Salary increases	6.0%	7.5%
Pension increases	4.0%	5.0%
Investment returns	8.5%	9.0%

The level of contributions to the Royal Insurance UK scheme was 15% of relevant earnings during 1996. In the light of the 30th June 1996 valuation, the level of contributions will be 12% in 1997. In addition, contributions in respect of early retirements will cease from 1st February 1997. No contributions are currently being made to the Sun Alliance UK scheme although 5% of relevant UK earnings have been charged to the profit and loss account. Actuarial surpluses arising from the valuations of both the Sun Alliance UK and Royal Insurance 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 31st December except that included in creditors are amounts of **£35m** (1995 £25m) resulting from the difference between the amounts charged to revenue and the amounts contributed to the main Sun Alliance scheme in the UK and **£24m** (1995 £31m) in respect of provisions for unfunded overseas schemes.

9. Other 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 31st December 1996, the unprovided accumulated obligation in the United States is estimated at **£11m** (1995 £12m) assuming a premium inflation initially of 9% reducing over 7 years to 5.5% (1995 10% reducing over 8 years to 5.5%) and a discount rate of 8%. The unprovided accumulated obligation in Canada is estimated at **£11m** (1995 £11m) assuming a premium inflation for medical care of 13.5% reducing over 15 years to 6.5% (1995 14% reducing over 16 years to 6.5%) and for dental care 6.5% for all years and a discount rate of 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** (1995 £10m). 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 **£21m** (1995 £21m).

10. Directors' remuneration	1996 £'000	1995 £'000
The aggregate emoluments of the directors of the company, including amounts received from subsidiaries were as follows:		
Executive directors – remuneration	1,901	1,551
– pension contributions	40	110
Fees to non-executive directors	353	294
	2,294	1,955

The emoluments of the Chairman were **£108,333** (1995 £91,648). No pension contributions were paid on behalf of the Chairman in 1996 or 1995. The emoluments of the highest paid director, excluding pension contributions, were **£534,024** (1995 £375,121). Pension contributions of **£nil** (1995 £28,125) were paid on his behalf. A pension payment of **£18,522** (1995 £17,430) was paid by a subsidiary to a former director in respect of services other than as a director.

The above figures include Royal Insurance directors from the date of appointment to the Board.

Details of directors' remuneration and a report of the Remuneration Committee are shown on pages 8 to 11.
Details of directors' interests in the Parent Company are shown on pages 12 and 13.

11. Investment income	Technical account long term business 1996 £m	1995 £m	Non-technical account 1996 £m	1995 £m
Income from associated undertakings				
Profit before gains on the realisation of investments	–	–	40	35
Gains on the realisation of investments	–	–	13	2
	–	–	53	37
Other investment income				
Income from land and buildings	166	174	62	64
Income from other investments	1,443	1,461	921	952
Gains on the realisation of investments (1996: including gain of £81m on disposal of associated undertaking)	817	425	232	153
	2,426	2,060	1,215	1,169
Investment income	2,426	2,060	1,268	1,206
Investment expenses and charges				
Interest on borrowings	(2)	(3)	(64)	(70)
Investment management expenses (1996: including integration costs of £6m)	(42)	(41)	(32)	(25)
	(44)	(44)	(96)	(95)
Net investment income	2,382	2,016	1,172	1,111

12. Taxation	Technical account long term business 1996 £m	Technical account long term business 1995 £m	Non-technical account 1996 £m	Non-technical account 1995 £m
The taxation on profit on ordinary activities charged in the profit and loss account is as follows:				
UK taxation				
Corporation tax	138	63	89	159
Trading losses utilised	–	–	–	(64)
Deferred tax	(8)	17	(37)	4
Prior year adjustments – corporation tax	(7)	(41)	3	(7)
– deferred tax	–	–	(23)	–
Double taxation relief	(2)	(2)	(30)	(44)
	121	37	2	48
Tax attributable to UK dividend income and to balance on the long term business technical account	44	31	87	69
Overseas taxation	109	101	84	96
Advance corporation tax recovered	–	–	(14)	(17)
	274	169	159	196
Analysed:				
Parent and subsidiaries	274	169	147	187
Associated undertakings	–	–	12	9

UK corporation tax for the current year is based on a rate of 33% (1995 33%). Further details of deferred tax are given in note 28. Creditors in the consolidated balance sheet include a liability of £59m (1995 £46m) in respect of corporation tax payable.

13. Dividends		1996 £m	1995 £m
Ordinary			
Interim paid	1996 6.5p (1995 to former Sun Alliance shareholders 5.9p; to former Royal Insurance shareholders restated at 4.686p)	101	81
Final proposed	1996 12.5p (1995 to former Sun Alliance shareholders 11.35p; to former Royal Insurance shareholders restated at 10.309p)	195	166
		296	247
Preference		9	9
		305	256

Full provision has been made for the proposed final dividend. The actual amount paid will depend on acceptances of the scrip dividend offer. The scrip amount added back to the Parent Company reserves in 1996 was £15m which includes an amount of £6m in respect of scrip acceptances in previous years.

The 1995 dividend per share to former Royal Insurance shareholders has been adjusted for the share exchange whereby Royal Insurance shareholders received 1,067 Sun Alliance shares for every 1,000 Royal Insurance shares held.

14. 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 £455m (1995 £786m) and the weighted average of 1,532,721,395 (1995 1,510,838,337) shares in issue during the year.

Operating profit before tax excludes the merger expenses, the change in equalisation provisions, gains and losses on the realisation of investments (including those related to associated undertakings), gains and losses on the disposal of subsidiaries and goodwill write down on business planned for disposal. Operating earnings after tax per ordinary share attributable to shareholders excludes those amounts net of applicable taxation.

The reconciliation of operating earnings after tax per ordinary share to earnings per ordinary share is as follows:

	1996 p	1995 p
Operating earnings after tax per ordinary share	22.3	47.1
Attributable to shareholders per ordinary share, net of tax:		
Change in equalisation provisions	(4.3)	(0.1)
Gains on the realisation of investments	12.0	7.5
Merger expenses	(1.0)	–
Gains/(losses) on disposal of subsidiaries	0.7	(0.8)
Goodwill write down on business planned for disposal	–	(1.7)
Earnings per ordinary share	29.7	52.0

15. Auditors' remuneration	1996 £'000	1995 £'000
Remuneration for audit – Coopers & Lybrand	3,508	3,884
– other	1,042	1,603
	4,550	5,487

Remuneration for audit includes £15,000 (1995 £10,000) in respect of the Parent Company.
Fees paid to Coopers & Lybrand for other services in the UK, including fees relating to the merger, were £1,100,000 (1995 £725,000).

16. Investments	Shareholder consolidated 1996 £m	Shareholder consolidated 1995 £m	Combined consolidated 1996 £m	Combined consolidated 1995 £m
Land and buildings				
Freehold	840	870	2,541	2,679
Long leasehold	66	56	272	212
Short leasehold	14	20	18	24
Total land and buildings	920	946	2,831	2,915
Of which Group occupied	293	304	422	445
Other financial investments				
Shares and other variable yield securities and units in unit trusts	4,869	4,465	15,158	13,628
Debt securities and other fixed income securities				
British government securities	1,853	1,847	5,770	5,401
Other government securities	2,946	3,198	4,668	4,420
Local authority securities	392	474	566	623
Corporate bonds	3,012	3,467	8,465	10,090
Preference shares	116	131	156	182
Loans secured by mortgages	154	172	549	631
Other loans (see below)	20	19	125	139
Deposits with credit institutions	897	895	1,779	1,552
Total other financial investments	14,259	14,668	37,236	36,666
Listed investments included in total investments are as follows:				
Interests in associated undertakings	205	213	205	213
Shares and other variable yield securities and units in unit trusts	4,793	4,377	14,915	13,418
Debt securities and other fixed income securities	4,603	5,372	14,384	15,278
	9,601	9,962	29,504	28,909

In addition, debt securities held in North America amounting to **£4,755m** (1995 £5,513m) at market value are freely traded in an approved securities market but are not listed within the meaning of the Companies Act 1985.

Other financial investments in the combined consolidated balance sheet include securities valued on an amortised cost basis of **£1,521m** (1995 £1,715m) with a historical cost of **£1,516m** (1995 £1,707m) and a market value of **£1,551m** (1995 £1,810m).

Other loans shown above for the combined consolidated balance sheet include amounts of **£100m** (1995 £113m) relating to policyholder loans.

The historical cost of total investments included in the combined consolidated balance sheet is **£32,893m** (1995 £33,140m). The historical cost of assets held to cover linked liabilities is **£4,073m** (1995 £3,850m).

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 and have been certified by the Group's qualified valuation surveyor.

17. Value of long term business

This represents the amount considered by the directors, based on internal actuarial advice, to be a prudent value of existing long term business.

18. Debtors arising out of direct insurance operations	Shareholder consolidated 1996 £m	Shareholder consolidated 1995 £m	Combined consolidated 1996 £m	Combined consolidated 1995 £m
Due from policyholders	567	512	637	595
Due from intermediaries	1,288	1,377	1,292	1,385
	1,855	1,889	1,929	1,980

19. Tangible assets	£m
Cost	
At 1st January	785
Additions	109
Exchange	(39)
Disposals	(155)
At 31st December	700
Depreciation	
At 1st January	524
Charge for the year	91
Exchange	(14)
Disposals	(142)
At 31st December	459
Net book value	
At 31st December 1996	241
At 31st December 1995	261

Tangible assets comprise fixtures, fittings and equipment.

20. Equalisation provisions

Equalisation provisions are established in the UK in accordance with the Insurance Companies (Reserves) Act 1995 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 provision relating to the UK has been made for the first time in 1996 and in this respect there is no prior year adjustment. For certain overseas countries equivalent provisions had been established in previous years but not included in the Group consolidated financial statements. Such provisions have now been included by adjusting the Group's prior year figures to reflect the amounts reported in the local financial statements. The effect of including the provisions is as follows:

	1996 £m	1995 £m
Provisions at 1st January	26	22
Decrease in balance on the general business technical account and in the profit before tax	90	2
Exchange movement on overseas provisions	(4)	2
Provisions at 31st December	112	26

21. Parent Company accounts

The profit attributable to shareholders amounted to £717m (1995 £138m). After dividends of £305m (1995 to former Sun Alliance Group plc shareholders: £150m) the balance on the profit and loss account at 31st December 1996 amounted to £515m (1995 £84m).

The 1995 comparative figures in the Parent Company balance sheet on page 26 have been restated to reflect the recognition of the value of Sun Alliance's long term business and the recognition of equalisation provisions. This has resulted in the 1995 value ascribed to investments in subsidiaries increasing by £827m with a corresponding adjustment being made to the revaluation reserve. This policy change has no effect on the Company's profit and loss account.

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

	Share capital/ premium £m	Revaluation reserve £m	Profit and loss account £m	1996 £m	1995 £m
Shareholders' funds at 1st January	377	2,179	84	2,640	1,768
Prior year adjustment	–	827	–	827	682
Shareholders' funds restated at 1st January	377	3,006	84	3,467	2,450
Shareholders' recognised gains	–	2,259	717	2,976	1,152
Shares issued	195	–	–	195	15
Dividends	–	–	(305)	(305)	(150)
Scrip dividend adjustment	(6)	–	14	8	–
Other reserve movements	(5)	–	5	–	–
Shareholders' funds at 31st December	561	5,265	515	6,341	3,467

22. Investment in subsidiary undertakings

The Company's principal subsidiaries at 31st December 1996 are set out on pages 47 and 48. The companies are all engaged in the transaction of insurance or related business. The countries shown are those of incorporation and principal operation. Except where otherwise indicated all holdings are of equity shares and represent 100% of the nominal issued capital. None of the subsidiaries omitted from the list materially affects the profits or assets of the Group. The figure for shares in subsidiaries in the Parent Company balance sheet comprises:

	1996 £m	1995 £m
Shares at cost		
At 1st January	488	488
Acquisitions	189	–
At 31st December	677	488
Loans	92	29
Adjustment to net asset value	5,265	3,006
	6,034	3,523

Acquisitions consist of the nominal value of shares issued to former shareholders in Royal Insurance (£185m) and an additional capital investment in Sun Alliance Unit Trust Management Ltd of £4m.

23. Interests in associated undertakings

The companies listed on page 49 are those, not being subsidiaries, in which Royal & Sun Alliance Insurance Group plc and its subsidiaries held at 31st December 1996 a participating interest and which are associated undertakings as defined in the Companies Act 1985. All holdings are of equity shares. The figure for interests in associated undertakings in the consolidated balance sheet comprises:

	1996 £m	1995 £m
Shares at cost		
At 1st January	88	70
Acquisitions	1	18
Disposals	(20)	–
At 31st December	69	88
Adjustment to valuation	258	281
Net book value	327	369
Share of retained profits and reserves at 31st December	293	318

On 12th July 1996, the Group's 33⅓% interest in EPIC European Partners for Insurance Co-operation SA was sold for a cash consideration of £113m. The profit of £81m on the disposal of this investment interest in an associated undertaking has been included in investment income in the consolidated non-technical account as a gain on the realisation of investments.

24. Acquisition and disposal of subsidiaries

On 31st October 1996 the Group sold its 77.8% subsidiary interest in Protea Assurance Company Ltd (Protea) to Mutual & Federal Insurance Company Ltd, an associated undertaking of the Group. Prior to this sale, Protea sold its long term business and investment management operations to a third party. In total, a cash consideration of £94m was received and a profit of £22m is included in the non-technical account within gains on disposal of subsidiaries. The disposal results in a transfer of £52m from the revaluation reserve to the profit and loss account reserve of gains previously recognised as unrealised.

With an effective date of 30th September 1996, Newark Insurance Company, a subsidiary in the USA, was sold for a cash consideration of £18m and a 5% loan note of £3m redeemable in 2003. The loss of £18m on disposal has been included in the non-technical account within gains on disposal of subsidiaries.

During the year the Group completed the disposal of the Chancellors Group of Estate Agents Limited. Goodwill of £26m was charged in the non-technical account in 1995 in anticipation of the sale. A loss of £2m arose on this disposal. Additional gains of £2m resulted from other minor disposals.

During the year acquisitions were made for a cash consideration of £6m. Together with an adjustment to goodwill relating to an acquisition in the prior year, the aggregate goodwill arising during the year amounted to £8m.

25. Other interests

The shareholder balance sheet includes the shareholder interests in certain of the Group companies' long term funds and the 35% shareholder interest in Codan Bank A/S (the Bank). The Danish long term funds hold a 65% interest in the Bank.

The primary function of the Bank is to provide support to the activities of the Danish long term and general business operations. The assets of the Bank comprise principally loans and advances to customers and other financial investments; liabilities comprise mainly deposits received. During the year, the Bank made a pre-tax profit of £12m (1995 £12m). No dividends were paid or declared in the year.

Other charges within the consolidated non-technical account includes profit attributable to the shareholder interest in the Bank and the results arising from the Group's insurance intermediary and estate agency activities.

26. Other significant shareholdings

The Group has other equity investments in a number of undertakings the principal of which are listed on page 49. None of these is treated as associated undertakings as either the Group cannot exercise any significant influence over them, or their operations are insignificant in relation to the financial statements of the Group.

27. Provisions for other risks and charges	Integration £m	Deferred tax £m	Pensions & post retirement benefits £m	Other provisions £m	Total £m
At 1st January 1996	–	45	80	26	151
Charged	220	26	34	5	285
Utilised	(16)	(8)	(27)	(7)	(58)
Advance corporation tax recoverable	–	(14)	–	–	(14)
Exchange adjustments	–	(2)	(6)	(1)	(9)
At 31st December 1996	204	47	81	23	355

Included within provisions for liabilities and charges in the Parent Company balance sheet is deferred taxation of £nil (1995 £5m).

28. Deferred taxation	Provided 1996 £m	Provided 1995 £m	Unprovided 1996 £m	Unprovided 1995 £m
On unrealised gains arising from investments	124	41	890	830
Other timing differences	(47)	20	(57)	(102)
Advance corporation tax recoverable	(30)	(16)	–	–
	47	45	833	728

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

i) in the long term business provision amounting to £232m (1995 £199m) on a discounted basis with movements during the year being included in that provision; and

ii) within assets held for linked liabilities amounting to £54m (1995 £57m) with movements during the year being included in the tax attributable to long term business.

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

29. Borrowings	Shareholder consolidated 1996 £m	Shareholder consolidated 1995 £m	Combined consolidated 1996 £m	Combined consolidated 1995 £m	Parent Company 1996 £m	Parent Company 1995 £m
Debenture loans						
Secured (see note 4 below)						
0%–10.47% mortgage loans	17	22	24	31	–	–
Unsecured						
7.25% subordinated convertible bonds 2007	–	76	–	76	–	–
7.25% subordinated convertible bonds 2008	154	153	154	153	154	153
10.625% notes 1997	150	150	150	150	150	150
9.625% subordinated bonds 2003	100	100	100	100	–	–
5.42%–7.195% commercial paper	97	106	97	106	–	99
5.8%–8.9% loan notes 2013	2	2	2	2	–	–
5.8%–6.9% loan notes 2003	6	6	6	6	–	–
Total debenture loans	526	615	533	624	304	402
Amounts owed to credit institutions – unsecured	227	213	228	214	–	–
Total borrowings	753	828	761	838	304	402
Repayable as follows:						
1 year or less	280	150	281	151	150	99
Between 1 and 2 years	–	150	–	150	–	150
Between 2 and 5 years	–	165	6	172	–	–
After 5 years	473	363	474	365	154	153
	753	828	761	838	304	402

Notes:

1. Interest payable on amounts repayable within 5 years was £28m (1995 £42m) and after 5 years £36m (1995 £28m).
2. Loans from credit institutions of £192m (1995 £177m) under revolving credit facilities have been classified by reference to the earliest date on which repayment may be demanded by the lender. At 31st December 1996 total revolving credit facilities available to the Group were £557m (1995 £634m) of which £50m (1995 £180m) expire within 1 year, £nil (1995 £442m) expire within 2 to 5 years and £507m (1995 £12m) expire after 5 years.
3. The net amount of consolidated exchange gains and losses transferred to reserves on foreign currency amounts owed to credit institutions less deposits was £nil (1995 £2m).
4. The secured debenture loans are secured on certain properties of the Group.
5. The 7.25% subordinated convertible bonds 2008 is shown after deducting unamortised acquisition costs and may be converted at the option of the holders at a price of 390p per share into ordinary shares of 25p at any time until November 2008.

30. Long term business provision

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

		Interest rates	Mortality tables
Life	– with profit	2.65% to 4.00%	A67/70 and AM80, AF80
Pensions	– with profit	3.50% to 5.25%	A67/70 and AM80, AF80
Annuities	– in payment	5.75% to 7.00% (1995 6.00% to 7.00%)	a(90) minus 2 years and PA90 minus 7 years (1995 PA90 minus 5 years)

Other than shown, assumptions were the same in 1995.

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. Share capital

Authorised	1996 £m	1995 £m
2,200,000,000 (1995 1,200,000,000) ordinary shares of 25p each	550	300
300,000,000 (1995 300,000,000) preference shares of £1 each	300	300

	Group		Parent Company	
	1996	1995	1996	1995
Issued and fully paid	£m	£m	£m	£m
1,558,352,788 ordinary shares of 25p each	390	380	390	204
125,000,000 preference shares of £1 each	125	125	125	125
	515	505	515	329

On 14th June 1996 the authorised share capital was increased by the creation of 1,000,000,000 ordinary shares of 25p each. Pursuant to a scheme of arrangement, 706,252,430 shares were issued on 19th July 1996 to former shareholders of Royal Insurance on the basis of 1,067 ordinary shares of 25p each in the Company for every 1,000 Royal Insurance shares of 25p each held.

Between 14th August and 28th October 1996, 29,269,587 shares were issued to former holders of the 7.25% convertible subordinated bonds 2007 of Royal Insurance following exercise of conversion over Royal Insurance shares. During the year 3,898,323 ordinary shares were issued on the exercise of employee share options for a total consideration of £10m and between 12th August and 31st December 1996, 1,188,319 ordinary shares were issued to participants in Royal Insurance employee share option schemes. During the year 2,283,137 ordinary shares were issued pursuant to scrip dividend offers.

The called up share capital disclosed in the consolidated balance sheet for the Group at 31st December 1995 is presented on the basis that the issued share capital of Royal Insurance as at that date had been exchanged for shares in the Company. This results in the Group's share capital at 31st December 1995 exceeding the Company's share capital at that date by £176m.

The preference shares carry a right to a fixed cumulative preferential dividend of 7³/₈% 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.

31. Share capital *(continued)*

At 31st December 1996, under employee savings related share option schemes, employees held options to subscribe for 37,520,293 ordinary shares at prices ranging from 93.80p to 351p per share. The options are normally exercisable within 6 months of the respective exercise dates which are between 1st August 1996 and 1st August 2003.

Under executive share option schemes options to subscribe for 11,978,044 ordinary shares, normally exercisable within 5, 6 or 7 years of the exercise date, were outstanding at 31st December 1996 as follows:

Number of shares	Range of option price per share	Year of exercise
80,522	399.70p	1990
458,896	232.25p–367.30p	1991
718,855	282.50p–365.50p	1992
917,406	303.00p–438.30p	1993
1,587,622	384.00p–387.10p	1994
1,217,341	141.60p–232.00p	1995
1,598,098	262.90p–369.00p	1996
1,241,738	225.90p–344.00p	1997
1,513,974	311.60p–343.00p	1998
1,195,786	225.90p	1999
1,238,607	258.20p–336.90p	2000
209,199	336.90p–362.20p	2001

32. Operating leases	Land and buildings 1996 £m	Land and buildings 1995 £m	Other 1996 £m	Other 1995 £m
Annual commitments under non-cancellable operating leases were repayable as follows:				
1 year or less	8	8	3	2
Between 2 and 5 years	24	21	14	10
After 5 years	50	52	–	–
	82	81	17	12

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

33. Capital commitments	Group 1996 £m	Group 1995 £m
The following estimated amounts relate to office premises and equipment:		
Contracted for up to the end of the year and not provided for in these financial statements	26	11
Authorised but not contracted for	5	41

The Parent Company has no capital commitments.

34. 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 follows, and corresponding liabilities of these funds have been included within the consolidated balance sheet.

	1996 £m	1995 £m
Land and buildings	30	32
Shares and other variable yield securities and units in unit trusts	355	350
Debt securities and other fixed income securities	146	162
Cash at bank and in hand	33	5
	564	549
Debtors	8	6
Creditors	(3)	(1)
Net assets	569	554

35. Transactions with related parties

The introduction of Financial Reporting Standard 8 (FRS8) extends the requirements of the Companies Act 1985 in relation to the reporting of transactions with related parties. It also widens the definition of parties regarded as related.

The sale in South Africa of a subsidiary, Protea Assurance Co Ltd, to a subsidiary of Mutual & Federal Investments Ltd is referred to in note 24.

FRS8 also widens the disclosure requirements in respect of material transactions between the Company and its subsidiaries and the directors, other key managers, their close family and entities under their control. A number of these 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 and, if disclosed, would not influence decisions made by users of these financial statements.

FRS8 also requires the materiality of any such transactions to be considered in the context of a director's or key manager's own financial affairs. In that context, the Group acts as an insurer for Grosvenor Estate Holdings Ltd, a company in which The Duke of Westminster has an interest. All transactions are conducted on normal commercial terms. The directors have reviewed the related financial information and have determined that the amounts involved are not material to the Group or to the director concerned. The Board has also concluded that there are no transactions with other directors or key managers that are material to their own financial affairs.

36. Reconciliation of operating profit before tax to net cash inflow from operating activities

	1996 £m	1995 £m
Operating profit before tax	505	915
Profits retained in associated undertakings	(30)	(31)
Increase in technical provisions	161	30
Profits relating to long term business	(213)	(185)
Cash received from long term business	105	117
Depreciation	81	93
Interest on borrowings	64	70
Change in debtors less creditors	(105)	(139)
Net cash inflow from operating activities	568	870

Net cash inflow from operating activities includes £16m of payments relating to the integration of Royal Insurance and Sun Alliance. These payments have been deducted from the integration provision as shown in note 27.

37. Movements in opening and closing portfolio investments net of financing	£m
Net cash inflow for the period	81
Increase in net portfolio investments	225
Increase in loans	(18)
Issue of share capital	(17)
Movement arising from cash flows	271
Movement in long term business	923
Acquisition and disposal of subsidiaries	(171)
Changes in market values and exchange rates	(469)
Other	85
Total movement in portfolio investments net, of financing	639
Portfolio investments net of financing	
At 1st January 1996	38,519
At 31st December 1996	39,158

38. Portfolio investments	1996 £m	1995 £m
Purchases of portfolio investments		
Land and buildings	81	50
Shares and other variable yield securities	881	793
Loans, debt securities and other fixed income securities	11,938	10,322
	12,900	11,165
Sales of portfolio investments		
Land and buildings	28	87
Shares and other variable yield securities	778	646
Loans, debt securities and other fixed income securities	12,005	9,851
	(12,811)	(10,584)
Net increase/(decrease) in deposits with credit institutions	136	(209)
Net portfolio investments	225	372

39. Movements in cash, portfolio investments and financing	At 1st January 1996 £m	Cash flow £m	Long term business £m	Acquisition and disposal of subsidiaries (excl cash) £m	Market value and currency £m	Other £m	At 31st December 1996 £m
Land and buildings	2,915	53	(59)	(6)	(72)	–	2,831
Shares and other variable yield securities	13,628	103	1,127	(61)	361	–	15,158
Loans, debt securities and other fixed income securities	21,486	(67)	(383)	(36)	(701)	–	20,299
Deposits with credit institutions	1,552	136	231	(73)	(67)	–	1,779
Net cash at bank and in hand (see below)	321	81	5	–	(9)	–	398
Borrowings (see below)	(830)	(18)	2	5	19	76	(746)
Share capital/premium	(553)	(17)	–	–	–	9	(561)
Total	38,519	271	923	(171)	(469)	85	39,158

At 31st December 1996 net cash at bank and in hand includes overdrafts repayable on demand of £15m (1995 £8m) which are included within amounts owed to credit insitutions in the consolidated balance sheet. The borrowings analysis above excludes these amounts.

40. Analysis of the net outflow of cash in respect of acquisition of subsidiary undertakings	1996 £m	1995 £m
Cash consideration	(6)	(33)
Cash at bank and in hand acquired	–	2
Net outflow of cash in respect of acquisition of subsidiary undertakings	(6)	(31)

41. Disposal of subsidiary undertakings	1996 £m	1995 £m
Net assets disposed of		
Cash at bank and in hand	11	–
Other net assets (including portfolio investments, financing and goodwill)	100	34
Gains/(losses) on disposal	4	(11)
	115	23
Satisfied by		
Cash consideration	94	23
Other consideration	21	–
	115	23
Net inflow of cash in respect of disposal of subsidiary undertakings	83	23

Segmental Information

	Total		General business		Long term business		Associated undertakings	
	1996	1995	1996	1995	1996	1995	1996	1995
	£m	£m	£m	£m	£m	£m	£m	£m
Net premiums written								
UK	5,012	4,557	3,435	3,301	1,577	1,256		
USA	1,255	1,671	1,063	1,434	192	237		
Canada	455	525	413	450	42	75		
Scandinavia	599	650	350	387	249	263		
International	2,039	2,000	1,553	1,540	486	460		
	9,360	9,403	6,814	7,112	2,546	2,291		
Balance on technical accounts (see note 1)								
UK	(178)	178	(328)	45	150	133		
USA	(226)	(102)	(236)	(109)	10	7		
Canada	(3)	(11)	(6)	(13)	3	2		
Scandinavia	12	10	(23)	(20)	35	30		
International	(103)	(81)	(118)	(94)	15	13		
	(498)	(6)	(711)	(191)	213	185		
Operating profit								
UK	342	650	179	507	163	143	–	–
USA	(3)	147	(13)	139	10	8	–	–
Canada	58	52	55	48	3	4	–	–
Scandinavia	60	45	25	14	35	31	–	–
International	126	128	70	81	16	12	40	35
	583	1,022	316	789	227	198	40	35
Interest on borrowings	(64)	(70)						
Other businesses	(14)	(37)						
Operating profit before tax	505	915						
Gains/(losses) on disposal of subsidiaries	4	(37)						
Merger expenses	(16)	–						
Change in equalisation provisions	(90)	(2)						
Gains on the realisation of investments	245	155	232	153			13	2
Profit on ordinary activities before tax	648	1,031						
Net assets								
UK	3,234	3,362	1,704	1,998	1,530	1,364	–	–
USA	1,495	1,718	1,339	1,555	156	163	–	–
Canada	396	317	380	301	16	16	–	–
Scandinavia	843	876	621	630	222	246	–	–
International	1,351	1,421	799	815	225	237	327	369
	7,319	7,694	4,843	5,299	2,149	2,026	327	369
Other businesses (see note 3)	(733)	(1,261)						
Group net assets	6,586	6,433						

Notes:

1. The balance on the long term business technical account is gross of tax.
2. Net premiums written by source do not differ materially from net premiums written by destination.
3. The net assets attributed to other businesses include the net assets of non-insurance businesses and of the parent companies including group borrowings.

Principal Subsidiary Companies

	Principal activity
United Kingdom	
Royal Insurance Holdings plc*	Holding company
Sun Alliance and London Insurance plc*	General insurance
Bradford Insurance Co Ltd	General insurance
British Aviation Insurance Company Ltd (57.1%)	General insurance
The CareAssist 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
National Vulcan Engineering Insurance Group Ltd	General insurance
Phoenix Assurance plc	Composite insurance
Royal Insurance plc	General insurance
Royal International Insurance Holdings Ltd	General insurance
Royal Insurance Property Services Ltd	Estate agencies
Royal Life Holdings Ltd	Holding company
Royal Life Insurance Ltd	Life insurance
Sun Alliance and London Assurance Company Ltd	Life insurance
Sun Alliance Life Ltd	Life insurance
Sun Alliance Linked Life Insurance Ltd	Life insurance
Sun Alliance Pensions Ltd	Life insurance
Sun Alliance Trust Company Ltd*	Trust company
Sun Insurance Office Ltd	General insurance
Swinton (Holdings) Ltd	Holding company
Argentina	
Los Andes Compañia de Seguros SA (61.2%)	General insurance
Australia	
Sun Alliance Holdings Ltd	Holding company
Sun Alliance and Royal Insurance Australia Holdings Ltd	Holding company
Sun Alliance and Royal Insurance Australia Ltd	General insurance
Sun Alliance Life Assurance Ltd	Life insurance
Belgium	
Sun Alliance SA	General insurance
Canada	
Compagnie d'Assurance du Quebec	General insurance
Roins Financial Services Ltd	Holding company
Royal Insurance Company of Canada	General insurance
Royal Life Insurance Company of Canada	Life insurance
Chile	
Compañia de Seguros La Republica SA (64.0%)	General insurance
Colombia	
Compania de Seguros La Fenix de Colombia SA (71.0%)	General insurance
Denmark	
A/S Forsikringsselskabet Codan (71.5%)	General insurance
A/S Forsikringsselskabet Codan Liv (71.5%)	Life insurance
Codan Bank A/S (71.5%)	Banking
France	
Sun Alliance Assurances SA	General insurance
Tellit Assurances Sun Alliance SA	General insurance

	Principal activity
Germany	
Securitas Bremer Allgemeine Versicherungs AG (99.6%)	General insurance
Securitas – Gilde Lebensversicherung AG (99.8%)	Life insurance
Guernsey	
Insurance Corporation of Channel Islands Ltd	General insurance
Sun Alliance International Life Assurance Company Ltd	Life insurance
Hong Kong	
Taikoo Royal Insurance Company Ltd (51.0%)	General insurance
Isle of Man	
Royal Life Insurance International Ltd	Life insurance
Tower Insurance Company Ltd	General insurance
Italy	
Lloyd Italico Assicurazioni SpA	General insurance
Lloyd Italico Vita SpA	Life insurance
Sun Alliance Vita SpA	Life insurance
Netherlands	
Sun Alliance Verzekering NV	General insurance
Sun Alliance Levensverzekering NV	Life insurance
New Zealand	
Sun Alliance Insurance Ltd	General insurance
Sun Alliance Life Ltd	Life insurance
Puerto Rico	
Royal Insurance Company of Puerto Rico Inc (86.0%)	General insurance
Singapore	
Sun Alliance Insurance Ltd	General insurance
Spain	
Regal Insurance Club Compañia Española de Seguros SA	General insurance
Royal Insurance España SA Compañia de Seguros y Reaseguros	General insurance
Sun Alliance SA (99.5%)	Composite insurance
Sweden	
Försäkringsaktiebolaget Holmia (71.5%)	General insurance
United States of America	
Royal & SunAlliance USA Inc	Holding company
Alliance Assurance Company of America	General insurance
American and Foreign Insurance Company	General insurance
Globe Indemnity Company	General insurance
Royal Financial Services Inc	Holding company
Uruguay	
Royal Insurance Uruguay SA	General insurance
Sun Alliance Insurance (Uruguay) SA	General insurance
Venezuela	
CA de Seguros Royal Caribe de Venezuela (60.0%)	General insurance

Unless otherwise stated, all UK companies are incorporated in Great Britain and are registered in England.
*100% owned by Royal & Sun Alliance Insurance Group plc. All other principal subsidiaries are owned by those companies or subsidiaries thereof.
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	Issued capital £'000	Reserves as published £'000
Principal associated undertakings (see notes below)				
Al-Alamiya Insurance Co Ltd (EC) (30.9.96)	Saudi Arabia	42.0%	5,900	5,543
Bahamas First General Insurance Co Ltd	Bahamas	20.0%	1,169	4,128
Federal Phoenix Assurance Co Ltd (30.9.96)	Philippines	40.0%	1,300	3,328
Mutual & Federal Investments Ltd (30.6.96)	South Africa	49.0%	228	514,928
Nissan Insurance Company (Europe) Ltd	Great Britain	24.8%	13,300	2,285
PT Asuransi Royal Indrapura	Indonesia	29.0%	3,710	1,064
RM Insurance Company (Private) Ltd	Zimbabwe	40.0%	540	756
Rothschilds Continuation Holdings AG (31.3.96 merchant banking group)	Switzerland	21.5%	58,900	366,847
Royal Insurance (Malaysia) Sdn Bhd	Malaysia	45.0%	6,941	4,086
Sun Alliance Insurance (Malaysia) Sdn Bhd (30.9.96)	Malaysia	49.0%	1,200	3,836
Sun Alliance Insurance (Thailand) Ltd (30.9.96)	Thailand	33.0%	1,400	2,193
Syn Mun Kong Insurance Public Company Limited (30.9.96)	Thailand	20.0%	2,564	21,500
United Insurance Co Ltd (30.9.96)	Barbados	20.0%	1,162	3,016
West Indies Alliance Insurance Co Ltd (30.9.96)	Jamaica	49.0%	100	3,259
Other significant shareholdings				
Assirete Srl	Italy	27.9%		
British Aviation Insurance Group Ltd	Great Britain	40.0%		
Compania de Seguros La Fenix Peruana	Peru	19.2%		
Rimac – Internacional Compania de Seguros y Reaseguros	Peru	14.5%		
Other significant shareholdings: long term business				
Hughjohn Ltd	Great Britain	33.3%		
Mercock Ltd	Great Britain	33.3%		
Peterwake Ltd	Great Britain	33.3%		
Priestwake Ltd	Great Britain	22.9%		
Richleigh Ltd	Great Britain	33.3%		
The Scottish Metropolitan Property plc†	Great Britain	20.2%		
Sonar Research & Development Ltd	Great Britain	37.5%		

†registered in Scotland

Notes:

1. Associated undertakings: where the figures included in the accounts are not for the year ended 31st December 1996, the relevant accounting date is shown in brackets.
2. The countries shown are those of incorporation and principal operation except that Al-Alamiya Insurance Co Ltd (EC) is incorporated in Bahrain. Except where otherwise indicated, all companies shown as incorporated in Great Britain are 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.

	1996	1995	1994
CONSOLIDATED PROFIT AND LOSS ACCOUNT	£m	£m	£m
Net premiums written			
General business	6,814	7,112	7,005
Long term business	2,546	2,291	2,354
Total	9,360	9,403	9,359
Balance on technical accounts			
General business	(711)	(191)	(208)
Long term business, gross of tax	213	185	127
Investment income, net of expenses and charges	1,172	1,111	956
Other charges – other activities	(14)	(37)	(52)
Operating profit before tax	505	915	716
Gains on the realisation of investments	245	155	94
Change in equalisation provisions	(90)	(2)	13
	660	1,068	823
Merger expenses	(16)	–	–
Disposal of subsidiaries	4	(37)	4
Profit on ordinary activities before tax	648	1,031	827
Tax on profit on ordinary activities	(159)	(196)	(134)
Profit on ordinary activities after tax	489	835	693
Attributable to equity minority interests	(25)	(40)	(18)
Profit for the financial year attributable to shareholders	464	795	675
Earnings per ordinary share	29.7p	52.0p	44.4p
Operating earnings after tax per ordinary share	22.3p	47.1p	36.9p
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
Profit for the financial year attributable to shareholders	464	795	675
Unrealised gains/(losses) on investments	328	1,196	(1,056)
Exchange	(294)	65	(51)
Taxation on reserve movements	(108)	(38)	33
Shareholders' consolidated recognised gains/(losses)	390	2,018	(399)
MOVEMENTS IN SHAREHOLDERS' FUNDS			
Shareholders' funds at 1st January (restated)	6,160	4,330	4,973
Shareholders' consolidated recognised gains/(losses)	390	2,018	(399)
Share capital issued	19	18	8
Goodwill written off	(8)	34	(41)
Dividends	(305)	(256)	(215)
Other reserve movements	85	16	4
Shareholders' funds at 31st December	6,341	6,160	4,330
Total return to shareholders	25p	134p	(20)p
Divided per share – former Royal Insurance shareholders (restated)	19.0p	14.995p	11.246p
– former Sun Alliance shareholders	19.0p	17.25p	15.75p

Note: The 1994 figures have been calculated by using the same principles of merger accounting followed in presenting the 1995 and 1996 results and reflect the Group's policy for equalisation provisions.

COMBINED CONSOLIDATED BALANCE SHEET	1996 £m	1995 £m	1994 £m
ASSETS			
Investments			
Land and buildings	2,831	2,915	3,048
Interests in associated undertakings	327	369	304
Other financial investments	37,236	36,666	31,301
Value of long term business	1,399	1,286	1,117
Deposits with ceding undertakings	100	100	100
Total investments	41,893	41,336	35,870
Assets held to cover linked liabilities	4,980	4,723	4,141
Reinsurers' share of technical provisions			
Provision for unearned premiums	469	545	443
Long term business provision	176	188	165
Claims outstanding	2,326	2,309	2,046
Technical provisions for linked liabilities	–	10	9
	2,971	3,052	2,663
Debtors	3,312	3,773	3,362
Other assets	654	590	611
Prepayments and accrued income	1,863	1,967	1,866
Total assets	55,673	55,441	48,513
LIABILITIES			
Capital and reserves			
Called up share capital and share premium	561	553	535
Revaluation reserve	3,668	3,612	2,441
Other reserves	(107)	(173)	(214)
Profit and loss account	2,219	2,168	1,568
Shareholders' funds	6,341	6,160	4,330
Equity minority interests in subsidiaries	245	273	217
Total capital and reserves	6,586	6,433	4,547
Fund for future appropriations	3,553	3,235	1,941
Technical provisions			
Provision for unearned premiums	3,698	3,912	3,663
Long term business provision	20,997	20,732	18,836
Claims outstanding	11,815	12,301	11,843
Equalisation provisions	112	26	22
Total technical provisions	36,622	36,971	34,364
Technical provisions for linked liabilities	4,980	4,733	4,141
Provisions for other risks and charges	355	151	128
Borrowings	761	838	907
Other creditors	2,510	2,689	2,144
Accruals and deferred income	306	391	341
Total liabilities	55,673	55,441	48,513
Net assets per share (see note 1 below)	399p	397p	278p

Notes:

1. Net assets per share is calculated based on equity shareholders' funds and the number of ordinary shares in issue at the end of each year.
2. The 1994 figures have been calculated by using the same principles of merger accounting followed in presenting the 1995 and 1996 balance sheets and reflect the Group's policy for equalisation provisions.

Glossary

Acquisition costs	Costs of concluding insurance contracts, including commissions, costs of drawing up documentation, advertising, and the costs of processing and issuing policies.
Annual basis of accounting	A basis of accounting for general business where the result is determined at the balance sheet date to reflect the profit or loss from insurance policies in force during the period.
Balance on the general business technical account	This is the profit or loss arising from general business without allocation of investment income, being the aggregation of premiums earned less claims incurred and expenses including commission together with the change in the equalisation provisions (see underwriting result).
Balance on the long term business technical account	This is the profit or loss arising from long term business. It is grossed up for tax in the non-technical account.
Claims incurred	Claims incurred is arrived at from the cost of insured events occurring during the period together with adjustments to provisions made in previous periods (see also claims outstanding).
Claims outstanding	The amount provided for the estimated cost of settling claims in respect of events that have occurred by the balance sheet date together with the expenses of handling such claims. This provision includes an estimate for claims incurred up to the balance sheet date but not yet reported to the company at that date.
Fund for future appropriations	This balance sheet item comprises funds relating to long term business, the allocation of which either to policyholders or to shareholders has not been determined at the balance sheet date.
General business	This is defined by the Insurance Companies Act 1982. It includes insurance policies other than long term business (see below). The classes of business are defined as aircraft, credit risk, damage to property, contracts of guarantee, fire and natural forces, general liability, goods in transit, legal expenses, miscellaneous financial loss, motor vehicles, rail, ships, accident, sickness and assistance.
Linked business	Long term business where the benefits payable to policyholders are wholly or partly determined by reference to the value of, or income from investments or by reference to fluctuations in an index of investments. Specific assets are allocated to such policyholders.
Long term business	This is defined by the Insurance Companies Act 1982. It includes the classes of life annuity, marriage and birth, linked long term, permanent health, capital redemption and pension fund management.
Long term business provision	The amounts set aside on the basis of actuarial calculations to meet obligations to long term policyholders.
Operating profit before tax	This is determined by taking the profit on ordinary activities before tax and adding back gains on the realisation of investments, gains on the disposal of subsidiaries (including goodwill write downs), merger expenses and the change in the equalisation provisions.
Technical provisions for linked liabilities	Provisions necessary to cover liabilities under long term linked business. The provisions will relate to the investments or index to which the benefits payable are linked.
Underwriting result	In the financial statements this is described as the balance on the general business technical account (see above); underwriting result is the term generally used within the business.

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