

2<sup>nd</sup> March 2000

## 1999 YEAR END RESULTS

- ◆ **Commitment to global general insurance business** - “We believe the return on capital invested in a well managed general insurance business will exceed the returns available in life insurance for years to come”
- ◆ **Firm underwriting actions in all underperforming lines of business to reach target return in 2001**
- ◆ **Actively repositioning operations in key markets by acquisition, disposal and restructuring**
- ◆ **E-business actions across the Group in both the existing business and developing new propositions including a new UK initiative to address general, life and investment customers in single business**
- ◆ **Active capital management programme returns £1.1bn to shareholders in 1999 to achieve balance sheet efficiency**

	1999	1998
<b>Revenue</b>		
General business net premiums written	<b>£7,159m</b>	£6,867m
Life business net premiums written	<b>£3,284m</b>	£2,856m
Investment products	<b>£701m</b>	£593m
<b>Results</b> (based on longer term investment return (“LTIR”))		
Group operating profit	<b>£566m</b>	£602m
Group operating earnings per ordinary share	<b>25.7p</b>	24.7p
<b>Balance Sheet at 31 December</b>		
Shareholders’ funds (in 1999 after £751m special dividend)	<b>£6,484m</b>	£7,269m
Net asset value per share (adding back equalisation provisions)	<b>463p</b>	472p
<b>Dividend</b>		
Dividend for the year per ordinary share	<b>24.7p</b>	23.0p
Special dividend	<b>48.0p</b>	-

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

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

### For further information :

Malcolm Gilbert, +44 (0) 20 7569 6138  
Director Communications

The Group continues to produce good growth in both general and life insurance premiums written. Over the year general insurance premiums grew by 5% to £7,159m in underlying currency terms despite aggressively reducing underperforming portfolios of business. Life insurance premiums written grew by 17% to £3,284m and life new business by 35%. This was a very encouraging performance in the light of our withdrawal from Tied Agency and Direct Sales in the UK during the fourth quarter and the sale of the USA life operations at the beginning of the third quarter.

The underwriting result, particularly in the UK, continues to be adversely affected by a small number of poorly performing books of business. Results in Other Europe and the Americas were also depressed by the severe weather events of the year. However, the operating ratio remained steady and our target for the Group average operating ratio of 103% for 2001 is realistic and achievable. Group operating earnings per share (based on LTIR) for the year increased to 25.7p from 24.7p last year.

**Bob Mendelsohn, Group Chief Executive commented,**

“Two years ago, I unveiled a strategy that would transform the Group into a modern, efficient, ‘wired for the 21<sup>st</sup> century’ global group that could compete, and win, against the best in the business. It has not been an easy two years for the employees and shareholders of Royal & SunAlliance. Fundamentally changing a company of 50,000 people in 55 countries is hard; doing it when your industry is suffering through two years of intense price competition, significant natural catastrophes, huge investments in technology and economic turmoil in various parts of the world, makes it harder still. I am pleased with the significant progress we have made, and am confident we are on track to achieve our financial goals for 2000 and 2001.

“I am not pleased, however, with our operating results for 1999 despite the small increase in the per share Group operating earnings. Our £566m Group operating result (based on LTIR) falls short of our publicly announced target return of 10% net of tax and inflation. We can achieve that target by continuing to build our general insurance business around the world, unfashionable as that might be at the moment. We are one of the largest of the world’s general insurers which have substantial business outside their home countries. We also have one of the few truly integrated global networks for our commercial customers. Our business case is a simple one : we believe the return on capital invested in a well managed general insurance business will exceed the returns available in life insurance for years to come. But, of course, we are also making good returns in life, and we re-shaped our worldwide life business in 1999 to focus on the most profitable areas. Further growth will come in specifically targeted areas and will build upon the success of our investment management operation. Royal & SunAlliance Investment Management again turned in one of the best performances of any major fund manager in 1999. Funds under management at year end amounted to £61 billion.

“Looking forward, we expect significant and profitable growth, both in our traditional business and in new businesses. That growth will come not only from higher premiums on existing business, which is the current worldwide trend, but also from the continued growth of new products introduced during the past few years, a positive impact as acquisitions made in 1999 come on stream, and the positive impact of our e-business initiatives.

“On the topic of e-business, I will be brief. We pulled together a worldwide team in 1998 to coordinate our worldwide activities. In 1999 that team split in two : one focussing on our existing business and one on new propositions. Several of the new propositions are close to launch and will be announced in the coming months. The impact on our existing business will be great but with more than 15 million customers around the world who already buy products from us, we have a solid foundation on which to build. I must admit, however, that we have a very pragmatic approach to e-business. We intend to make money at it.”

**BUSINESS OVERVIEW**

1999 has been a year of change and consolidation for the Group. We have continued to focus on the twin targets of adding shareholder value and profitable growth and have achieved significant progress in our goals for both.

**Shareholder Value**

Using our return on capital model to ensure that we are leveraging our balance sheet as efficiently as possible led to the return of a £751m surplus to shareholders. We restructured our capital base reducing our cost of capital, which is now approximately 9%.

We publicised our target for the Group general business operating ratio of 103% in 2001 and are taking the actions necessary in underperforming areas of our business, to ensure that we will achieve it. We sold our direct writing operations in Germany and France, our general insurance businesses in Cyprus, Barbados and Zimbabwe, our life business in the USA and our stake in Codan Bank – our policy of ‘fix or eliminate’ continues.

During the year we saw the benefit of the changes which we have made to our reinsurance coverages with a reduction in the volatility of our underwriting results and we continue to work to maximise the potential of our reinsurance by buying better targeted programmes rather than necessarily by buying more cover.

A worldwide claims philosophy has been established, centred on Total Cost Management. In-sourcing of key areas will take place where it makes sense from the financial/service perspective; worldwide fraud initiatives are expected to generate cost savings of over £50m; we are making increased use of global sourcing initiatives by consolidating our purchase of computers, office equipment and motor vehicles worldwide. We are maximising our purchasing advantages as a leading worldwide company with deals for replacement goods such as that recently announced with Dixons in the UK. At the same time we are ensuring that we manage individual claims proactively both to lower costs and improve customer service

We will realise business efficiency savings of over £100m from the reorganisation of our operations in the UK, USA, Japan, Scandinavia and Australia. Actions will include, reductions in staff numbers, office closures and withdrawal from non-profitable and non-core lines of business.

### **Growth - organic**

We continue to impose substantial rate increases in many areas of the world and this has contributed to the growth in general insurance premiums. At the same time we are increasing our focus on a number of particularly profitable product lines, such as ProFin (which provides solutions for a company’s managerial, professional and financial exposures), and business segments, such as technology in the USA, where we are actively working to grow our portfolio.

Underlying growth (excluding Trygg-Hansa) in continental Europe was 7.5% despite loss of business by Lloyd Italico as a result of its continuing agency re-engineering programme and a significant increase in the lapse ratio following the average 18% rise in motor premiums in Spain. Other key personal lines growth areas have been Canada and Australia and worldwide life, where we again produced record levels of new business. We achieved strong growth in our target profitable specialty commercial lines in the USA.

### **- e-business**

We continue to identify and implement ‘e’ solutions within our existing business exploiting the opportunities to transform our cost base while improving customer service.

We are further developing our Internet sales capabilities; and exploiting our multi-distribution expertise to do so direct, through intermediaries and with Corporate Partners. Customers in Japan, Italy, Denmark, and the UK are already able to buy products online, and the list is growing. Our call centres give us a unique advantage when it comes to the ‘virtual’ and after sales service that these customers will need.

We are creating a single, enabled direct business for personal customers in the UK that will deliver integrated life, general insurance and savings propositions. We are bringing together the direct arms of our life and personal insurance businesses which currently serve the needs of over 1.7 million customers. This business will gather momentum throughout the year. It will offer a new model for personalised customer service, providing broader product propositions using leading edge customer relationship management capabilities and full online access.

### **- acquisitions**

The strategic acquisitions of Orion Capital, Trygg-Hansa and Tyndall during 1999 significantly enhanced our position in markets which we had identified as key to our global development. Orion greatly increases our presence in the profitable US specialty market, improving the overall balance of our US portfolio. We will announce within the next two weeks the significant reorganisation of the US commercial business as we complete integration of the successful Orion specialty model with our existing business. This will involve the reduction of commercial offices from 75 to 40. Discussions and consultations with staff and other appropriate parties are in process. Trygg-Hansa again significantly outperformed the Swedish market and is ideally placed to benefit, as motor rate increases are achieved; Tyndall has made a substantial contribution to life profit and new business in Australia

Our culture of global knowledge sharing has meant that the competencies which each of these acquisitions has brought to the Group are already being transferred to our other operations bringing additional benefits. At the same time they have helped to change the fundamental balance of the Group; we can now truly describe ourselves as an international company headquartered in the UK.

## **OPERATIONS OVERVIEW**

### **General Business**

The general insurance business operating result (based on LTIR) of £312m (1998 : £352m) was affected by severe weather losses in Europe and the Americas and a small number of poorly performing books of business, which particularly impacted the UK result.

General business premiums rose by 5% in underlying currency terms. Growth came both from our acquisitions throughout the year and the increase in rates that we have imposed in many parts of the world. This was offset by the loss of premium resulting from the rigorous remedial action which continues in underperforming areas as set out in the six and nine months announcements.

### **Life Business**

Life business operations profit increased by 7% to £243m, with decreases in the UK and Denmark compensated for by a good result in the Americas and Asia Pacific contribution.

There was a continued very strong performance in new business sales with annual premiums increasing by 14% to £247m and single premiums by 39% to £1.7bn. UK sales were a record £248m on an annual premium equivalent basis. Sales through Independent Financial Advisors were up by 42%. The acquisition of Tyndall continues to make the major contribution to growth of new business in Australia. Sales of unit trusts and other investment products grew by 19% to £701m, with a 123% increase in the Asia Pacific contribution.

### **Asset Management**

Our creative approach to investment continues to deliver outstanding investment performance for our customers and healthy increases in the funds under management. During the fourth quarter the restructuring within RSA Investments was completed which now establishes a rounded business capable of delivering innovative and active investment solutions to our varied client base. Total funds under management amounted to £61bn (31 December 1998 : £57bn).

### **Shareholders' Funds**

Shareholders' funds at 31 December 1999 of £6,484m showed a reduction of £785m on the 1998 year end figure of £7,269m. The reduction is almost entirely accounted for by the return to shareholders, on 1 June 1999, of a special dividend amounting to £751m. The special dividend was associated with a capital consolidation by which 10 new ordinary shares of 27.5p were issued in exchange for each 11 existing shares of 25p each.

The net asset value per share decreased to 463p (31 December 1998 : 472p). As at 29 February 2000 this figure was estimated to be 443p.

### **Risk Based Capital**

The introduction of risk based capital techniques has led to improved investment and reinsurance policies, changes in the incentivisation programme for management and the return of excess capital to shareholders. It also drives our financing of acquisitions by the use of subordinated debt. £610m of subordinated debt has been raised, partly to finance the acquisitions of Trygg-Hansa and Orion Capital. Such debt will be treated as available to meet Risk Based Capital requirements.

### **Final Dividend**

The directors will recommend to shareholders at the Annual General Meeting to be held on 17 May 2000 that a final dividend of 16.3p per share be paid on 1 June 2000. The dividend will be payable to shareholders registered at the close of business on 17 March 2000. This, together with the interim dividend of 8.4p already paid, will make a total distribution for the year of 24.7p (1998 : 23.0p).

**ROYAL & SUN ALLIANCE INSURANCE GROUP PLC**  
**GROUP OPERATING PROFIT (BASED ON LTIR)**

	<b>12 months to 31 Dec 1999 (audited) £m</b>	12 months to 31 Dec 1998 (audited) £m
General business result	<b>312</b>	352
Life business result	<b>243</b>	230
Other activities result	<b>11</b>	20
	<hr style="width: 50%; margin: 0 auto;"/>	<hr style="width: 50%; margin: 0 auto;"/>
Group operating profit before tax (based on longer term investment return)	<b>566</b>	602
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**OTHER FINANCIAL STATISTICS**

	<b>12 months to 31 Dec 1999 (audited)</b>	12 months to 31 Dec 1998 (audited)
Group operating earnings after tax per ordinary share (based on longer term investment return)	<b>25.7p</b>	24.7p

	<b>31 Dec 1999 (audited)</b>	31 Dec 1998 (audited)
Interim dividend (8.4p per share (1998 : 7.8p))	<b>£120m</b>	£122m
Final dividend (16.3p per share (1998 : 15.2p))	<b>£233m</b>	£238m
Special dividend	<b>£751m</b>	-
Group operating profit before tax *	<b>£378m</b>	£864m
Group operating profit after tax *	<b>£108m</b>	£490m
Shareholders' funds (after special dividend)	<b>£6,484m</b>	£7,269m
Net Assets per share (after adding back equalisation provisions)	<b>463p</b>	472p
Long term subordinated liabilities	<b>£610m</b>	-
Long term subordinated liabilities / total capital, reserves and long term subordinated liabilities	<b>8%</b>	-
Total funds under management	<b>£61bn</b>	£57bn

\* For further analysis see Section C, Statutory Financial Information

## ROYAL & SUN ALLIANCE INSURANCE GROUP PLC

### EXPLANATORY NOTES

#### 1. Exchange rates

In respect of the major overseas currencies the rates of exchange used in these statements are as follows:

	31 Dec 1999	31 Dec 1998
US Dollar	1.61	1.66
Canadian Dollar	2.34	2.56
Danish Kroner	11.96	10.59
Australian Dollar	2.46	2.71

#### 2. UK Embedded value assumptions

	31 Dec 1999 %	31 Dec 1998 %
Investment returns		
Equities	7.65	6.96
Fixed interest	5.15	4.46
Discount rate	7.50	7.00

#### Annual Report for 1999

These preliminary financial statements do not constitute full statutory Group financial statements within the meaning of Section 240 of the Companies Act 1985. The statutory Group financial statements for the year to 31 December 1999 of Royal & Sun Alliance Insurance Group plc will be posted to shareholders on 4 April 2000 and will be delivered to the Registrar of Companies following the Annual General Meeting to be held on 17 May 2000. The auditors' report on the Group financial statements for the year ended 31 December 1999 is unqualified and does not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

#### Twelve months results for 1999

The full text is available on our internet site at [www.royalsunalliance.com](http://www.royalsunalliance.com). The results statement is also available to the public at 30 Berkeley Square, London W1X 5HA and at 1 Leadenhall Street, London EC3V 1PP.

A supplementary information pack contains:

- ◆ Detailed business review
- ◆ Statistical analysis
- ◆ Statutory financial information

The results for the three months to 31 March 2000 will be announced on 4 May 2000.

**ROYAL & SUN ALLIANCE INSURANCE GROUP PLC**

**SECTION A**

**DETAILED BUSINESS REVIEW**

## INTRODUCTION

### Profit and Loss Account and Balance Sheet

The following issues have impacted upon the Group's profit and loss account and balance sheet:

#### Longer Term Rate of Return

The Group includes the longer term rate of return on investments backing general business technical provisions and capital in determining Group operating profit (based on LTIR). This treatment is in accordance with the Association of British Insurers Statement of Recommended Practice (ABI SORP). The longer term rate of return is based on both historical experience and the directors' current expectations for investment returns to ensure that over time the long run basis recognises the aggregate of the actual investment return.

The basis of calculating the longer term rate of return has not changed fundamentally during the year, although certain refinements have been made. The Group's investment policy is to hold sufficient equities to back 100% of capital and 5% of technical provisions with the balance of technical provisions, net of working capital, being supported by fixed interest securities. The general business result (based on LTIR) of £312m is calculated assuming pre-tax returns of 6% on fixed interest securities and 9% on equities.

Included within the other activities result (based on LTIR) of £11m is a normalisation adjustment to reduce the return included in the Group operating profit (based on the longer term investment return) to ensure that the longer term return is both stable and sustainable. The normalisation adjustment is based on longer term yield assumptions and produces an effective return as follows:

	Stated long run return	Effective return 1999	Effective return 1998
Equities	9%	6.8%	8.0%
Fixed interest	6%	6.0%	5.7%

The aggregate investment return recognised on the longer term basis since 1994 amounts to £6.5bn and the total actual investment return for this period was £8.4bn.

#### Subordinated Debt

The subordinated debt raised by the Group in the current year has been reflected as a separate element of total capital and reserves in the balance sheet. This classification gives proper recognition to the terms of the subordinated debt, which make it akin to long term capital finance. Consequently, the cost of servicing this debt is reflected as a financing item, and is not deducted in arriving at Group operating profit on the longer term investment return basis. Similarly, the cash flow statement reflects amounts associated with the subordinated debt as financing cash flows.

#### Goodwill

Goodwill of £818m has been capitalised in respect of acquisitions of subsidiaries and is being amortised for most acquisitions over 20 years, this being the period over which the value of the businesses acquired are expected to exceed the value of their underlying assets. The goodwill attributable to each acquisition is as follows :

	Fair value of net assets acquired	Consideration including acquisition costs	Goodwill
Orion Capital	619*	1,168*	549
Trygg-Hansa	229	287	58
Tyndall	127	302	175
La Construcccion	19	17	(2)
Other acquisitions	12	50	38
Total	<u>1,006</u>	<u>1,824</u>	<u>818</u>

- \* The Orion net assets acquired exclude £300m of long term subordinated liabilities as such debt was considered as capital to support the investment and insurance risks of the business. These liabilities were redeemed as part of the acquisition process and accordingly, the consideration reflected includes £300m paid to redeem the liabilities.

### **Goodwill on Acquisition of Claims Provisions**

The fair value of claims provisions relating to businesses acquired has been established after making allowance for future investment income as required by the ABI SORP. The discount, being the difference between the fair value and the undiscounted value of the claims provisions, has been capitalised as goodwill in acquired claims provisions. It is being amortised to profit and loss over the expected run-off period of the related claims.

### **Reorganisation Costs**

Reorganisation costs have been charged against profit on ordinary activities before tax, and relate mainly to the general insurance businesses in the UK, Scandinavia, USA and Asia Pacific.

### **Goods and Services Tax in Australia**

Goods and Services Tax ('GST') will become payable in Australia on all claims payments made after July 2000. Claims payments made after this date, but relating to claims incurred prior to July 2000, will not be eligible for a GST rebate. Reserves in respect of outstanding claims at 31 December 1999 expected to still be outstanding at 30 June 2000 have been strengthened by £16m as a result of this new tax legislation. The reserve strengthening has been included in claims costs.

### **Adoption of FRS 16 "Current Tax"**

The Group has adopted the requirements of Financial Reporting Standard 16 "Current Tax" in 1999. FRS 16 specifies that the tax law change resulting in the abolition of ACT should be reflected as a change in accounting policy. As a result of this requirement, comparatives have been restated to reflect investment income and taxation net of the associated tax credits. There is no impact upon the reported result.

### **Taxation Charge**

The overall tax charge remains high as a result of the continued policy of realising investment gains, principally on equity securities. The underlying rate of taxation was 31% (1998 : 30%) on the Group operating profit (based on LTIR).

### **Accounting for La Construcción**

The Group acquired an additional 11% of the share capital of Compañía de Seguros de Vida La Construcción on 26 November 1999, taking its holding from 40% to 51%. As a result of this acquisition, La Construcción is no longer accounted for as an associate as at year end, but has been consolidated as a subsidiary.

### **Shareholders' Interest in Long Term Business**

Strengthening in mortality, lapse and maintenance expense assumptions has offset the improvement due to the increase in long term interest rates. Following the acquisition of Tyndall in Australia, Guardian in New Zealand and La Construcción in Chile, overseas operations now account for 35% of the total shareholders' interest in long term business.

### **Other Financial Reporting Issues**

#### **Life Reporting**

The Supplementary Life Statement has been expanded in 1999 to provide a more detailed analysis of the movement in the shareholders' interest in the long term business. The pre-tax movement is now analysed into the following components:

- ◆ Value added by new business written net of expense overruns, but grossed up for tax;
- ◆ Risk-free investment return on the restated opening balance;
- ◆ Differences between the actual results for the period and the expected experience at the start of the year together with the risk return earned on the restated opening balance;
- ◆ Impact of changes in the operating assumptions, including mortality, persistency, expenses and policyholder bonuses;
- ◆ Impact of changes in the investment return assumptions and the change in the discount rate; and

- ◆ Variance arising in the year between expected and achieved investment returns.

The statement has also been expanded to disclose new business profit based on actuarial factors in addition to the fully costed disclosures provided previously.

### Risk Based Capital

The Group continues to manage the business using risk based capital. The risk based capital required by each geographic area has been reassessed following the acquisitions of Orion and Trygg-Hansa in the last quarter of 1999. Risk based capital requirements have also been adjusted for changes in volatility due to changes in business mix and reinsurance programmes. The previous and revised risk based capital requirements are as follows:

	Revised RBC % NWP	Previous RBC % NWP
UK	42	44
Scandinavia	45	45
Rest of Europe	60	47
USA	53	60
Canada	40	38
Latin America & Caribbean	55	73
Australia	53	53
Asia Pacific	53	41
<b>Total Group</b>	<b>47</b>	<b>47</b>

The risk based capital required by the USA has reduced as a result of the diversification benefit of the Orion acquisition. The risk based capital required by Scandinavia is expected to decrease as the Trygg-Hansa combined ratio improves. The increase in risk based capital required by Asia Pacific and Rest of Europe is due to the volatility of the results in these regions.

As at 31 December 1999, actual risk based capital compares with required risk based capital as follows:

	1999 £m	1998 £m
<b>Actual Capital</b>		
Shareholder equity	6,484	7,269
Minority interests	406	291
Subordinated debt	610	-
	<hr/>	<hr/>
	7,500	7,560
Goodwill	(843)	(13)
Goodwill in claims acquired	(192)	-
Deferred tax (unprovided)	(449)	(666)
Equalisation provisions	259	250
	<hr/>	<hr/>
Total actual capital	6,275	7,131
	<hr/>	<hr/>
<b>Capital Required</b>		
General business NWP	7,159	6,867
	<hr/>	<hr/>
Risk based capital at 47% of NWP	3,365	3,227
Life business – stated shareholders' interest in long term business	2,776	2,481
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Total required capital	6,141	5,708
	<hr/>	<hr/>
Surplus	134	1,423
	<hr/>	<hr/>

### Return on Risk Based Capital

Return on risk based capital is calculated using the post-tax operating profit on the longer term investment return basis. Returns on risk based capital for the general business are as follows:

	<b>1999</b> %	1998 %
UK	<b>9.2</b>	10.3
USA	<b>16.4</b>	20.0
Canada	<b>8.5</b>	14.0
Scandinavia	<b>6.7</b>	20.5
Australia	<b>1.7</b>	7.6
Other	<b>(5.6)</b>	(13.4)
	<hr/> <b>5.7</b> <hr/>	<hr/> <b>6.1</b> <hr/>

### Return on Equity

Return on equity on an accounting basis is calculated after adjustment for equalisation reserves and full provision for deferred tax on unrealised investment gains. Return on capital on an accounting basis is similarly adjusted for equalisation reserve and deferred taxation, but has also been adjusted for minority interests and preference share capital.

<b>Accounting basis</b>	<b>1999</b> %	1998 %
Return on equity	<b>8.7</b>	6.9
Return on capital	<b>8.5</b>	6.8

Both return on equity and return on capital have been significantly affected by the goodwill arising on the 1999 acquisitions and the £751m special dividend. Weighted returns on a tangible net asset value basis are as follows :

<b>Tangible net asset value basis</b>	<b>1999</b> %
Weighted return on equity	<b>9.6</b>
Weighted return on capital	<b>9.2</b>

## **SUPPLEMENTARY LONG TERM BUSINESS INFORMATION (Unaudited)**

### **Introduction**

The UK insurance industry is continuing the development of an alternative approach to the recognition of profit from long term insurance business. The alternative approach seeks to present a more realistic view of the results of long term business operations and is known as the Achieved Profits basis. The Group continues to support this initiative. The basis is related to the principles of the embedded value of shareholders' interest in long term business, which the Group includes in the consolidated balance sheet and which is summarised in note 44 to the Group accounts. This supplementary statement provides an analysis of the movement in this interest in respect of those parts of the Group that report an embedded value and the key underlying assumptions adopted in its calculation.

Certain overseas operations (principally Canada and Scandinavia) report their long term business results in accordance with local accounting principles. Due in part to the distinct features of the life insurance markets in these territories, and the fact that the local accounting principles are believed to show a fair result, no adjustment is made to their results on incorporation into this statement.

### **Rationale**

To understand the rationale for the alternative approach it is necessary to appreciate the objectives underlying the statutory basis of long term business profit recognition in the UK. For a company conducting long term insurance business in the UK a separate portfolio of assets ("the fund") has to be maintained to ensure that all liabilities of the company to its policyholders can be met at all times. Such a company is legally required to undertake a valuation in accordance with statutory regulations. These are primarily concerned with ensuring the financial security of the fund rather than assessing its performance in the period. The statutory method of profit recognition is based upon the statutory solvency valuation of the assets and liabilities of the fund. Under this approach the profit for shareholders is represented by the cash transfer from the fund following the actuarial evaluation.

In contrast, the rationale of the Achieved Profits method is to reflect the performance of the business in the period. The approach seeks to evaluate the cashflows to the benefit of shareholders expected to arise on existing long term business contracts. The change in value of the anticipated cash flow is reported in the years in which it can be regarded as having been earned, having regard to the risks implicit in the business.

It should be emphasised that the Achieved Profits method neither replaces the statutory evaluation nor does it change the timing of the release of cash to shareholders from the fund. The total profit attributable to shareholders will over time be the same under both approaches. The differences lie in the timing of the recognition of profit in the accounts.

### **Interrelationship With Present Accounts**

The present Group accounts generally report life profit based on the statutory solvency valuation principles as adjusted in a number of respects. This approach is known as the Modified Statutory Basis ("MSB"). The Group balance sheet also includes a "Value of Long Term business" which represents a valuation of the shareholders' interest in the life operations. This includes the evaluation of overall profit expected to arise on existing long term business contracts but excludes any estimate of the value to shareholders of new business yet to be written. The result set out in this supplementary statement represents the movement in this value in the year.

As the same methodologies and assumptions have been applied in both the value of long term business and this supplementary statement, the alternative approach has no impact on total shareholders' funds and accordingly a balance sheet is not included in this statement

<b>Shareholders' interest in long term business (unaudited)</b>	UK £m	Other Europe £m	Americas £m	Asia Pacific £m	<b>1999 £m</b>	Restated 1998 £m
Balance at 1 January	1,650	455	221	155	<b>2,481</b>	2,458
Exchange	-	(44)	10	8	<b>(26)</b>	8
Movement for the year	259	35	31	12	<b>337</b>	43
Dividends	(112)	(8)	(1)	(2)	<b>(123)</b>	(123)
Capital injections/(released)	-	24	-	-	<b>24</b>	(13)
Acquisitions	-	3	175	104	<b>282</b>	108
Disposals	-	-	(199)	-	<b>(199)</b>	-
<b>Balance at 31 December</b>	<b>1,797</b>	<b>465</b>	<b>237</b>	<b>277</b>	<b>2,776</b>	<b>2,481</b>

#### Notes:

1. The shareholders' interest in long term business comprises the value of long term business, as shown in the Group balance sheet, together with shareholders' funds attributable to long term business but held separately from designated long term business funds and shareholders' accrued interest, being the excess of accumulated profit recognised under the modified statutory basis over the statutory transfers from the long term fund. This is shown in note 44 on the Group accounts.
2. The results in respect of certain territories are in accordance with local accounting principles and have not been restated on consolidation. In each case the local basis is considered to represent a reasonable approach for the determination of the result from life operations and this has been consolidated into reported long term business profit.
3. The results of other overseas business show the movement in the shareholders' interest in long term business, calculated in accordance with the same principles as apply to the UK business.
4. Acquisitions include Tyndall Australia Limited and Compañía de Seguros de Vida La Construcción (Chile) in 1999 and Norwich Union Life Insurance Limited (New Zealand) and Guardian Assurance Limited (New Zealand) during 1998. The Group disposed of Royal Maccabees Life Insurance Company on 31 July 1999.
5. In providing an analysis of the movement in the value of long term business as shown in the Group balance sheet it is also necessary to identify the effect of retranslating opening balances held in foreign currency to the year end rates of exchange.
6. The value will change by the amount of any capital invested or divested by the Group into or out of its long term operations.
7. The 1998 amounts have been restated to reflect the presentational change of including the return on the shareholders' net worth in the movement for the year. The capital released increased by an equivalent amount.

#### Analysis of Movement for the Year in Shareholders' Interest in Long Term Business

We have analysed the movement for the year in the shareholders' interest into the following components:

##### Value Added by New Business

The value added during the year for new business written net of all expenses attributable to the acquisition of the business grossed up for taxation at the relevant rate.

##### Expected Return

The risk free investment return on the restated opening balance. The opening shareholders' interest in long term business balance is adjusted to include the impact of economic assumption changes from the beginning of the year (see below).

##### Operating Margin

The differences between the actual results for the period and the expected experience at the start of the year together with the risk return earned on the restated opening balance.

##### Operating Assumption Changes

The impact of changes in the operating assumptions which include mortality, expenses, persistency and bonuses to policyholders.

### Economic Assumption Changes

The impact of changes in the investment return assumptions and the change in the discount rate.

### Investment Variances

The difference between the returns achieved during the period and the returns assumed.

### Attributed Tax

Embedded value profit is calculated on an after-tax basis and grossed up at the full corporation tax rate for UK business and at appropriate rates of tax for other territories.

	<b>1999 (unaudited) £m</b>	1998 (unaudited) £m
Value added by new business	53	43
Expected return	133	99
Operating margin	7	127
	<hr/>	<hr/>
	193	269
Operating assumption changes	(113)	(26)
Economic assumption changes	165	(412)
Investment variances	227	230
	<hr/>	<hr/>
<b>Gross movement attributable to the year before tax</b>	<b>472</b>	61
Attributed tax	(135)	(18)
	<hr/>	<hr/>
<b>Movement for the year</b>	<b>337</b>	43
	<hr/>	<hr/>

The variance in the movement between years is the result of the improvement due to the increase in long term interest rates offset by the strengthening in mortality, lapse and maintenance expense assumptions. Following the acquisitions in Asia Pacific during 1999 and 1998, the overseas operations now account for 35% of the total shareholders' interest in long term business.

### Value Added by New Business

In respect of new business written in the period, the analysis initially seeks to determine the overall profit that will accrue to shareholders over the life of the contract. The value is then restated, taking into account the timing of the expected transfers of the profit to shareholders and the various risks and uncertainties that will affect its emergence, by discounting the future cash flows. The risks and uncertainties exist in both the assumptions concerning the insurance experience, such as mortality, morbidity and lapse rates, and the assumptions concerning the performance of the company and the economic environment such as expenses, inflation and investment returns. The rates are reflected in the choice of discount rate.

### Pre tax new business profit – actuarial factors

	<b>1999 (unaudited) £m</b>	1998 (unaudited) £m
United Kingdom	44	44
Other Europe	25	22
Americas	4	6
Asia Pacific	17	7
	<hr/>	<hr/>
<b>Total value added by new business before tax</b>	<b>90</b>	79
	<hr/>	<hr/>

**Pre tax new business profit – fully costed**

United Kingdom  
 Other Europe  
 Americas  
 Asia Pacific

<b>1999 (unaudited)</b>	1998 (unaudited)
<b>£m</b>	£m
<b>21</b>	22
<b>13</b>	12
<b>2</b>	6
<b>17</b>	3
<b>53</b>	43

**Total value added by new business before tax****Principal Economic Assumptions**

As indicated above, the value of long term business is dependant on assumptions concerning a range of factors that will influence the future profit emergence. These assumptions represent estimates based on recent experience and general economic conditions.

The principal assumptions in respect of the UK operation are as follows:

## Investment return:

Government fixed interest  
 Other fixed interest  
 UK equities  
 Overseas equities  
 Expense inflation

## Discount rate (including risk margins)

<b>1999 (unaudited)</b>	1998 (unaudited)
<b>%</b>	%
<b>5.15</b>	4.46
<b>5.65</b>	4.96
<b>7.65</b>	6.96
<b>7.65</b>	6.96
<b>3.60</b>	3.00
<b>7.50</b>	7.00

Principal assumptions outside of the UK vary from territory to territory. Government fixed interest returns range from 5.35% to 10% and discount rates range from 8.2% to 15%.

**Notes on Assumptions**

1. The assumptions represent expectations of future experience and have regard to past, current and future experience and to relevant external data. Favourable changes in experience are not anticipated unless the improved experience is reasonably certain. The projections bases for discontinuances, renewal and other expenses, mortality and morbidity, investment return and taxation are based upon an underlying assumption that the businesses are continuing as going concerns.
2. The assumptions for future investment return reflect the current investment portfolio. The projected returns are based upon current fixed interest returns. The projected future returns on equity investments include a margin over the corresponding risk free (gilt edged) rates assumed.
3. The discount rates used in the calculations reflect the relevant risk free (gilt edged) rates in the individual territories and include margins for risk.
4. For with profits business, the assumptions regarding bonuses are consistent with the assumed investment returns and the company's bonus philosophy. For UK with profits business the reversionary bonus rate assumption is consistent with the assumed investment returns and the current terminal bonus scales and has been adjusted by a constant percentage to distribute all the assets of the with-profits business after allowing for all associated shareholder transfers. Where the shareholders' profits are determined as a proportion of the cost of policyholder bonuses, the proportion is assumed to continue at the same level as is currently used.
5. No account is taken of the value of future premiums under recurring single premium business (such as Department of Social Security rebate premiums) or for the value of future non-contractual increments on existing business. The value of such business is recognised in the value of new business in the period in which the premium is received.

### Alternative Assumptions

The discount rate appropriate to any investor will depend on the investor's own requirements, tax position, and perception of the risks associated with the realisation of the future profits. The effects of changing the discount rate for the UK operations are

	(unaudited)		
	1% lower discount rate £m	As published £m	1% higher discount rate £m
Embedded value at 31 December 1999	<b>1,892</b>	<b>1,797</b>	<b>1,702</b>

It should be noted that in calculating these values all other assumptions have been left unchanged.

## UNITED KINGDOM

### Personal

	<b>1999</b>	1998
	<b>£m</b>	£m
Net premiums written	<b>1,734</b>	1,729
Operating ratio	<b>107.1%</b>	104.4%
General business operating profit (based on longer term investment return)	<b>49</b>	94
Life business operations profit	<b>165</b>	172

### General

- ◆ Premiums written remained flat over the year. However, in the fourth quarter there was a decrease of 17% over the same period last year, reflected across all lines of business but most marked in motor following the significant rate increases which have been imposed. The household reduction continued at a similar rate to the third quarter as we declined to renew a number of corporate partnerships.
- ◆ Motor continues to be adversely affected by the increase in average claims costs but the operating ratio remained broadly steady compared to the third quarter. The household and other operating ratios both improved in the quarter reflecting better weather and subsidence experience and the underwriting profits achieved by the Healthcare & Assistance and Pet Healthcare businesses.

### Life

- ◆ Sales on an annual premium equivalent basis increased by 14% with continued very strong growth in business through independent financial advisers. New single premiums grew by 34% to £973m helped by a 56% rise in sales of With Profits Bonds. New annual premiums rose by 2% to £118m with growth in sales of Progressive Protection term assurance and continued strength in Group Risk business.
- ◆ The UK life business result of £165m is £7m less than last year which is accounted for by reduced bond values.

### Commercial

	<b>1999</b>	1998
	<b>£m</b>	£m
Net premiums written	<b>1,372</b>	1,568
Operating ratio	<b>111.1%</b>	111.1%
General business operating profit (based on longer term investment return)	<b>120</b>	115

- ◆ Our continued firm underwriting stance has led to the loss of property business and non renewal of unprofitable accounts. Premium income has also been reduced by the transfer of multi-national business to overseas operations.
- ◆ The motor combined ratio of 118.7% continues to reflect a high frequency and severity of underlying claims. The remedial action being taken on the fleet motor account has resulted in a reduction of vehicles insured of approximately 70,000 while at the same time we have achieved a 13% increase in premium. The fourth quarter ratio of 120.3% shows a substantial improvement on the third quarter.

## OTHER EUROPE

### Personal

	1999 £m	1998 Adjusted £m	1998 Original £m
Net premiums written	908	769	871
Operating ratio	111.2%		113.5%
General business operating profit (based on longer term investment return)	15		(24)
Life business operations profit	19	23	26

### General

- ◆ The results for the region were mixed. Very strong underwriting improvements, aided by the sale of the French and German direct writing operations, were partially masked by the impact of the December storms in Scandinavia and France and a worsening of the motor result in both Scandinavia and Spain.
- ◆ Ireland performed very well producing a welcome return to underwriting profit, partly due to the absence of weather related claims.
- ◆ In Italy the Lloyd Italico improvement continues, contributing £21m to the overall reduction in the underwriting loss.
- ◆ Disappointing motor results continue to dominate the Spanish results but a concerted programme of rate increases, averaging 18% across the book, has been applied.

### Life

- ◆ New business growth continued to be very strong, with rises of 50% in single premiums and 39% in annual premiums, underpinned by a significant increase from the Isle of Man.
- ◆ The reduction in the life profit of £4m is principally due to a change in taxation regulation in Denmark.

### Commercial

	1999 £m	1998 Adjusted £m	1998 Original £m
Net premiums written	532	465	525
Operating ratio	111.3%		114.2%
General business operating profit (based on longer term investment return)	11		(14)

- ◆ Storm losses in December and an increased frequency of medium and large claims affected the Scandinavian result and downward pressure on rates continues.
- ◆ The results for Germany show a significant improvement and demonstrate the success of the re-organisation of the business during the year.
- ◆ Ireland showed a substantial improvement due to a marked reduction in large fire losses and the absence of weather related claims.
- ◆ Elsewhere, results reflected a large claim in Cyprus, adverse large claims experience in Benelux and a number of large fire losses in Italy.

## AMERICAS - UNITED STATES

### Personal

	1999	1998 Adjusted	1998 Original
	£m	£m	£m
Net premiums written	<b>255</b>	232	224
Operating ratio	<b>95.7%</b>		89.3%
General business operating profit (based on longer term investment return)	<b>40</b>		52
Life business operations profit	<b>10</b>	23	22

### General

- ◆ Hurricane Floyd was the major contributor to the worsening of the household underwriting result.

### Life

- ◆ In March we announced the sale of our USA life operation which was completed at the end of July.

### Commercial

	1999	1998 Adjusted	1998 Original
	£m	£m	£m
Net premiums written	<b>857</b>	712	689
Operating ratio	<b>109.9%</b>		112.0%
General business operating profit (based on longer term investment return)	<b>106</b>		105

- ◆ Premium growth of 20% was achieved, including Orion. The main contributors were Workers Compensation, General Liability and Other Specialty lines, our target lines of business.
- ◆ The worsening in the underwriting result was mainly due to large property losses and higher catastrophe claims.

## AMERICAS - CANADA

### Personal

	1999 £m	1998 Adjusted £m	1998 Original £m
Net premiums written	308	277	254
Operating ratio	98.8%		96.5%
General business operating profit (based on longer term investment return)	30		35
Life business operations profit	25	5	5

### General

- ◆ Premium growth was achieved in both household and motor with The Johnson Corporation contributing an increase of 11%.
- ◆ The reduction in the underwriting profit was largely attributable to the second year running of large weather losses.

### Life

- ◆ 1999 saw price increases in and a major rationalisation of our Canadian life product portfolio. This has led to lower, but still acceptable, sales in 1999.
- ◆ Canada reported a strong increase in life profit due to a 'one time' release of profit in the participating fund and the realisation of investment gains.

### Commercial

	1999 £m	1998 Adjusted £m	1998 Original £m
Net premiums written	203	212	194
Operating ratio	115.1%		109.3%
General business operating profit (based on longer term investment return)	1		12

- ◆ Premiums decreased by 4% as a result of the firm underwriting actions being taken in Quebec and across the risk managed account. Risk managed was the major contributor to the worsening of the underwriting result.
- ◆ Specialty lines continue to produce profitable growth.

## AMERICAS - LATIN AMERICA & CARIBBEAN

### Personal

	1999	1998 Adjusted	1998 Original
	£m	£m	£m
Net premiums written	83	69	71
Operating ratio	112.3%		117.4%
General business operating result (based on longer term investment return)	(5)		(8)

### General

- ◆ Despite a much higher incidence of hurricane and storm activity, overall weather losses were at similar levels to 1998, due to a conscious effort to reduce / lower net retentions.
- ◆ Our direct writing operation in Argentina continues to perform well

### Life

- ◆ At the end of the year La Construcción of Chile became a subsidiary when we increased our shareholding to 51%. During 1999 it was treated as an associate. The Chilean life market is the most developed in Latin America and La Construcción represents a good platform for our further expansion in the Latin American market as a whole.

### Commercial

	1999	1998 Adjusted	1998 Original
	£m	£m	£m
Net premiums written	111	109	112
Operating ratio	120.4%		119.4%
General business operating profit (based on longer term investment return)	(16)		(12)

- ◆ Large losses in Chile and Netherlands Antilles, hurricanes in the Caribbean and the Colombian earthquake all contributed to the overall increase in the underwriting loss.
- ◆ The floods in Venezuela mainly impacted commercial customers and produced an underwriting loss of around £2m.
- ◆ Commercial rating continued to be very competitive for most of the year but we did begin to achieve some increases in the last quarter in a number of key markets.

## ASIA PACIFIC

### Personal

	1999	1998 Adjusted	1998 Original
	£m	£m	£m
Net premiums written	446	385	350
Operating ratio	103.0%		108.4%
General business operating profit (based on longer term investment return)	23		5
Life business operations profit	24	5	5

### General

- ◆ The increase in premium income of 16% was largely accounted for by the acquisition of the 20% minority share in AAMI our direct writing company in Australia. Elsewhere in the region there was a small decline attributable to competitive markets and poor economic conditions.
- ◆ Rate increases and better experience in the domestic fire account contributed to a stronger underwriting profit in New Zealand, while the Australian underwriting profit reflected a lower level of household claims, a reduction in Compulsory Third Party provisions and a charge of £10m in anticipation of the introduction of Goods and Service Tax.
- ◆ Elsewhere agency motor business in Japan continued to produce poor results leading to our withdrawal from the market and we incurred further costs in developing our direct marketing operations in Japan.

### Life

- ◆ Sales on an APE basis increased by 59%. New single and annual premium business continues to show strong growth mainly accounted for by the purchase of Guardian in New Zealand and Tyndall in Australia.
- ◆ The strong growth in life profit of £19m is also principally attributable to the Guardian and Tyndall acquisitions.

### Commercial

	1999	1998 Adjusted	1998 Original
	£m	£m	£m
Net premiums written	315	242	224
Operating ratio	124.5%		109.3%
General business operating profit (based on longer term investment return)	(44)		2

- ◆ Premium income rose by 30% to £315m largely due to the privatisation of the Workers' Compensation market in New Zealand and growth of Workers' Compensation in Australia. Substantial rate increases were also a factor in the growth of Australian premiums.
- ◆ The Australian underwriting result was affected by the charge of £6m in anticipation of the introduction of the Goods and Services Tax and an increase in liability claims provisions.
- ◆ The deterioration elsewhere was mainly due to the £11m cost of the earthquake in Taiwan, typhoons and an increase in large losses across the region.

## GROUP REINSURANCES

	<b>1999</b>	1998
	<b>£m</b>	£m
Net premiums written	<b>35</b>	56
Operating ratio	<b>161.2%</b>	115.9%
Underwriting result	<b>(21)</b>	(10)
General business operating profit (based on longer term investment return)	<b>(18)</b>	(10)

- ◆ The underwriting result was worsened by the effects of the abnormally high level of natural catastrophes in 1999, including Hurricane Floyd, the Taiwan earthquake and severe storms in Europe during December.
- ◆ The result was further impacted by the cost of purchasing a Group worldwide aggregate catastrophe protection. The full premium for this protection was charged to group reinsurance.

## WORLDWIDE INVESTMENT PRODUCTS

- ◆ Worldwide sales of unit trusts and other investment products increased by 19% to £701m. The growth of 25% in the UK benefited from the R&SA Investment Management team being named S&P Micropal 'Investment Manager of the Year' for the second year running. The Asia Pacific contribution rose by 123% helped by the acquisitions in Australia and New Zealand. In the Americas, the sale of the US operation was the main reason for the 26% reduction in investment product sales.

**ROYAL & SUN ALLIANCE INSURANCE GROUP PLC**

**SECTION B**

**STATISTICAL ANALYSIS**

## TERRITORIAL ANALYSIS OF GENERAL BUSINESS OPERATIONS

TWELVE MONTHS TO 31 DECEMBER 1999

	Premiums Written			
	1999 £m	1998 Adjusted £m	1998 Original £m	Currency Inc/Dec %
Europe - UK	3,106	3,297	3,297	(6)
Other Europe	1,440	1,234	1,396	17
Americas	1,817	1,611	1,544	13
Asia Pacific	761	627	574	21
Group Reinsurance	35	56	56	(38)
	<b>7,159</b>	<b>6,825</b>	<b>6,867</b>	<b>5</b>

	Underwriting Result			Operating Ratio	
	1999 £m	1998 Adjusted £m	1998 Original £m	1999 %	1998 %
Europe - UK	(270)	(280)	(280)	108.9	107.8
Other Europe	(159)	(181)	(202)	111.2	113.8
Americas	(141)	(104)	(101)	107.3	106.6
Asia Pacific	(94)	(57)	(54)	111.7	108.7
Group Reinsurance	(21)	(10)	(10)	161.2	115.9
	<b>(685)</b>	<b>(632)</b>	<b>(647)</b>	<b>109.4</b>	<b>109.1</b>
Equalisation provisions	(12)	(51)	(51)		
Other items (refer to C7 and C8)	(58)	(13)	(13)		
	<b>(755)</b>	<b>(696)</b>	<b>(711)</b>		

	Operating Profit (based on LTIR)		Return on Capital	
	1999 £m	1998 £m	1999 %	1998 %
Europe - UK	169	209	9	10
Other Europe	26	(38)	2	(9)
Americas	156	184	10	13
Asia Pacific	(21)	7	(6)	-
Group Reinsurance	(18)	(10)	-	-
	<b>312</b>	<b>352</b>	<b>6</b>	<b>6</b>

## TERRITORIAL ANALYSIS OF GENERAL BUSINESS OPERATIONS

### FOURTH QUARTER 1999

#### Premiums Written

	1999	1998	Currency Inc/Dec
	£m	£m	%
Europe - UK	676	796	(15)
Other Europe	390	360	44
Americas	556	419	32
Asia Pacific	228	173	26
Group Reinsurance	2	7	(70)
	<b>1,852</b>	<b>1,755</b>	<b>8</b>

#### Underwriting Result

	1999	1998
	£m	£m
Europe - UK	(65)	(113)
Other Europe	(76)	(67)
Americas	(28)	(19)
Asia Pacific	(38)	(12)
Group Reinsurance	(19)	(1)
	<b>(226)</b>	<b>(212)</b>
Equalisation provisions	4	(15)
Other items (refer to C7 and C8)	(52)	(13)
	<b>(274)</b>	<b>(240)</b>

#### Operating Ratio

	1999	1998
	%	%
	<b>111.1</b>	114.6
	<b>120.2</b>	115.5
	<b>103.9</b>	103.5
	<b>117.2</b>	104.9
	<b>348.5</b>	91.5
	<b>113.0</b>	<b>110.0</b>

#### Operating Profit (based on LTIR)

	1999	1998
	£m	£m
Europe - UK	19	10
Other Europe	(14)	(26)
Americas	57	52
Asia Pacific	(13)	3
Group Reinsurance	(18)	(1)
	<b>31</b>	<b>38</b>

**EUROPE - UK GENERAL BUSINESS OPERATIONS**

**TWELVE MONTHS TO 31 DECEMBER**

	Net Premiums Written			Underwriting Result		Operating Ratio	
	1999 £m	1998 £m	Inc/dec %	1999 £m	1998 £m	1999 %	1998 %
Personal	1,734	1,729	-	(113)	(81)	107.1	104.4
Commercial	1,372	1,568	(12)	(157)	(199)	111.1	111.1
	<u>3,106</u>	<u>3,297</u>	<u>(6)</u>	<u>(270)</u>	<u>(280)</u>	<u>108.9</u>	<u>107.8</u>

	Operating Profit (based on LTIR)		Return on Capital	
	1999 £m	1998 £m	1999 %	1998 %
Personal	49	94	5	9
Commercial	120	115	14	11
	<u>169</u>	<u>209</u>	<u>9</u>	<u>10</u>

Operating Ratio Personal	1999 %	1998 %
Claims ratio	72.1	71.1
Expense ratio	35.0	33.3
	<u>107.1</u>	<u>104.4</u>

Operating Ratio Commercial	1999 %	1998 %
Claims ratio	79.8	82.8
Expense ratio	31.3	28.3
	<u>111.1</u>	<u>111.1</u>

**EUROPE - UK GENERAL BUSINESS OPERATIONS**

**FOURTH QUARTER**

	Net Premiums Written			Underwriting Result		Operating Ratio	
	1999 £m	1998 £m	Inc/dec %	1999 £m	1998 £m	1999 %	1998 %
Personal	399	481	(17)	(12)	(29)	106.5	108.5
Commercial	277	315	(12)	(53)	(84)	118.2	122.5
	<u>676</u>	<u>796</u>	<u>(15)</u>	<u>(65)</u>	<u>(113)</u>	<u>111.1</u>	<u>114.6</u>

	Operating Profit (based on LTIR)	
	1999 £m	1998 £m
Personal	19	15
Commercial	-	(5)
	<u>19</u>	<u>10</u>

Operating Ratio Personal	1999	1998
	%	%
Claims ratio	72.2	78.1
Expense ratio	34.3	30.4
	<u>106.5</u>	<u>108.5</u>

Operating Ratio Commercial	1999	1998
	%	%
Claims ratio	80.3	86.2
Expense ratio	37.9	36.3
	<u>118.2</u>	<u>122.5</u>

## OTHER EUROPE – GENERAL BUSINESS OPERATIONS

TWELVE MONTHS TO 31 DECEMBER

	Net Premiums Written				Underwriting Result			Operating Ratio	
	1999 £m	1998 Adjusted £m	1998 Original £m	Currency Inc/dec %	1999 £m	1998 Adjusted £m	1998 Original £m	1999 %	1998 %
<b>Personal</b>									
Scandinavia	292	193	219	51	(28)	(8)	(8)	109.3	102.8
Germany	68	72	81	(6)	(3)	(15)	(17)	105.4	120.9
Ireland	93	81	92	16	8	(5)	(6)	91.3	106.2
Italy	228	217	246	5	(41)	(53)	(59)	118.4	123.4
Spain	160	133	151	20	(31)	(25)	(28)	120.4	116.9
Other	67	73	82	(7)	(5)	(7)	(8)	107.2	109.2
	<b>908</b>	<b>769</b>	<b>871</b>	<b>18</b>	<b>(100)</b>	<b>(113)</b>	<b>(126)</b>	<b>111.2</b>	<b>113.5</b>
<b>Commercial</b>									
Scandinavia	173	135	152	28	(11)	6	7	106.5	94.6
Germany	71	72	82	(2)	6	(12)	(14)	92.2	116.4
Ireland	70	64	73	9	(11)	(23)	(26)	115.5	135.9
Italy	57	49	56	16	(2)	(9)	(10)	104.6	115.9
Spain	19	13	15	46	(1)	-	-	105.5	108.0
Other	142	132	147	8	(40)	(30)	(33)	127.8	122.6
	<b>532</b>	<b>465</b>	<b>525</b>	<b>14</b>	<b>(59)</b>	<b>(68)</b>	<b>(76)</b>	<b>111.3</b>	<b>114.2</b>
	<b>1,440</b>	<b>1,234</b>	<b>1,396</b>	<b>17</b>	<b>(159)</b>	<b>(181)</b>	<b>(202)</b>	<b>111.2</b>	<b>113.8</b>

	Operating Profit (based on LTIR)		Return on Capital	
	1999 £m	1998 Original £m	1999 %	1998 %
<b>Personal</b>				
Scandinavia	11	24	6	17
Rest of Europe	4	(48)	1	(18)
	<b>15</b>	<b>(24)</b>	<b>2</b>	<b>(9)</b>
<b>Commercial</b>				
Scandinavia	9	23	8	25
Rest of Europe	2	(37)	1	(23)
	<b>11</b>	<b>(14)</b>	<b>3</b>	<b>(10)</b>
	<b>26</b>	<b>(38)</b>	<b>2</b>	<b>(9)</b>

Operating Ratio	1999	1998	Operating Ratio	1999	1998
	%	%		%	%
<b>Personal</b>			<b>Commercial</b>		
Claims ratio	84.2	82.8	Claims ratio	81.9	80.5
Expense ratio	27.0	30.7	Expense ratio	29.4	33.7
	<b>111.2</b>	<b>113.5</b>		<b>111.3</b>	<b>114.2</b>

**OTHER EUROPE – GENERAL BUSINESS OPERATIONS**

**FOURTH QUARTER**

	Net Premiums Written			Underwriting Result		Operating Ratio	
	1999 £m	1998 £m	Currency Inc/dec %	1999 £m	1998 £m	1999 %	1998 %
<b>Personal</b>							
Scandinavia	124	56	182	(16)	(5)	113.6	106.3
Germany	10	14	6	-	(4)	113.2	153.0
Ireland	23	25	24	2	(2)	87.9	112.0
Italy	68	71	25	(14)	(20)	123.3	121.8
Spain	34	41	13	(8)	(8)	126.2	119.9
Other	11	24	(35)	-	(2)	105.2	110.3
	<u>270</u>	<u>231</u>	<u>54</u>	<u>(36)</u>	<u>(41)</u>	<u>114.2</u>	<u>115.0</u>
<b>Commercial</b>							
Scandinavia	59	33	134	(15)	6	125.8	87.6
Germany	8	13	-	3	(8)	88.6	149.3
Ireland	18	20	19	(3)	(10)	117.0	153.6
Italy	14	32	(45)	(1)	(10)	84.5	129.2
Spain	4	3	122	-	-	97.9	107.3
Other	17	28	(5)	(24)	(4)	188.9	131.2
	<u>120</u>	<u>129</u>	<u>27</u>	<u>(40)</u>	<u>(26)</u>	<u>133.1</u>	<u>120.5</u>
	<u>390</u>	<u>360</u>	<u>44</u>	<u>(76)</u>	<u>(67)</u>	<u>120.2</u>	<u>115.5</u>

	Operating Profit (based on LTIR)	
	1999 £m	1998 £m
<b>Personal</b>		
Scandinavia	3	3
Rest of Europe	1	(4)
	<u>4</u>	<u>(1)</u>
<b>Commercial</b>		
Scandinavia	(5)	10
Rest of Europe	(13)	(35)
	<u>(18)</u>	<u>(25)</u>
	<u>(14)</u>	<u>(26)</u>

	1999	1998
	%	%
<b>Operating Ratio Personal</b>		
Claims ratio	89.0	86.1
Expense ratio	25.2	28.9
	<u>114.2</u>	<u>115.0</u>

	1999	1998
	%	%
<b>Operating Ratio Commercial</b>		
Claims ratio	98.7	81.9
Expense ratio	34.4	38.6
	<u>133.1</u>	<u>120.5</u>

## AMERICAS GENERAL BUSINESS OPERATIONS

### TWELVE MONTHS TO 31 DECEMBER

	Net Premiums Written				Underwriting Result			Operating Ratio	
	1999 £m	1998 Adjusted £m	1998 Original £m	Currency Inc/dec %	1999 £m	1998 Adjusted £m	1998 Original £m	1999 %	1998 %
<b>Personal</b>									
USA	255	232	224	10	10	23	23	95.7	89.3
Canada	308	277	254	11	2	10	9	98.8	96.5
Latin America & Caribbean	83	69	71	20	(10)	(11)	(11)	112.3	117.4
	<u>646</u>	<u>578</u>	<u>549</u>	<u>11</u>	<u>2</u>	<u>22</u>	<u>21</u>	<u>99.3</u>	<u>96.0</u>
<b>Commercial</b>									
USA	857	712	689	20	(89)	(86)	(83)	109.9	112.0
Canada	203	212	194	(4)	(30)	(19)	(18)	115.1	109.3
Latin America & Caribbean	111	109	112	2	(24)	(21)	(21)	120.4	119.4
	<u>1,171</u>	<u>1,033</u>	<u>995</u>	<u>13</u>	<u>(143)</u>	<u>(126)</u>	<u>(122)</u>	<u>111.8</u>	<u>112.2</u>
	<u>1,817</u>	<u>1,611</u>	<u>1,544</u>	<u>13</u>	<u>(141)</u>	<u>(104)</u>	<u>(101)</u>	<u>107.3</u>	<u>106.6</u>

	Operating Profit (based on LTIR)		Return on Capital	
	1999 £m	1998 £m	1999 %	1998 %
<b>Personal</b>				
USA	40	52	23	32
Canada	30	35	15	20
Latin America & Caribbean	(5)	(8)	(12)	(16)
	<u>65</u>	<u>79</u>	<u>14</u>	<u>18</u>
<b>Commercial</b>				
USA	106	105	15	17
Canada	1	12	1	7
Latin America & Caribbean	(16)	(12)	(25)	(15)
	<u>91</u>	<u>105</u>	<u>9</u>	<u>11</u>
	<u>156</u>	<u>184</u>	<u>10</u>	<u>13</u>

Operating Ratio	1999	1998	Operating Ratio	1999	1998
<b>Personal</b>	%	%	<b>Commercial</b>	%	%
Claims ratio	66.5	62.8	Claims ratio	77.4	75.5
Expense ratio	32.8	33.2	Expense ratio	34.4	36.7
	<u>99.3</u>	<u>96.0</u>		<u>111.8</u>	<u>112.2</u>

## AMERICAS GENERAL BUSINESS OPERATIONS

### FOURTH QUARTER

	Net Premiums Written			Underwriting Result		Operating Ratio	
	1999	1998	Currency Inc/dec %	1999	1998	1999	1998
	£m	£m	%	£m	£m	%	%
<b>Personal</b>							
USA	78	57	40	7	11	92.0	77.3
Canada	85	66	22	(3)	-	104.4	98.8
Latin America & Caribbean	23	17	39	(7)	(1)	129.2	105.4
	<u>186</u>	<u>140</u>	<u>31</u>	<u>(3)</u>	<u>10</u>	<u>102.2</u>	<u>92.3</u>
<b>Commercial</b>							
USA	279	197	44	(9)	(26)	101.4	113.3
Canada	59	52	8	(9)	-	114.1	97.5
Latin America & Caribbean	32	30	6	(7)	(3)	116.7	112.8
	<u>370</u>	<u>279</u>	<u>33</u>	<u>(25)</u>	<u>(29)</u>	<u>104.9</u>	<u>110.5</u>
	<u>556</u>	<u>419</u>	<u>32</u>	<u>(28)</u>	<u>(19)</u>	<u>103.9</u>	<u>103.5</u>

	Operating Profit (based on LTIR)	
	1999	1998
	£m	£m
<b>Personal</b>		
USA	16	18
Canada	4	6
Latin America & Caribbean	(7)	-
	<u>13</u>	<u>24</u>
<b>Commercial</b>		
USA	50	21
Canada	-	8
Latin America & Caribbean	(6)	(1)
	<u>44</u>	<u>28</u>
	<u>57</u>	<u>52</u>

Operating Ratio	1999	1998
	%	%
<b>Personal</b>		
Claims ratio	69.3	56.5
Expense ratio	32.9	35.8
	<u>102.2</u>	<u>92.3</u>

Operating Ratio	1999	1998
	%	%
<b>Commercial</b>		
Claims ratio	72.3	73.5
Expense ratio	32.6	37.0
	<u>104.9</u>	<u>110.5</u>

## ASIA PACIFIC GENERAL BUSINESS OPERATIONS

TWELVE MONTHS TO 31 DECEMBER

	Net Premiums Written				Underwriting Result			Operating Ratio	
	1999 £m	1998 Adjusted £m	1998 Original £m	Currency Inc/dec %	1999 £m	1998 Adjusted £m	1998 Original £m	1999 %	1998 %
<b>Personal</b>									
Australia	353	291	264	21	5	(3)	(3)	97.6	101.0
New Zealand	31	29	28	8	1	(1)	(1)	97.0	106.1
Other	62	65	58	(4)	(24)	(27)	(26)	137.8	147.4
	<b>446</b>	<b>385</b>	<b>350</b>	<b>16</b>	<b>(18)</b>	<b>(31)</b>	<b>(30)</b>	<b>103.0</b>	<b>108.4</b>
<b>Commercial</b>									
Australia	165	123	112	34	(49)	(23)	(21)	131.8	118.1
New Zealand	71	39	38	82	2	1	1	90.5	96.2
Other	79	80	74	(2)	(29)	(4)	(4)	138.0	103.3
	<b>315</b>	<b>242</b>	<b>224</b>	<b>30</b>	<b>(76)</b>	<b>(26)</b>	<b>(24)</b>	<b>124.5</b>	<b>109.3</b>
	<b>761</b>	<b>627</b>	<b>574</b>	<b>21</b>	<b>(94)</b>	<b>(57)</b>	<b>(54)</b>	<b>111.7</b>	<b>108.7</b>

	Operating Profit (based on LTIR)		Return on Capital	
	1999 £m	1998 £m	1999 %	1998 %
<b>Personal</b>				
Australia	38	27	14	14
Other Asia Pac	(15)	(22)	(34)	(63)
	<b>23</b>	<b>5</b>	<b>4</b>	<b>(3)</b>
<b>Commercial</b>				
Australia	(31)	(5)	(21)	(6)
Other Asia Pac	(13)	7	(16)	15
	<b>(44)</b>	<b>2</b>	<b>(19)</b>	<b>4</b>
	<b>(21)</b>	<b>7</b>	<b>(6)</b>	<b>-</b>

Operating Ratio Personal	1999	1998
	%	%
Claims ratio	74.7	73.0
Expense ratio	28.3	35.4
	<b>103.0</b>	<b>108.4</b>

Operating Ratio Commercial	1999	1998
	%	%
Claims ratio	92.7	72.4
Expense ratio	31.8	36.9
	<b>124.5</b>	<b>109.3</b>

## ASIA PACIFIC GENERAL BUSINESS OPERATIONS

### FOURTH QUARTER

	Net Premiums Written			Underwriting Result		Operating Ratio	
	1999 £m	1998 £m	Currency Inc/dec %	1999 £m	1998 £m	1999 %	1998 %
<b>Personal</b>							
Australia	117	77	53	8	7	92.3	91.8
New Zealand	8	4	8	-	-	91.8	103.2
Other	20	22	(2)	(5)	(16)	124.9	172.3
	<u>145</u>	<u>103</u>	<u>40</u>	<u>3</u>	<u>(9)</u>	<u>96.8</u>	<u>108.9</u>
<b>Commercial</b>							
Australia	52	44	17	(28)	(5)	160.6	105.0
New Zealand	11	6	(4)	-	1	114.1	86.3
Other	20	20	(7)	(13)	1	163.9	91.1
	<u>83</u>	<u>70</u>	<u>8</u>	<u>(41)</u>	<u>(3)</u>	<u>149.5</u>	<u>99.0</u>
	<u>228</u>	<u>173</u>	<u>26</u>	<u>(38)</u>	<u>(12)</u>	<u>117.2</u>	<u>104.9</u>

	Operating Profit (based on LTIR)	
	1999 £m	1998 £m
<b>Personal</b>		
Australia	19	14
Other Asia Pac	(2)	(14)
	<u>17</u>	<u>-</u>
<b>Commercial</b>		
Australia	(22)	(1)
Other Asia Pac	(8)	4
	<u>(30)</u>	<u>3</u>
	<u>(13)</u>	<u>3</u>

Operating Ratio Personal	1999	1998
	%	%
Claims ratio	70.7	68.0
Expense ratio	26.1	40.9
	<u>96.8</u>	<u>108.9</u>

Operating Ratio Commercial	1999	1998
	%	%
Claims ratio	118.2	70.0
Expense ratio	31.3	29.0
	<u>149.5</u>	<u>99.0</u>

## TERRITORIAL ANALYSIS OF LIFE BUSINESS OPERATIONS

### Life & Pensions

	Net Premiums Written				Fourth Quarter	
	12 Months to 31 December			1998		
	1999	1998	1998	Currency	1999	1998
	£m	Adjusted	Original	Inc/dec	£m	Original
		£m	£m	%		£m
Europe – UK	1,950	1,710	1,710	14	487	495
Other Europe	961	749	812	28	305	328
Americas	126	214	205	(41)	16	50
Asia Pacific	247	137	129	80	93	55
	<b>3,284</b>	<b>2,810</b>	<b>2,856</b>	<b>17</b>	<b>901</b>	<b>928</b>

	New Business Annual Premiums				Fourth Quarter	
	12 Months to 31 December			1998		
	1999	1998	1998	Currency	1999	1998
	£m	Adjusted	Original	Inc/dec	£m	Original
		£m	£m	%		£m
Europe – UK	118	116	116	2	26	28
Other Europe	101	76	84	33	26	29
Americas	10	12	11	(23)	2	2
Asia Pacific	18	13	12	37	4	2
	<b>247</b>	<b>217</b>	<b>223</b>	<b>14</b>	<b>58</b>	<b>61</b>

	New Business Single Premiums				Fourth Quarter	
	12 Months to 31 December			1998		
	1999	1998	1998	Currency	1999	1998
	£m	Adjusted	Original	Inc/dec	£m	Original
		£m	£m	%		£m
Europe – UK	973	724	724	34	259	211
Other Europe	546	363	385	50	142	132
Americas	19	53	51	(64)	3	10
Asia Pacific	123	59	54	110	42	24
	<b>1,661</b>	<b>1,199</b>	<b>1,214</b>	<b>39</b>	<b>446</b>	<b>377</b>

	New Business Annual Premium Equivalent				Fourth Quarter	
	12 Months to 31 December			1998		
	1999	1998	1998	Currency	1999	1998
	£m	Adjusted	Original	Inc/dec	£m	Original
		£m	£m	%		£m
Europe – UK	215	188	188	14	52	49
Other Europe	156	112	122	39	41	42
Americas	11	18	17	(35)	2	4
Asia Pacific	31	19	18	59	8	5
	<b>413</b>	<b>337</b>	<b>345</b>	<b>22</b>	<b>103</b>	<b>100</b>

## TERRITORIAL ANALYSIS OF LIFE BUSINESS OPERATIONS

### Shareholders' Interest in Life Operations

	<b>12 Months to 31 December 1999 (unaudited) £m</b>	12 Months to 31 December 1998 (unaudited) £m
Balance brought forward	2,481	2,458
Exchange	(26)	8
Movements for the year	337	43
Profit transfers	(123)	(123)
Capital injections /(released)	24	(13)
Acquisitions	282	108
Disposals	(199)	-
Balance carried forward	<u>2,776</u>	<u>2,481</u>

The movement for the year in the Shareholders Interest in life business can be summarised as follows :

New business	53	43
Expected return	133	99
Operating margin	7	127
	<u>193</u>	<u>269</u>
Assumption changes:		
Operating	(113)	(26)
Economic	165	(412)
Investment variances	227	230
Gross movement for the year	<u>472</u>	<u>61</u>
Tax	(135)	(18)
Movement for the year	<u>337</u>	<u>43</u>

### Life Business Profit

	12 Months to 31 December				Fourth Quarter	
	1999 £m	1998 Adjusted £m	1998 Original £m	Currency Inc/dec %	1999 £m	1998 Original £m
Europe – UK	165	172	172	(4)	42	44
Other Europe	19	23	26	(16)	1	4
Americas	35	28	27	22	7	9
Asia Pacific	24	5	5	388	20	5
	<u>243</u>	<u>228</u>	<u>230</u>	<u>7</u>	<u>70</u>	<u>62</u>
Other Items (refer to C7)	(8)	-	-	-	(3)	-
	<u>235</u>	<u>228</u>	<u>230</u>	<u>3</u>	<u>67</u>	<u>62</u>

## TERRITORIAL ANALYSIS OF LIFE BUSINESS OPERATIONS

### Investment Products

	12 Months to 31 December			Sales		Fourth Quarter	
	1999 £m	1998 Adjusted £m	1998 Original £m	Currency Inc/dec %	1999 £m	1998 Original £m	
Europe – UK	332	267	267	25	72	84	
Other Europe	106	135	153	(22)	(2)	9	
Americas	79	108	98	(26)	19	23	
Asia Pacific	184	82	75	123	46	25	
	<b>701</b>	<b>592</b>	<b>593</b>	<b>19</b>	<b>135</b>	<b>141</b>	

### FUNDS UNDER MANAGEMENT

	As at 31 December 1999 (unaudited) £bn	As at 31 December 1998 (unaudited) £bn
Europe – UK	39	38
Other Europe	12	10
Americas	8	7
Asia Pacific	2	2
	<b>61</b>	<b>57</b>
Of which 3 <sup>rd</sup> party	<b>6</b>	<b>4</b>

EUROPE - UK GENERAL BUSINESS OPERATIONS

TWELVE MONTHS TO 31 DECEMBER

	Net Premiums Written			Underwriting Result		Operating Ratio	
	1999 £m	1998 £m	Inc/dec %	1999 £m	1998 £m	1999 %	1998 %
<b>Personal</b>							
Household	813	916	(11)	(21)	(42)	104.5	105.7
Motor	590	566	4	(91)	(42)	115.2	106.5
Other	331	247	34	(1)	3	99.0	98.2
	<u>1,734</u>	<u>1,729</u>	-	<u>(113)</u>	<u>(81)</u>	<u>107.1</u>	<u>104.4</u>
<b>Commercial</b>							
Property	518	680	(24)	(60)	(89)	111.8	110.8
Casualty	224	233	(4)	(7)	(25)	102.8	108.2
Motor	432	432	-	(81)	(68)	118.7	115.7
Other	198	223	(11)	(9)	(17)	104.4	109.8
	<u>1,372</u>	<u>1,568</u>	(12)	<u>(157)</u>	<u>(199)</u>	<u>111.1</u>	<u>111.1</u>
	<u>3,106</u>	<u>3,297</u>	(6)	<u>(270)</u>	<u>(280)</u>	<u>108.9</u>	<u>107.8</u>

	Operating Profit (based on LTIR)		Return on Capital	
	1999 £m	1998 £m	1999 %	1998 %
Personal	49	94	5	9
Commercial	120	115	14	11
	<u>169</u>	<u>209</u>	<u>9</u>	<u>10</u>

Operating Ratio	Personal		Operating Ratio	Commercial	
	1999 %	1998 %		1999 %	1998 %
Claims ratio	72.1	71.1	79.8	82.8	
Expense ratio	35.0	33.3	31.3	28.3	
	<u>107.1</u>	<u>104.4</u>	<u>111.1</u>	<u>111.1</u>	

**EUROPE - UK GENERAL BUSINESS OPERATIONS**

**FOURTH QUARTER**

	Net Premiums Written			Underwriting Result		Operating Ratio	
	1999 £m	1998 £m	Inc/dec %	1999 £m	1998 £m	1999 %	1998 %
<b>Personal</b>							
Household	205	230	(11)	1	(15)	103.0	111.3
Motor	118	187	(37)	(20)	(15)	113.9	108.3
Other	76	64	22	7	1	97.6	104.5
	<u>399</u>	<u>481</u>	<u>(17)</u>	<u>(12)</u>	<u>(29)</u>	<u>106.5</u>	<u>108.5</u>
<b>Commercial</b>							
Property	95	128	(25)	(39)	(52)	137.4	132.9
Casualty	49	55	(13)	3	(5)	90.5	102.1
Motor	98	98	1	(21)	(22)	120.3	121.8
Other	35	34	4	4	(5)	85.7	125.3
	<u>277</u>	<u>315</u>	<u>(12)</u>	<u>(53)</u>	<u>(84)</u>	<u>118.2</u>	<u>122.5</u>
	<u>676</u>	<u>796</u>	<u>(15)</u>	<u>(65)</u>	<u>(113)</u>	<u>111.1</u>	<u>114.6</u>

	Operating Profit (based on LTIR)	
	1999 £m	1998 £m
Personal	19	15
Commercial	-	(5)
	<u>19</u>	<u>10</u>

Operating Ratio Personal	1999	1998
	%	%
Claims ratio	72.2	78.1
Expense ratio	34.3	30.4
	<u>106.5</u>	<u>108.5</u>

Operating Ratio Commercial	1999	1998
	%	%
Claims ratio	80.3	86.2
Expense ratio	37.9	36.3
	<u>118.2</u>	<u>122.5</u>

**AMERICAS GENERAL BUSINESS OPERATIONS**

**TWELVE MONTHS TO 31 DECEMBER**

**USA**

	Net Premiums Written			Underwriting Result		Operating Ratio	
	1999 \$m	1998 \$m	Inc/dec %	1999 \$m	1998 \$m	1999 %	1998 %
<b>Personal</b>							
Householders	124	118	5	(12)	(5)	109.9	103.7
Automobile	259	231	12	23	33	91.2	85.1
Other	27	25	9	6	9	74.3	61.1
	<u>410</u>	<u>374</u>	<u>10</u>	<u>17</u>	<u>37</u>	<u>95.7</u>	<u>89.3</u>
<b>Commercial</b>							
Fire and EC	98	93	5	18	26	80.4	75.3
Package	329	312	5	(48)	(23)	114.5	107.4
Automobile	160	162	(1)	(13)	(49)	108.0	130.3
Workers' comp	322	275	17	(30)	(33)	108.0	112.2
General liability	183	151	21	(51)	(25)	130.6	117.2
Other	288	154	87	(20)	(34)	105.5	122.7
	<u>1,380</u>	<u>1,147</u>	<u>20</u>	<u>(144)</u>	<u>(138)</u>	<u>109.9</u>	<u>112.0</u>
	<u>1,790</u>	<u>1,521</u>	<u>18</u>	<u>(127)</u>	<u>(101)</u>	<u>106.4</u>	<u>106.4</u>

	Operating Profit (based on LTIR)		Return on Capital	
	1999 \$m	1998 \$m	1999 %	1998 %
Personal	64	86	23	32
Commercial	171	174	15	17
	<u>235</u>	<u>260</u>	<u>16</u>	<u>20</u>

Operating Ratio Personal	1999	1998	Operating Ratio Commercial	1999	1998
	%	%		%	%
Claims ratio	62.8	56.3	Claims ratio	76.8	76.3
Expense ratio	32.9	33.0	Expense ratio	33.1	35.7
	<u>95.7</u>	<u>89.3</u>		<u>109.9</u>	<u>112.0</u>

**AMERICAS GENERAL BUSINESS OPERATIONS**

**FOURTH QUARTER**

**USA**

	Net Premiums Written			Underwriting Result		Operating Ratio	
	1999 \$m	1998 \$m	Inc/dec %	1999 \$m	1998 \$m	1999 %	1998 %
<b>Personal</b>							
Householders	27	28	(4)	(1)	3	103.8	90.4
Automobile	86	56	54	8	16	92.1	72.1
Other	6	6	(3)	4	2	38.0	64.7
	<u>119</u>	<u>90</u>	<u>32</u>	<u>11</u>	<u>21</u>	<u>92.0</u>	<u>77.3</u>
<b>Commercial</b>							
Fire and EC	23	15	47	20	(1)	17.5	113.8
Package	76	86	(11)	(8)	12	110.5	82.9
Automobile	38	38	2	(1)	(16)	101.1	141.2
Workers' comp	93	77	20	(3)	(19)	101.6	128.2
General liability	54	49	10	(17)	(4)	142.3	109.3
Other	142	46	212	(2)	(13)	101.1	132.1
	<u>426</u>	<u>311</u>	<u>37</u>	<u>(11)</u>	<u>(41)</u>	<u>101.4</u>	<u>113.3</u>
	<u>545</u>	<u>401</u>	<u>36</u>	<u>-</u>	<u>(20)</u>	<u>99.0</u>	<u>104.4</u>

	Operating Profit (based on LTIR)	
	1999 \$m	1998 \$m
Personal	26	32
Commercial	84	34
	<u>110</u>	<u>66</u>

Operating Ratio Personal	1999	1998
	%	%
Claims ratio	59.1	42.0
Expense ratio	32.9	35.3
	<u>92.0</u>	<u>77.3</u>

Operating Ratio Commercial	1999	1998
	%	%
Claims ratio	70.0	79.4
Expense ratio	31.4	33.9
	<u>101.4</u>	<u>113.3</u>

**AMERICAS GENERAL BUSINESS OPERATIONS**

**TWELVE MONTHS TO 31 DECEMBER**

**Canada**

	Net Premiums Written			Underwriting Result		Operating Ratio	
	1999 C\$m	1998 C\$m	Inc/dec %	1999 C\$m	1998 C\$m	1999 %	1998 %
<b>Personal</b>							
Household	219	203	8	(8)	(7)	103.7	103.8
Motor	501	446	12	13	30	96.7	93.1
	<u>720</u>	<u>649</u>	<u>11</u>	<u>5</u>	<u>23</u>	<u>98.8</u>	<u>96.5</u>
<b>Commercial</b>							
Property	133	143	(7)	(16)	(25)	112.1	117.5
Motor	188	187	-	(14)	5	107.7	97.7
General liability	106	118	(10)	(45)	(25)	141.7	120.7
Other	49	48	3	4	-	92.1	101.0
	<u>476</u>	<u>496</u>	<u>(4)</u>	<u>(71)</u>	<u>(45)</u>	<u>115.1</u>	<u>109.3</u>
	<u>1,196</u>	<u>1,145</u>	<u>4</u>	<u>(66)</u>	<u>(22)</u>	<u>105.4</u>	<u>102.1</u>

	Operating Profit (based on LTIR)		Return on Capital	
	1999 C\$m	1998 C\$m	1999 %	1998 %
Personal	69	90	15	20
Commercial	2	30	1	7
	<u>71</u>	<u>120</u>	<u>9</u>	<u>14</u>

Operating Ratio Personal	1999 %	1998 %
Claims ratio	69.4	66.7
Expense ratio	29.4	29.8
	<u>98.8</u>	<u>96.5</u>

Operating Ratio Commercial	1999 %	1998 %
Claims ratio	79.1	73.8
Expense ratio	36.0	35.5
	<u>115.1</u>	<u>109.3</u>

**AMERICAS GENERAL BUSINESS OPERATIONS**

**FOURTH QUARTER**

**Canada**

	Net Premiums Written			Underwriting Result		Operating Ratio	
	1999 C\$m	1998 C\$m	Inc/dec %	1999 C\$m	1998 C\$m	1999 %	1998 %
<b>Personal</b>							
Household	58	52	11	-	5	100.3	89.6
Motor	123	111	11	(8)	(4)	106.3	104.8
	<u>181</u>	<u>163</u>	<u>11</u>	<u>(8)</u>	<u>1</u>	<u>104.4</u>	<u>98.8</u>
<b>Commercial</b>							
Property	36	38	(4)	2	6	92.0	85.2
Motor	48	46	2	(7)	2	115.3	97.5
General liability	30	32	(5)	(15)	(6)	150.0	116.8
Other	12	13	-	-	-	91.3	94.3
	<u>126</u>	<u>129</u>	<u>(1)</u>	<u>(20)</u>	<u>2</u>	<u>114.1</u>	<u>97.5</u>
	<u>307</u>	<u>292</u>	<u>5</u>	<u>(28)</u>	<u>3</u>	<u>108.3</u>	<u>98.2</u>

	Operating Profit (based on LTIR)	
	1999 C\$m	1998 C\$m
Personal	9	16
Commercial	(1)	20
	<u>8</u>	<u>36</u>

Operating Ratio Personal	1999	1998
	%	%
Claims ratio	73.7	67.7
Expense ratio	30.7	31.1
	<u>104.4</u>	<u>98.8</u>

Operating Ratio Commercial	1999	1998
	%	%
Claims ratio	79.9	62.1
Expense ratio	34.2	35.4
	<u>114.1</u>	<u>97.5</u>

**ROYAL & SUN ALLIANCE INSURANCE GROUP PLC**

**SECTION C**

**STATUTORY FINANCIAL INFORMATION**

## CONSOLIDATED PROFIT AND LOSS ACCOUNT – STATUTORY BASIS

	<b>12 months to 31 Dec 1999 (audited)</b>	12 months to 31 Dec 1998 (audited) restated
	£m	£m
General business underwriting result (see note 2) (including the change in equalisation provisions)	<b>(755)</b>	(711)
Balance on life business technical account gross of tax	<b>235</b>	230
Investment income (see note 3)	<b>1,596</b>	1,642
Premium on redemption of long term subordinated liabilities and convertible bonds	<b>(14)</b>	(142)
Interest on long term subordinated liabilities	<b>(10)</b>	-
Unrealised losses on investments	<b>(645)</b>	(139)
Profit from other activities	<b>21</b>	15
Central expenses	<b>(36)</b>	(30)
Amortisation of goodwill	<b>(14)</b>	(1)
	<b>378</b>	864
	<b>290</b>	909
Share of results of associated undertakings	<b>88</b>	(45)
	<b>378</b>	864
Profit on ordinary activities before tax	<b>378</b>	864
Tax on profit on ordinary activities	<b>(270)</b>	(374)
	<b>108</b>	490
Profit on ordinary activities after tax	<b>108</b>	490
Attributable to equity minority interests	<b>(21)</b>	(33)
	<b>87</b>	457
Profit for the financial year attributable to shareholders	<b>87</b>	457
Cost of preference dividend	<b>(9)</b>	(9)
Cost of ordinary dividend	<b>(353)</b>	(360)
Cost of special dividend	<b>(751)</b>	-
	<b>(1,026)</b>	88
Transfer to retained profits	<b>(1,026)</b>	88
	<b>5.3p</b>	28.7p
Earnings per ordinary share (see note 1)	<b>5.3p</b>	28.7p
Diluted earnings per ordinary share	<b>5.2p</b>	28.3p

Prior year information has been restated for the reason set out in note 3.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT - REANALYSED

	12 months to 31 Dec 1999 (audited)  £m	12 months to 31 Dec 1998 (audited) restated £m
<b>General business result</b>	<b>312</b>	352
Life business result	<b>243</b>	230
Other activities result	<b>11</b>	20
Group operating profit (based on longer term investment return)	<u><b>566</b></u>	<u>602</u>
Other movements in investments	<b>(80)</b>	463
Interest on long term subordinated liabilities	<b>(10)</b>	-
Amortisation of goodwill	<b>(14)</b>	-
Amortisation of goodwill on acquired claims provisions	<b>(12)</b>	-
Other items (refer to C7 and C8)	<b>(72)</b>	(201)
Profit on ordinary activities before tax	<u><b>378</b></u>	<u>864</u>
Tax on Group operating profit (based on longer term investment return)	<b>(175)</b>	(183)
Tax on other profits	<b>(95)</b>	(191)
Profit on ordinary activities after tax	<u><b>108</b></u>	<u>490</u>
Attributable to equity minority interests	<b>(21)</b>	(33)
Profit for the period attributable to shareholders	<u><b>87</b></u>	<u>457</u>
Cost of preference dividend	<b>(9)</b>	(9)
Cost of ordinary dividend	<b>(353)</b>	(360)
Cost of special dividend	<b>(751)</b>	-
Transfer to retained profits	<u><b>(1,026)</b></u>	<u>88</u>
Group operating earnings after tax per ordinary share (based on longer term investment return)	<b>25.7p</b>	24.7p
Earnings per ordinary share (see note 1)	<b>5.3p</b>	28.7p
Diluted earnings per ordinary share	<b>5.2p</b>	28.3p

Prior year information has been restated for the reason set out in note 3.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	12 months to 31 Dec 1999 (audited)	12 months to 31 Dec 1998 (audited)
	£m	£m
Profit for the financial year attributable to shareholders	87	457
Movement in the value of long term business	169	(115)
Exchange	31	(69)
	<hr style="width: 50%; margin: 0 auto;"/> 287	<hr style="width: 50%; margin: 0 auto;"/> 273
Total shareholders' consolidated recognised gains arising in the financial year	<hr style="width: 50%; margin: 0 auto;"/> <b>287</b>	<hr style="width: 50%; margin: 0 auto;"/> <b>273</b>

## MOVEMENT IN SHAREHOLDERS' FUNDS

	12 months to 31 Dec 1999 (audited)	12 months to 31 Dec 1998 (audited)
	£m	£m
Shareholders' funds at 1 January	7,269	7,333
Share capital issued and increase in share premium	15	32
Total shareholders' recognised gains	287	273
Goodwill written back	26	-
Dividends	(1,113)	(369)
	<hr style="width: 50%; margin: 0 auto;"/> 6,484	<hr style="width: 50%; margin: 0 auto;"/> 7,269
Shareholders' funds at 31 December	<hr style="width: 50%; margin: 0 auto;"/> <b>6,484</b>	<hr style="width: 50%; margin: 0 auto;"/> <b>7,269</b>

## SHAREHOLDERS' CONSOLIDATED BALANCE SHEET

	<b>31 Dec 1999 (audited)</b>	31 Dec 1998 (audited)
	£m	£m
<b>ASSETS</b>		
Intangible assets (see note 4)	1,035	13
Investments		
Land and buildings	519	970
Interests in associated undertakings	221	218
Other financial investments - equities	4,866	5,664
- fixed interest	9,912	8,634
- other	883	987
Value of long term business	1,784	1,506
	<b>18,185</b>	17,979
Reinsurers' share of technical provisions	3,690	2,519
Debtors	4,935	4,666
Other assets	754	464
Prepayments and accrued income	1,122	978
Total assets	<b>29,721</b>	26,619
<b>LIABILITIES</b>		
Shareholders' funds (see note 2)	6,484	7,269
Equity minority interests in subsidiaries	406	291
Long term subordinated liabilities	610	-
Total capital and reserves and long term subordinated liabilities	<b>7,500</b>	7,560
Technical provisions	18,752	15,548
Borrowings	671	443
Other liabilities	2,798	3,068
Total liabilities	<b>29,721</b>	26,619

### Note

The balance sheet includes all assets and liabilities attributable to shareholders and general business. It does not include the assets and liabilities of life business policyholders.

## SUMMARY SHAREHOLDERS' CASH FLOW STATEMENT

	<b>12 months to 31 Dec 1999 (audited)</b>	12 months to 31 Dec 1998 (audited) restated
	£m	£m
Net cash inflow from operating activities	<b>320</b>	82
Dividends from associates	<b>56</b>	1
Servicing of finance	<b>(36)</b>	(19)
Taxation paid	<b>(145)</b>	(214)
Capital expenditure	<b>(83)</b>	(69)
Acquisitions and disposals, including redemption of long term subordinated liabilities	<b>(1,482)</b>	(208)
Dividends paid on equity shares	<b>(1,109)</b>	(337)
	<b>(2,479)</b>	(764)
Issue of ordinary share capital	<b>15</b>	14
Issue by subsidiary of ordinary share capital to minorities	<b>30</b>	-
Issue of long term subordinated liabilities	<b>615</b>	-
Purchase of own shares	<b>(29)</b>	-
	<b>(1,848)</b>	(750)
Cash flow (pre investment)	<b>(1,848)</b>	(750)
Investment activities		
Sales of investments	<b>(1,626)</b>	(784)
(Increase)/decrease in borrowings	<b>(222)</b>	34
	<b>(1,848)</b>	(750)

### Note

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

The 1998 amounts have been restated to reflect the presentational change arising from the raising of the long term subordinated liabilities and their designation as long term Group financing. Borrowings are available to meet shorter term liquidity needs and, as such, are now shown as a component of investment movement. All cash flows arising from the servicing of borrowings have been restated as operational cash flows.

## EXPLANATORY NOTES TO THE FINANCIAL INFORMATION

### 1. Earnings per share

The earnings per share is calculated by reference to the profit attributable to the equity shareholders and the weighted average of 1,482,855,246 shares in issue during the period. The number of shares in issue at 31 December 1999 was 1,428,412,281.

### 2. Equalisation provisions

The balance on the general business underwriting result is arrived at after a charge of £12m (1998 : £51m charge) for the change in the equalisation provisions. Shareholders' funds are stated after deducting equalisation provisions of £259m (31 December 1998 : £250m).

### 3. Investment income reconciliation

	1999 £m	Restated 1998 £m
Net investment income (after loan interest and investment expenses and charges)	767	801
Gains on realisation of investments	795	811
Gains on disposals of subsidiaries and branches	10	5
Income from associated undertakings	24	25
Investment income	<u>1,596</u>	<u>1,642</u>

The impact of the change in accounting policy arising from the adoption of Financial Reporting Standard 16 "Current Tax" in the profit and loss account is to reduce the investment income and the profit on ordinary activities before tax by £7m (1998 : £14m). The tax on ordinary activities is reduced by an equivalent amount. Comparative figures have been restated.

### 4. Intangible assets

Intangible assets represent goodwill arising on acquisition £843m (1998 : £13m) and goodwill in acquired claims provisions £192m (1998 : £nil) arising since 1 January 1998. Goodwill arising prior to 1 January 1998 has been eliminated against reserves.

## ANNUAL REPORT FOR 1999

These preliminary financial statements do not constitute full statutory Group financial statements within the meaning of Section 240 of the Companies Act 1985. The statutory Group financial statements for the year to 31 December 1999 of Royal & Sun Alliance Insurance Group plc will be posted to shareholders on 4 April 2000 and will be delivered to the Registrar of Companies following the Annual General Meeting to be held on 17 May 2000. The auditors' report on the Group financial statements for the year ended 31 December 1999 is unqualified and does not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

## RECONCILIATION OF PROFIT AND LOSS ACCOUNT

TWELVE MONTHS TO 31 DECEMBER 1999

			General business result	Life business result	Other activities	Other investment movements	Interest on subordinated debt	Amortisation of goodwill	Other items
Underwriting loss	(685)		(685)						
Reorganisation costs	(46)								(46)
Amortised claims acquired	(12)							(12)	
Equalisation provisions	(12)								(12)
		(755)							
Life business result	243			243					
Reorganisation costs	(4)								(4)
Amortisation of EV	(4)								(4)
		235							
Net investment income	767								
Gains on disposal of subsidiaries	10								
Realised gains	795								
	1,572		997			565			10
Income from associates	24				24				
	—	1,596							
Premium on convertible bond buyback	(14)								(14)
Interest on subordinated debt	(10)						(10)		
Unrealised losses	(645)					(645)			
Profit from other activities	23				23				
Reorganisation costs	(2)								(2)
		21							
Central expenses	(36)				(36)				
Amortisation of goodwill	(14)							(14)	
	378		312	243	11	(80)	(10)	(26)	(72)

## RECONCILIATION OF PROFIT AND LOSS ACCOUNT

TWELVE MONTHS TO 31 DECEMBER 1998

			General business result	Life business result	Other activities	Other investment movements	Other items
Underwriting loss	(647)		(647)				
Reorganisation costs	(13)						(13)
Equalisation provisions	(51)						(51)
		(711)					
Life business result	230			230			
Reorganisation costs	-						
Amortisation of EV	-						
		230					
Net investment income	801						
Gains on disposal of subsidiaries	5						
Realised gains	811						
	1,617		999		11	602	5
Income from associates	25				25		
		1,642					
Premium on convertible bond buy back	(142)						(142)
Unrealised losses	(139)					(139)	
Profit from other activities	15				15		
Central expenses	(30)				(30)		
Amortisation of goodwill	(1)				(1)		
		864	352	230	20	463	(201)