

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F/A
Amendment No.1**

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE
SECURITIES EXCHANGE ACT OF 1934**
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

**Commission file number: 333-12762
Royal & Sun Alliance Insurance Group plc**

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

England and Wales

(Jurisdiction of incorporation or organization)

**30 Berkeley Square
London W1J 6EW
England**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

| <u>Title of each class</u> | <u>Name of each exchange on which registered</u> |
|--|--|
| American Depositary Shares (as evidenced by American Depositary Receipts), each representing five (5) ordinary shares, nominal value 27.5p per share | New York Stock Exchange |
| Ordinary shares, nominal value 27.5p per share* | New York Stock Exchange |

* Not for trading, but only in connection with the listing of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

8.95% Subordinated Guaranteed Bonds due October 15, 2029

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2000, there were outstanding:
1,434,838,999 ordinary shares, nominal value 27.5p per share,
including 264,391 American Depositary Shares (as evidenced by
American Depositary Receipts), each representing five (5) ordinary shares
125,000,000 preference shares, nominal value £1 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

We are filing this Amendment No. 1 to our Annual Report on Form 20-F for the fiscal year ended December 31, 2000 solely to correct 3 numbers on pages 62 and 63. The corrections are as follows:

1. Asbestos loss development table — net of reinsurance (U.K. GAAP basis). The paid (cumulative) as of two years later for 1998 should be £47.4 million rather than £24.4 million.
2. Environmental loss development table — gross of reinsurance (U.K. GAAP basis). The paid (cumulative) as of two years later for 1998 should be £94.5 million rather than £57.7 million.
3. Environmental loss development table — net of reinsurance (U.K. GAAP basis). The paid (cumulative) as of two years later for 1998 should be £80.6 million rather than £57.2 million.

These amendments have no effect on the reserve re-estimate or on the cumulative redundancy/ (deficiency) for any of the years.

We are leaving the page numbering of Item 4 unchanged from the original filing for ease of reference.

ITEM 4. INFORMATION ON THE COMPANY

OVERVIEW

We are one of the world's leading global insurers. We have operations in approximately 50 countries and cover risks in over 130 countries, thus possessing one of the few truly global networks in the industry. We offer a broad range of property and casualty insurance, life insurance, asset accumulation products (such as pension products, annuities and mutual funds) and related services (such as risk management and claims administration) to both businesses and individuals. Because our primary focus is on customers rather than products, we sell our products and services through multiple distribution channels, reaching the consumer the way the consumer chooses to trade. Our business is geographically diverse with operations in the United Kingdom, Europe, the Americas and Asia Pacific.

For 2000 we reported:

- ◆ property and casualty net premiums written (gross premiums written less premiums reinsured) of £8,372 million, or \$12,558 million;
- ◆ life and asset accumulation net premiums written of £3,439 million, or \$5,159 million;
- ◆ Group operating result (based on longer term investment return)¹ of £476 million, or \$714 million;
- ◆ profit on ordinary activities before tax of £55 million, or \$83 million;
- ◆ loss attributable to shareholders of £14 million, or \$21 million;
- ◆ total investments of £49,676 million, or \$74,514 million; and
- ◆ shareholders' funds of £6,323 million, or \$9,485 million.

We are the product of the 1996 merger of two of the then largest U.K. insurers writing both life and property and casualty business, Royal Insurance Holdings plc and Sun Alliance Group plc. We can trace our history back almost 300 years to the Sun Insurance Office, which is one of the world's oldest insurance companies still writing business today. We also have a long international history, having operated in continental Europe since the early 1800s, in Asia Pacific since 1825 and in the United States and Canada since 1851.

¹ Group operating result (based on longer term investment return) is a measure used for internal purposes in the management of our business segments. It includes the pre-tax profits of our life and asset accumulation business, our property and casualty business and other activities including the Group's share of the results of investments accounted for under the equity method. Both the property and casualty profit and the profit from other activities are determined using a longer term investment return to remove the effect of short term fluctuations in our investment portfolio. Group operating result (based on longer term investment return) is the same as group operating profit (based on long-term investment return) determined in accordance with the Association of British Insurers' SORP, but before charging the following unallocated corporate items: the change in equalization provisions, amortization of goodwill (including goodwill in acquired claims provisions), amortization of the value of long term (life) business, premium paid on the redemption of our convertible bonds, dated loan capital interest and reorganization costs (including losses on terminated business) and short term investment fluctuations. It also excludes the profit on disposal of subsidiaries and branches. This is the result we use to measure the financial performance of our segments. It is not necessarily directly comparable to similar measurements used by other U.K. insurers. This measure differs from the profit on ordinary activities before tax, which includes each of the above items. See the table in "Summary Results of Operations" for an explanation of the relationship between this result, other results required by U.K. GAAP and profit on ordinary activities before tax.

The merger enabled us to significantly increase our operating and distribution capabilities in the U.K. market and provided a strong base for global expansion and participation in the consolidating global insurance market. Since the merger, we have taken and continue to take significant steps to transform ourselves from a U.K. insurer with overseas operations into a global enterprise headquartered in the United Kingdom.

Our primary focus is on personal and commercial property and casualty coverages, and we write virtually all types with an emphasis on property, casualty, automobile and household insurance. We also offer a broad range of life insurance and asset accumulation products, including unit trusts, a U.K. form of mutual fund, savings and pension products. In addition, we conduct complementary businesses in support of our insurance operations in selected markets such as asset management, primarily in the United Kingdom and Australia, and risk management services such as claims management and loss control services in our major markets around the globe.

Multi-channel distribution

We market our products and services through multiple channels, including brokers and other intermediaries, corporate partnerships and affinity marketing programs, as well as direct to the customer.

Our multi-channel distribution strategy allows us to reach a broad cross-section of personal and commercial customers. In the commercial market, we conduct business with multinational and national companies, as well as middle-market and small businesses. For personal customers, our corporate partnerships complement our broker and direct businesses by enabling us to capitalize on the broad customer bases of our corporate partners, which include banks, mortgage lenders, retailers and affinity groups with widely recognized brands. In addition, we are a leading direct marketer of personal insurance products in Australia and the United Kingdom. In 2000, of our consolidated personal lines property and casualty net premiums written:

- ◆ brokers and other intermediaries accounted for 36%;
- ◆ corporate partnerships and affinity marketing programs accounted for 23%; and
- ◆ direct marketing and direct sales, including exclusive agents, accounted for 41%.

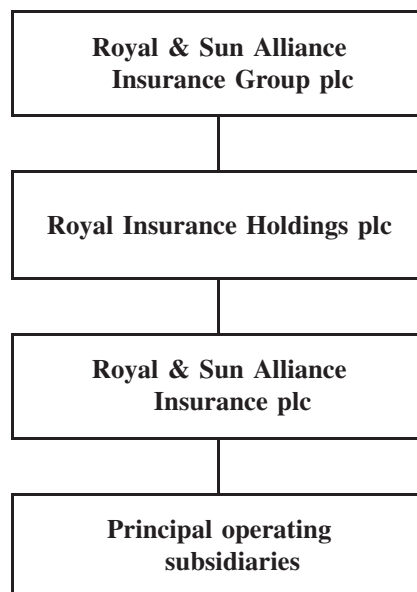
Organization

Our business is organized into four time-zone-based regions:

- ◆ *United Kingdom.* The United Kingdom region is comprised of our businesses in the United Kingdom and accounted for 43.7% of our total net premiums written and 50.8% of Group operating result (based on longer term investment return).
- ◆ *Europe.* The Europe region is comprised of our businesses in Continental Europe, the Middle East and Africa, and accounted for 22.3% of our total net premiums written and 9.0% of Group operating result (based on longer term investment return).
- ◆ *Americas.* The Americas region is comprised of our businesses in the United States, Canada, Latin America and the Caribbean, and accounted for 26.2% of our total net premiums written and 41.0% of Group operating result (based on longer term investment return).
- ◆ *Asia Pacific.* The Asia Pacific region is comprised of our businesses in Asia, Australia and New Zealand, and accounted for 7.8% of our total net premiums written and 16.0% of Group operating result (based on longer term investment return).
- ◆ *Other Activities.* This is comprised of our non-insurance activities including results of associated undertakings and accounted for (16.8%) of Group operating result (based on longer term investment return).

We established this time-zone-based structure because we believe that our clients' needs are best served by people who understand local conditions and customer needs. This structure, which has transferred business decision making from a centralized London-based model to a regional and national delegated model, allows local management to offer products and services for their customers based on localized knowledge. At the same time, our regional managers have access to our underwriting capacity and global knowledge base through a network of technical and functional practice groups and support teams which function across regional management lines. In 1998, we established our Worldwide Group Office in London, which is our centralized source for strategic direction, capital allocation, risk analysis and facilitating the transfer of expertise around the Group.

The following chart shows in simplified form our corporate structure:



Strategy

Previously, Royal Insurance and Sun Alliance were perceived as U.K.-based insurers with overseas operations, primarily within the areas of historic influence of the British Empire. While we had extensive overseas networks, we did not manage our businesses on a truly global basis. In a number of countries we were poorly positioned. We did not manage our capital actively. Accordingly, our long term Group return on capital was satisfactory but volatile. Our businesses were largely product rather than customer focused. The integration process following the merger was designed to bring both companies together as quickly as possible while developing a strategy for the future. We introduced this strategy in January 1998.

Our strategic objective is to deliver superior returns to our shareholders by capitalizing on our extensive global capabilities with a view to achieving a leading position in the markets in which we operate. We seek to achieve that through an intense focus on operating excellence in three areas:

- ◆ *Customers*—customer needs and our ability to meet them through a multi-channel distribution strategy;
- ◆ *Core competencies*—in underwriting, claims management, loss control and investment management; and
- ◆ *Capital management*—using a risk-based capital model to actively manage our capital and operations.

Our customer focus has led us to adopt separate strategies to meet the distinct needs of commercial and personal customers. In the case of commercial customers, we have adopted a global approach based on

the business proposition that our broad geographic capabilities and technical competencies are intended to enable us to meet their needs wherever they operate. For personal customers, our strategy is to deliver personal financial services products, including property and casualty insurance and life insurance and asset accumulation products, using a multi-local approach. This means that we focus on the individual circumstances of our operations and of the particular market in which each of them operates. Both approaches are supported by operational initiatives which seek to deliver superior returns through excellence in our core competencies of underwriting, claims management, loss control and investment management.

To help implement our strategic objective, we introduced a risk-based capital assessment model in 1998 as our core measure of financial performance. This approach allows us to measure better the relative profitability of our component businesses and to set clear performance targets across our operations, better identifying those operations that we should expand and those that we should review or contract. In addition to evaluating the overall direction of our business, our risk-based capital model also enables us to make specific underwriting and investment management decisions based on returns on capital.

In summary, our strategic goal is to deliver superior returns by allocating capital appropriately and to achieve superior execution through our focus on customer needs and operational excellence.

Focus on customers

Our dual approach to customers recognizes that the needs of our personal customers are very different from those of our commercial customers. With the internationalization of business, we believe that our commercial customers are likely to increasingly seek seamless coverage in all of the markets where they operate. Accordingly, we anticipate that the ability of an insurer to provide global coverage will be an increasingly important competitive advantage. By adopting this global approach to commercial customers, we believe our local operations can benefit from our building on the relationships, skills and balance sheet strength generated by our worldwide business.

In contrast, global capabilities are much less relevant to our personal customers who seek coverage in local markets from insurers with local knowledge and expertise. Accordingly, our multi-local approach to personal customers means that we evaluate our business for personal customers on a market-by-market basis. This approach reflects the varying nature of products and distribution between markets that is still a feature of personal lines and is attributable in part to differing taxation, social and regulatory environments. The benefit of our global business in addressing the needs of personal customers, therefore, comes largely from our ability to transfer knowledge, experience, products and services from one part of the world to another.

We intend to continue to develop both product and organizational initiatives to address the needs of our customers. In the United States, for example, we market a product, called World Assurance[®], which provides international coverages for our middle-market commercial customers. Positive market responses resulted in similar products being introduced elsewhere in the Group. We decentralized our approach to serving multinational commercial customers by moving underwriting for this business from our operations in London to our regional operations. This decentralized approach enables us to make decisions closer to our customers.

In addition, we have reorganized and streamlined our U.K. property and casualty operations by uniting the separate businesses which previously comprised our U.K. commercial business under a single management structure which focuses on our commercial customers. In our U.K. personal financial services business which previously consisted of four separate insurance businesses, each with its own products, systems and priorities, we have streamlined to three operations.

In the commercial markets, we are one of the few insurers able to provide for the global needs of large corporations. Through our worldwide network of Group operations and local partners we deliver insurance coverage in over 130 countries. We offer a broad range of coverage options, from customized solutions for large domestic and multinational clients to standard property and casualty covers for smaller businesses.

Brand

We are among the largest global property and casualty insurers and promote our worldwide reputation through use of the Royal & SunAlliance brand. Royal & SunAlliance is a widely recognized brand among the world's largest insurance brokers and multinational businesses and is the primary brand for our commercial insurance products.

In personal financial services, we promote the Royal & SunAlliance brand only in those businesses where it provides an advantage in the local market. In the majority of operations this is the case; in some countries, however, we promote strong local or national brands such as Orion Auto in the United States, Codan in Denmark, Regal in Spain, and AAMI and Tyndall in Australia. Our Swedish company, Trygg-Hansa, is one of the best known brands in Sweden.

Similarly, we trade under local names in countries where we operate through joint ventures or equity investments such as Mutual & Federal in South Africa.

Operational excellence

We believe that a critical element of an insurer's success in the current business environment is operational excellence. We will seek to improve our performance by building on our expertise in underwriting and claims management as well as by carefully managing our expenses. With prices under pressure, underwriting discipline is vital and we are willing to relinquish business that does not meet our return on risk-based capital requirements.

◆ *Group practices*

By operating our business through four time-zone-based regions, we are able to work closely with clients in our local markets while preserving the benefits of a global operation with extensive resources and product knowledge. In order to ensure that our regional operations benefit from our global positioning and experience, we have established group practices in each area of our business. Our group practices are teams of experts in a particular field drawn from our operations throughout the world. Some group practices, such as financial products, marine and property, are based on product; others, such as claims management, human resources and information technology, on areas of expertise. Our group practices are linked electronically to share expertise among our operations and to help develop group-wide best practices in our core insurance skills.

◆ *Expenses*

In addition to focusing on our core insurance skills, we intend to continue to carefully manage our expenses. Expense reduction was one rationale for the merger in 1996, and we achieved our targeted cost savings. We have an ongoing process of review of our businesses with the aim of obtaining additional operational efficiencies. In the United Kingdom, we are targeting reductions in expenses and claims management. Other initiatives implemented include headcount reduction through voluntary early retirement in the United States, Japan, Denmark and Germany, reorganizing and flattening structures, sharing resources and spreading best practice. We are currently realigning our middle-market commercial operations in the United States. As part of this realignment, we are reducing the number of physical locations from 75 to 36 with resulting reduction in the number of employees by approximately 1,000. In the fourth quarter of 2000, we introduced an e-procurement system to improve the management of our purchases of goods and services in the United Kingdom and we estimate that it should produce cost savings, starting in 2001, of £10 million a year.

Electronic business

We will seek to be a leading player in the rapidly developing e-business world, where we see considerable scope for improved customer service, new product and service development and improved efficiency leading to expense reduction. We are investing in the technology to enable fast, efficient

communications, including electronic mail and intranet integrated worldwide and internet access on every desk. We will further develop our global sourcing initiative through e-business and believe that this should help us to lower costs without compromising service levels.

E-business will be an integral part of our multi-channel strategy, enabling customers to do business with us through the channel of their choice, by matching the changing buying habits of our customers. In a number of countries, we offer intermediaries electronic communication links that allow them to input policyholder information, obtain price quotes and issue policies directly through our computer systems. We believe that our multi-channel marketing strategy, particularly our experience in direct marketing via the telephone and direct mail, should make the transition to electronic commerce with those customers easier than for companies that have relied on intermediaries as their source of business.

To coordinate this, we are developing a group-wide e-business strategy and have established an e-business transformation team to support and drive e-business initiatives within our existing operations. To avoid possible incompatibility in the future, we have developed and will continue to enhance a worldwide technical architecture for our e-business initiatives.

In addition, our corporate venturing arm, RSA Global Ventures, works on developing innovative new solutions in financial services. RSA Global Ventures develop, prototype and launch new financial services concepts, both in partnership with other business units within our Group, and also in alliances with other organizations. While not exclusively focused on e-business, RSA Global Ventures is an important part of our strategy for utilizing new technology.

Active capital management

In 1998, we introduced a risk-based capital model as our principal tool for measuring financial performance and now use this model to identify our capital requirements and to actively manage our capital.

We use the principle of return on risk-based capital to allocate capital among our various operations, set financial return targets for those operations and subsequently compare the returns generated by those operations to our target returns. Our management incentive plans are aligned with target returns on risk-based capital by translating the results of our risk-based capital analysis into management performance targets based on combined ratios and insurance operating results.

As a result of analyzing our risk-based capital requirements, we returned £751 million of surplus capital to our shareholders by way of a special dividend in June 1999.

Organic growth and growth through acquisitions

We intend to further develop our strong position in the global insurance market through both organic growth and acquisitions that meet our strategic goals and return on risk-based capital requirements. Although we seek to increase our share of the global insurance market, we have no intention of compromising our focus on underwriting discipline solely to increase market share.

◆ *Organic growth*

A principal objective in our commercial business is to seek organic growth of our local operations. We seek to do this by building on the advantages of a global commercial network and by developing opportunities through our existing broker relationships. Our largest source of business is the intermediary channel, consisting of insurance brokers, agents and other third party sales personnel, and we will continue to capitalize on our broker relationships, taking advantage of our size and global reach to provide the service required by the major international brokers.

We aim to achieve growth in certain niche markets. For example, in the U.S. market, we have for some time been developing our capabilities in specialty lines leading to the acquisition of Orion Capital Corporation in 1999. Specialty products provide customized liability and specialized risk insurance coverage for particular classes or groups of customers.

In personal financial services business, we operate in more than 35 countries and we expect to continue to develop our multi-channel distribution capabilities in our selected markets. Our two direct marketing operations in Australia have shown strong growth over the last seven years, with net premiums written growing to £287 million in 2000 from £99 million in 1994 at constant exchange rates. Of the increase, £25 million was due to assuming 100% of the insurance risk of our Australian direct operation, AAMI, in 1999. We have expanded our direct marketing operations by launching a new venture in Argentina, based on the Australian model.

In addition, we have developed a number of corporate partnership relationships with leading banks and mortgage lenders in all four of our time-zone-based regions and with retailers, such as supermarket chains in the United Kingdom. We will seek to further develop our corporate partnership channel by expanding the product lines we write for our existing corporate partners and developing new relationships with major retail brands.

◆ *Acquisition strategy*

We actively evaluate acquisition opportunities worldwide and have recently made a number of acquisitions. For example, in 1998, we acquired Norwich Union Life and Guardian Assurance in New Zealand followed in 1999 by Tyndall Australia Limited in Australia, Trygg-Hansa Försäkrings AB Publikt in Sweden and Orion Capital Corporation in the United States. Tyndall has significantly strengthened our position in Australian retirement planning business and our personal financial services product range.

Trygg-Hansa is Sweden's fourth largest property and casualty insurer and this acquisition increases our share of the Swedish property and casualty market to approximately 15% based on gross premiums written for the 12 months ended March 31, 2000. It gives us a strong platform within the Nordic and Baltic market from which we aim to grow our business and pursue other development opportunities.

The acquisition of Orion significantly improved our strategic position in the United States, the world's largest insurance market, and extends our penetration into target specialty areas. Orion focuses on providing to niche markets specialty products such as non-standard automobile, directors' and officers' liability and professional indemnity insurance. The deal also doubled our size in the United States, adding mass to both personal and commercial lines and substantially diversifying our product mix and improving the balance of our portfolio.

We exercise a similar discipline in our mergers and acquisitions activity as in our insurance operations, basing our analysis on assessing long-term value creation and return on risk-based capital. In the commercial market, we also evaluate acquisition opportunities as a means of achieving additional economies of scale and the size and scope desirable for operating efficiency in the global insurance market for commercial customers. In the personal financial services market, where global presence is less relevant, we aim to develop local market positions by focusing on acquisitions that we believe can meet our return on capital targets and that offer potential for growth.

◆ *Disposal strategy*

Our approach to selling businesses is also based on return on risk-based capital and long-term value creation. Our businesses should be able to demonstrate that they can obtain a satisfactory position in their chosen market segments and operating results. Unless satisfactory performance, or a clear route to achieving it, can be shown, we will look to dispose of the business. In evaluating whether our businesses are performing satisfactorily, we look at, among other things, their return on risk-based capital. For a discussion of our risk-based capital targets, see "Item 5—Operating and Financial Review and Prospects—Capital Management". This strategy has led us to a number of recent disposals. In early 1999, we sold our direct writing automobile insurers operating in France and Germany because we were not satisfied that they could achieve critical mass and profitability within an acceptable time. Later in the same year, we disposed of our life insurance business in the United States. Although it was achieving a satisfactory return in the current marketplace, we concluded that this business would find it increasingly difficult to compete faced with likely marketplace shifts including the trend towards consolidation. In 2000, we announced an agreement to sell

Lloyd Italo Assicurazioni SpA, Royal & Sun Alliance Vita SpA, Sun Alliance Vita SpA and Lloyd Italo Vita SpA as we did not believe that we could achieve our target rates of return for these operations. We have also disposed of a number of small Caribbean, European and African businesses where we considered prospects inadequate in light of our strategic priorities.

In June 2001, we announced an agreement to sell our Canadian life operation. The sale proceeds are estimated to be approximately £110 million and net assets as at December 31, 2000 were approximately £70 million. The sale is subject to regulatory approval.

Summary Results of Operations

The table below presents a summary of our results of operations for the years ended December 31, 2000, 1999 and 1998.

| | Year Ended December 31, | | | | | | | | |
|--|-------------------------|--------------------------------|---------------|-------|--------------------------------|---------------|-------|--------------------------------|---------------|
| | 2000 | | | 1999 | | | 1998 | | |
| | Total | Property and Casualty Business | Life Business | Total | Property and Casualty Business | Life Business | Total | Property and Casualty Business | Life Business |
| | (£ in millions) | | | | | | | | |
| Segmental results: | | | | | | | | | |
| United Kingdom | 242 | 78 | 164 | 316 | 151 | 165 | 371 | 199 | 172 |
| Europe | 43 | 16 | 27 | 45 | 26 | 19 | (12) | (38) | 26 |
| Americas | 195 | 171 | 24 | 191 | 156 | 35 | 211 | 184 | 27 |
| Asia Pacific | 76 | 39 | 37 | 3 | (21) | 24 | 12 | 7 | 5 |
| Other activities | (80) | — | — | 11 | — | — | 20 | — | — |
| Group operating result (based on longer term investment return) (1) | 476 | 304 | 252 | 566 | 312 | 243 | 602 | 352 | 230 |
| Amortization of goodwill and other unallocated items (2) | (313) | | | (108) | | | (201) | | |
| Group operating profit (based on longer term investment return) | 163 | | | 458 | | | 401 | | |
| Other movements in investments | 20 | | | (80) | | | 463 | | |
| Group operating profit before exceptional items and tax | 183 | | | 378 | | | 864 | | |
| Profit on disposal of subsidiaries less provisions for losses on subsidiaries to be sold | (128) | | | — | | | — | | |
| Profit on ordinary activities before tax | 55 | | | 378 | | | 864 | | |
| Analysis of group operating profit before exceptional items and tax: | | | | | | | | | |
| Total Group operating profit | 167 | | | 290 | | | 909 | | |
| Share of results of associated undertakings | 16 | | | 88 | | | (45) | | |
| Group operating profit before exceptional items and tax | 183 | | | 378 | | | 864 | | |

(1) Group operating result (based on longer term investment return) is the result we use to assess the performance of individual segments.

(2) For a detailed breakdown of the items included in this line, see “Item 5—Operating and Financial Review and Prospects—Consolidated Results of Operations”.

PRINCIPAL MARKETS

Overview

We offer a broad range of property and casualty insurance products and life insurance and asset accumulation products in our United Kingdom, Europe, Americas and Asia Pacific regions.

The table below presents the distribution of our 2000, 1999 and 1998 consolidated property and casualty net premiums written by region and line of business.

Property and Casualty Net Premiums Written

| | Year Ended December 31, | | | | | |
|--|-------------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
| | 2000 | | 1999 | | 1998 | |
| | £ in millions | % of Total | £ in millions | % of Total | £ in millions | % of Total |
| United Kingdom: | | | | | | |
| Personal | 1,673 | 20.0% | 1,734 | 24.2% | 1,729 | 25.2% |
| Commercial | 1,475 | 17.6 | 1,407 | 19.7 | 1,624 | 23.6 |
| Total United Kingdom | <u>3,148</u> | <u>37.6</u> | <u>3,141</u> | <u>43.9</u> | <u>3,353</u> | <u>48.8</u> |
| Europe: | | | | | | |
| Personal | 1,099 | 13.1 | 908 | 12.7 | 871 | 12.7 |
| Commercial | 650 | 7.8 | 532 | 7.4 | 525 | 7.6 |
| Total Europe | <u>1,749</u> | <u>20.9</u> | <u>1,440</u> | <u>20.1</u> | <u>1,396</u> | <u>20.3</u> |
| Americas: | | | | | | |
| Personal | 1,007 | 12.0 | 646 | 9.0 | 549 | 8.0 |
| Commercial | 1,791 | 21.4 | 1,171 | 16.4 | 995 | 14.5 |
| Total Americas | <u>2,798</u> | <u>33.4</u> | <u>1,817</u> | <u>25.4</u> | <u>1,544</u> | <u>22.5</u> |
| Asia Pacific: | | | | | | |
| Personal | 420 | 5.0 | 446 | 6.2 | 350 | 5.1 |
| Commercial | 257 | 3.1 | 315 | 4.4 | 224 | 3.3 |
| Total Asia Pacific | <u>677</u> | <u>8.1</u> | <u>761</u> | <u>10.6</u> | <u>574</u> | <u>8.4</u> |
| Total Property and Casualty | <u>8,372</u> | <u>100.0%</u> | <u>7,159</u> | <u>100.0%</u> | <u>6,867</u> | <u>100.0%</u> |
| Total Personal | <u>4,199</u> | <u>50.2%</u> | <u>3,734</u> | <u>52.1%</u> | <u>3,499</u> | <u>51.0%</u> |
| Total Commercial | <u>4,173</u> | <u>49.8</u> | <u>3,425</u> | <u>47.9</u> | <u>3,368</u> | <u>49.0</u> |
| Total Property and Casualty | <u>8,372</u> | <u>100.0%</u> | <u>7,159</u> | <u>100.0%</u> | <u>6,867</u> | <u>100.0%</u> |

The table below presents our 2000, 1999 and 1998 property and casualty loss, expense and combined ratios by region and line of business. A loss ratio is the ratio of net incurred losses and loss adjustment expenses to net premiums earned. An expense ratio is the ratio of insurance operating expenses (acquisition and administration costs less reinsurance commissions and profit participations) to net premiums written. A combined ratio is the sum of these two ratios. These ratios are measures of the underwriting profitability of an insurance company. A combined ratio below 100 generally indicates profitable underwriting. A combined ratio over 100 generally indicates unprofitable underwriting. An insurance company with a combined ratio over 100 may be profitable to the extent net investment results exceed underwriting losses.

Property and Casualty Loss, Expense and Combined Ratios

| | Year Ended December 31, | | | | | | | | |
|--|-------------------------|-----------------------|------------------------|--------------------|-----------------------|------------------------|--------------------|-----------------------|------------------------|
| | 2000 | | | 1999 | | | 1998 (1) | | |
| | Loss Ratio % | Expense Ratio % | Combined Ratio % | Loss Ratio % | Expense Ratio % | Combined Ratio % | Loss Ratio % | Expense Ratio % | Combined Ratio % |
| United Kingdom: | | | | | | | | | |
| Personal | 75.4 | 34.7 | 110.1 | 72.1 | 35.0 | 107.1 | 71.1 | 33.3 | 104.4 |
| Commercial | 83.7 | 29.7 | 113.4 | 81.3 | 30.9 | 112.2 | 83.4 | 27.8 | 111.2 |
| Total United Kingdom | 79.2 | 32.3 | 111.5 | 76.2 | 33.2 | 109.4 | 77.3 | 30.7 | 108.0 |
| Europe: | | | | | | | | | |
| Personal | 85.1 | 25.8 | 110.9 | 84.2 | 27.0 | 111.2 | 82.8 | 30.7 | 113.5 |
| Commercial | 82.7 | 28.5 | 111.2 | 81.9 | 29.4 | 111.3 | 80.5 | 33.7 | 114.2 |
| Total Europe | 84.2 | 26.8 | 111.0 | 83.3 | 27.9 | 111.2 | 81.9 | 31.9 | 113.8 |
| Americas: | | | | | | | | | |
| Personal | 73.6 | 29.7 | 103.3 | 66.5 | 32.8 | 99.3 | 62.8 | 33.2 | 96.0 |
| Commercial | 76.6 | 33.1 | 109.7 | 77.4 | 34.4 | 111.8 | 75.5 | 36.7 | 112.2 |
| Total Americas | 75.5 | 31.9 | 107.4 | 73.4 | 33.9 | 107.3 | 71.0 | 35.6 | 106.6 |
| Asia Pacific: | | | | | | | | | |
| Personal | 67.8 | 27.9 | 95.7 | 74.7 | 28.3 | 103.0 | 73.0 | 35.4 | 108.4 |
| Commercial | 86.6 | 36.7 | 123.3 | 92.7 | 31.8 | 124.5 | 72.4 | 36.9 | 109.3 |
| Total Asia Pacific | 75.4 | 31.2 | 106.6 | 82.0 | 29.7 | 111.7 | 72.7 | 36.0 | 108.7 |
| Total Personal | 76.7 | 30.5 | 107.2 | 74.3 | 31.9 | 106.2 | 72.8 | 32.6 | 105.4 |
| Total Commercial | 80.7 | 31.4 | 112.1 | 81.1 | 32.0 | 113.1 | 79.6 | 32.0 | 111.6 |
| Total Property and Casualty | 78.7 | 30.9 | 109.6 | 77.5 | 31.9 | 109.4 | 76.4 | 32.7 | 109.1 |

(1) Our 1998 U.K. loss, expense and combined ratios have been restated due to the reclassification of certain lines of business between our personal and commercial lines.

Our consolidated property and casualty combined ratio for 2000 was 109.6%. See “Item 5—Operating and Financial Review and Prospects” for a discussion of the factors contributing to our underwriting loss in 2000 as well as steps we have taken to attempt to improve our underwriting results. Our goal is to achieve a combined ratio of 103%. This goal is based on our return on equity target of a net real return on equity of 10%. For a discussion of our return on equity targets, see “Item 5—Operating and Financial Review and Prospects—Capital Management”.

The table below presents the distribution of our 2000, 1999 and 1998 life and asset accumulation net premiums written by region and line of business. The information presented below for our Americas region includes net premiums written by our U.S. life and asset accumulation business until it was sold in July 1999 for £235 million. Our U.S. life and asset accumulation business accounted for £76 million and £163 million of our Americas life and asset accumulation net premiums written in 1999 and 1998, respectively.

Life and Asset Accumulation Net Premiums Written

| | Year Ended December 31, | | | | | |
|--|-------------------------|---------------|------------------|---------------|------------------|---------------|
| | 2000 | | 1999 | | 1998 (1) | |
| | £ in millions | % of Total | £ in millions | % of Total | £ in millions | % of Total |
| United Kingdom: | | | | | | |
| Individual..... | 1,823 | 53.0% | 1,788 | 54.5% | 1,533 | 53.7% |
| Group..... | 182 | 5.3 | 162 | 4.9 | 177 | 6.2 |
| Total United Kingdom | 2,005 | 58.3 | 1,950 | 59.4 | 1,710 | 59.9 |
| Europe: | | | | | | |
| Individual..... | 744 | 21.6 | 835 | 25.4 | 680 | 23.8 |
| Group..... | 146 | 4.2 | 126 | 3.9 | 132 | 4.6 |
| Total Europe | 890 | 25.8 | 961 | 29.3 | 812 | 28.4 |
| Americas: | | | | | | |
| Individual..... | 260 | 7.6 | 126 | 3.8 | 161 | 5.6 |
| Group..... | 37 | 1.1 | — | — | 44 | 1.6 |
| Total Americas | 297 | 8.7 | 126 | 3.8 | 205 | 7.2 |
| Asia Pacific: | | | | | | |
| Individual..... | 162 | 4.7 | 185 | 5.6 | 113 | 4.0 |
| Group..... | 85 | 2.5 | 62 | 1.9 | 16 | 0.5 |
| Total Asia Pacific | 247 | 7.2 | 247 | 7.5 | 129 | 4.5 |
| Total Life and Asset Accumulation | 3,439 | 100.0% | 3,284 | 100.0% | 2,856 | 100.0% |
| Total Individual | 2,989 | 86.9% | 2,934 | 89.3% | 2,487 | 87.1% |
| Total Group | 450 | 13.1 | 350 | 10.7 | 369 | 12.9 |
| Total Life and Asset Accumulation | 3,439 | 100.0% | 3,284 | 100.0% | 2,856 | 100.0% |

(1) Our 1998 life and asset accumulation net premiums written in the Americas and Asia Pacific have been restated due to the reclassification of certain business between our individual and group lines.

Products

A key element of our strategy is customer focus. Accordingly, we offer products tailored to meet the needs of our customers.

Products for Personal Customers

Our products for personal customers include the following property and casualty products and life insurance and asset accumulation products:

Household. Insurance covers against loss of or damage to the buildings and contents of private dwellings with a range of additional features, such as coverage for valuables away from home and liability arising from ownership or occupancy.

Personal automobile. Insurance covers for liability for both bodily injury and property damage and for physical damage to an insured's vehicle from collision and various other perils.

Other personal lines. Includes:

- ◆ *Private medical insurance*—Policies which cover the cost of private medical treatment.
- ◆ *Accident insurance*—Policies which provide insured benefits in the event of accidental death or disability.
- ◆ *Creditor insurance*—Policies which provide loan, mortgage, and/or credit card repayments in the event of accidental death or disability, illness or unemployment.
- ◆ *Travel insurance*—Policies which provide benefits in the event of cancellation and/or curtailment, travel delays, loss of personal baggage and/or money, emergency medical and travel expenses and legal expenses.

Individual life and asset accumulation products. In the individual life market, we write periodic premium life products, such as whole life, term insurance, mortgage protection and other products, such as disability, critical illness and permanent health insurance. Our individual asset accumulation products include:

- ◆ Mutual funds.
- ◆ Unit trusts, a U.K. form of mutual funds, are funds invested in various investment instruments, which are divided into individual units. The funds, managed on behalf of the unitholder, fluctuate in value depending on the overall value of the fund.
- ◆ Personal equity plans, which are tax free savings plans in the United Kingdom for equities only which were offered between 1997 and April 1999. Personal equity plans have been replaced by individual savings accounts.
- ◆ Life investment bonds and life savings products, which are savings vehicles similar to universal life products.
- ◆ Pensions, pensions for the executive and directors market, and immediate and deferred annuities.

Products for Commercial Customers

Our products for commercial customers include the following property and casualty products and life insurance and asset accumulation products:

Property. Insurance covers for loss or damage to buildings, inventory and equipment from natural disasters, including hurricanes, windstorms, earthquakes, floods, hail, explosions, severe winter weather and other events such as theft and vandalism, fires and financial loss due to business interruption resulting from covered losses.

Casualty/Liability. Insurance covers for:

- ◆ employers' liability, which protect the insured companies against claims from employees arising from accident, injury or industrial disease;
- ◆ workers' compensation, which provide coverage for employers for specified benefits payable under national or local legislation for workplace injuries to employees;
- ◆ public liability, which protect an organization against claims arising from the conduct of its business or its products resulting in injury to or damage to third parties or property;
- ◆ professional indemnity, which protect professionals such as architects and accountants against claims of negligence in the services they provide; and
- ◆ directors' and officers' liability.

Commercial automobile. Insurance covers for businesses against losses incurred from personal bodily injury, bodily injury to third parties, property damage to an insured's vehicle, and property damage to other

vehicles and other property resulting from the ownership, maintenance or use of automobiles and trucks in a business.

Other commercial lines. Includes:

- ◆ *Engineering*—Consists of engineering insurance, inspection and risk management business for machinery, plant and construction.
- ◆ *Reinsurance*—Reinsurance of property, liability and engineering risks underwritten by other companies.
- ◆ *Specialty lines*—Customized liability and specialized risk insurance covers for particular classes or groups of clients.
- ◆ *Marine*—Insurance covers for physical loss or damage to cargo, vessels and offshore oil rigs.
- ◆ *Aviation*—Aircraft property damage and liability insurance cover.
- ◆ *Transit*—Insurance covers for goods in transit and freight liability for the transportation industry.

Group life and asset accumulation products. In the group life market, we offer a broad range of group risk products including critical illness, life and permanent health insurance. Critical illness insurance are policies where the insurer pays the sum insured to the policyholder in the event of diagnosis of a life threatening disease. Group permanent health insurance are policies arranged by employers for their employees, providing for the payment of income during a period of incapacity due to ill health or accident. The benefit is usually payable until retirement.

Our group asset accumulation products include corporate pensions and group personal pensions. Corporate pensions in the United Kingdom are provided as part of an employee's compensation package. Both the employer and employee contribute towards the pension fund investment, and the plan is administered centrally by the employer and a fund manager. Group personal pensions are arrangements in the United Kingdom made for employees of a particular employer to participate in a personal pension plan on a group basis. The employer administers the fund and may provide contributions towards it. Group personal pensions are merely collecting arrangements.

United Kingdom

Overview

We have operated in the United Kingdom since our founding in 1710. We are the second largest property and casualty insurer in the United Kingdom, with leading positions in both personal and commercial lines, based on 1999 gross premiums earned. We are also the 13th largest U.K. life insurer based on 2000 new business annual premium equivalent, excluding group pensions and group risks. New business annual premium equivalent is a measure of sales of life and asset accumulation policies during the year calculated as periodic premiums plus 10% of single premiums. This is a widely recognized measure in the United Kingdom of total sales performance of a life insurer, which reflects the fact, all other things being equal, that a £1 single premium makes a lower value contribution to a company than £1 of new periodic premiums which will continue to be received in subsequent years, while the policy remains in force. In 2000, the United Kingdom region recorded segment operating result (based on longer term investment return) of £242 million, representing 50.8% of our Group operating result (based on longer term investment return). Property and casualty businesses accounted for £78 million, or 32.2%, of our total 2000 United Kingdom segment operating result (based on longer term investment return) and life and asset accumulation business accounted for £164 million, or 67.8%, of our total 2000 United Kingdom segment operating result (based on longer term investment return). Our United Kingdom region employs approximately 22,500 people in 87 offices.

We are exploring whether, and if so the extent to which, it might be possible to release surplus funds from our U.K. life insurance business as it is thought such surplus funds might be more effectively used in our non-life insurance operations. There are a number of ways in which it is thought it might be possible to

release such surplus funds, such as reinsurance, securitization as well as a sale or part sale of our U.K. life insurance operations.

United Kingdom Property and Casualty Business

Our U.K. property and casualty business offers a range of personal and commercial products nationwide. We market our property and casualty products through multiple channels in the United Kingdom. We distribute personal products through corporate partnerships, brokers, agents and direct channels. We market to the public by telephone, mail and electronically. We distribute commercial products through international, national and local brokers, agents and direct to customers. In 2000:

- ◆ Property and casualty business in the United Kingdom accounted for £3,148 million, or 37.6%, of our consolidated property and casualty net premiums written; and
- ◆ Property and casualty business in the United Kingdom accounted for £78 million, or 16.4%, of our Group operating result (based on longer term investment return).

The table below presents our 2000, 1999 and 1998 property and casualty loss, expense and combined ratios within the United Kingdom by line of business.

| | Year Ended December 31, | | | | | | | | |
|--------------------------------|-------------------------|---------------|----------------|------------|---------------|----------------|------------|---------------|----------------|
| | 2000 | | | 1999 | | | 1998 | | |
| | Loss Ratio | Expense Ratio | Combined Ratio | Loss Ratio | Expense Ratio | Combined Ratio | Loss Ratio | Expense Ratio | Combined Ratio |
| | % | % | % | % | % | % | % | % | % |
| Personal | 75.4 | 34.7 | 110.1 | 72.1 | 35.0 | 107.1 | 71.1 | 33.3 | 104.4 |
| Commercial | 83.7 | 29.7 | 113.4 | 81.3 | 30.9 | 112.2 | 83.4 | 27.8 | 111.2 |
| Total United Kingdom | 79.2 | 32.3 | 111.5 | 76.2 | 33.2 | 109.4 | 77.3 | 30.7 | 108.0 |

The U.K. property and casualty market is mature and highly competitive in both personal and commercial lines. Competition and over-capacity have led to underwriting losses and difficult pricing conditions for the market in general. Underwriting losses incurred by the U.K. property and casualty insurance market as a whole having approximately doubled from £1,031 million to £2,195 million between 1997 and 1998 deteriorated further in 1999 to £2,309 million.

In the household market, property premiums have been reduced by insurers to maintain market share and household insurance has been offered at competitive prices. This helped lead to a 8.0% fall in 1999 in gross premiums written in the domestic property sector. In 1999, property accounted for £412 million of the total property and casualty insurance underwriting loss.

The automobile market incurred £1,310 million of the total 1999 underwriting loss. This sector has been adversely affected by an increase in the average claims cost, which had not been wholly offset by increased premiums, in part because of the highly competitive nature of the market.

On the commercial insurance side, one of the core concerns in 2000 was the continuation of unfavorable pricing conditions in most of the commercial sector. A key characteristic across the majority of commercial lines of insurance in the United Kingdom has been poor underwriting results due to low premiums. The market has been shaped by high levels of competition and excess capacity among underwriters as well as low premiums in reinsurance. The effect of these influences has been low, and often falling, premium rates. However, losses incurred have led some companies to reduce exposures, which with increasing reinsurance premiums has begun to lead to increases in premium rates. In 2001, market conditions have begun to improve due to rising insurance rates and reduced capacity.

In response to adverse market conditions, the United Kingdom insurance industry has experienced significant consolidation in recent years. We estimate that, based on 1999 net premiums earned, the five largest insurance groups now have a combined market share of approximately 57% of the property and casualty market.

Some segments of the property and casualty markets such as private medical insurance and a range of commercial products provided for small businesses have recently been exhibiting moderate expansion. The personal and commercial automobile markets showed significant price improvements during 2000, while other lines experienced relatively stable but competitive market conditions.

In personal lines, competition is primarily based on price, service, convenience and increasingly, brand recognition. In commercial lines, competition is primarily based on price, but is also based on relationship management, quality of service and availability of value added services. We compete principally with the other insurers writing both life and property and casualty business with major operations in the United Kingdom in all channels as well as with the major international insurers in the broker channel. In personal lines, we have also experienced increasing competition from new entrants, such as retailers using their brands to distribute insurance, although we have taken advantage of this trend to build new corporate partnerships.

The table below presents the distribution of our 2000, 1999 and 1998 property and casualty net premiums written and combined ratios by product group in the United Kingdom.

| | Year Ended December 31, | | | | | | | | |
|-----------------------------------|-------------------------|----------------------|---------------------|---------------------|----------------------|---------------------|---------------------|----------------------|---------------------|
| | 2000 | | | 1999 | | | 1998 | | |
| | £ in millions | % of Total | Combined Ratio % | £ in millions | % of Total | Combined Ratio % | £ in millions | % of Total | Combined Ratio % |
| Personal: | | | | | | | | | |
| Household | 779 | 24.7% | 111.6 | 813 | 25.9% | 104.5 | 916 | 27.3% | 105.7 |
| Personal automobile | 543 | 17.2 | 113.4 | 590 | 18.8 | 115.2 | 566 | 16.9 | 106.5 |
| Other | 351 | 11.2 | 102.6 | 331 | 10.5 | 99.0 | 247 | 7.4 | 98.2 |
| Total Personal | <u>1,673</u> | <u>53.1</u> | <u>110.1</u> | <u>1,734</u> | <u>55.2</u> | <u>107.1</u> | <u>1,729</u> | <u>51.6</u> | <u>104.4</u> |
| Commercial: | | | | | | | | | |
| Property | 537 | 17.1 | 112.6 | 518 | 16.5 | 111.8 | 680 | 20.3 | 110.8 |
| Casualty | 204 | 6.5 | 119.8 | 224 | 7.1 | 102.8 | 233 | 6.9 | 108.2 |
| Commercial automobile | 465 | 14.8 | 110.1 | 432 | 13.8 | 118.7 | 432 | 12.9 | 115.7 |
| Other | 269 | 8.5 | 116.0 | 233 | 7.4 | 112.0 | 279 | 8.3 | 109.8 |
| Total Commercial | <u>1,475</u> | <u>46.9</u> | <u>113.4</u> | <u>1,407</u> | <u>44.8</u> | <u>112.2</u> | <u>1,624</u> | <u>48.4</u> | <u>111.2</u> |
| Total United Kingdom | <u><u>3,148</u></u> | <u><u>100.0%</u></u> | <u><u>111.5</u></u> | <u><u>3,141</u></u> | <u><u>100.0%</u></u> | <u><u>109.4</u></u> | <u><u>3,353</u></u> | <u><u>100.0%</u></u> | <u><u>108.0</u></u> |

In personal lines, we have an 18.1% share of the household market and a 9.4% share of the personal automobile market, based on 1999 gross earned premiums. We distribute our personal lines business through corporate partnerships, brokers, agents and direct marketing to the public by telephone and mail. In 2000, the corporate partnership channel accounted for 48% of our U.K. personal lines business, brokers and professional agents accounted for 32% and direct sales accounted for 20%.

We write personal lines business, primarily household, accident, private medical and creditor insurance, that is marketed under the names of financial services institutions, including banks and mortgage lenders. We call this distribution channel our corporate partnership distribution channel as it involves working with other companies in the marketing of our products. We also write private medical insurance, travel insurance and other personal lines marketed under the names of non-financial companies with strong brands, such as supermarket chains. Our corporate partnerships give us access to a broader base of consumers than we might otherwise be able to reach by allowing us to exploit the existing broad customer base and brand recognition of our corporate partners. We also have a number of long-standing relationships with major affinity groups, such as automobile clubs through which we write primarily automobile insurance.

We will seek to further develop our corporate partnership channel by expanding the product lines we write for existing clients and developing new client relationships with major retail brands. In the direct markets, we intend to focus our marketing efforts on the more profitable customer groups. In the broker channel, by carefully monitoring relationship profitability, we focus on our more profitable brokers and business lines. Additionally, we intend to focus on opportunities to form relationships with commercial customers to market our products to their employees.

We are a significant direct insurer in the U.K. personal lines market. We sell household, automobile and other personal policies via the telephone, newspaper advertisements, direct mail campaigns and the internet. To serve our direct and corporate partnership customers, we operate call centers during extended operating hours that provide new business quotes, service existing business and deal with claims over the telephone. In June 2001 we relaunched our U.K. Direct personal lines business.

The personal lines broker distribution channel consists of brokers, agents and other intermediaries, including major chains, groups of brokers operating under common marketing frameworks and smaller firms operating under their own names. The principal personal lines distributed by brokers are personal automobile and household insurance. In May 2001, we disposed of our broker subsidiary, Swinton Holdings Limited, which placed business with us as well as for a number of other insurers and is one of the largest intermediaries of personal lines business, principally automobile insurance, in the United Kingdom based on 2000 premium revenue. We expect to maintain a business relationship with Swinton in the future.

In the commercial market, we are the second largest commercial lines insurer based on 1999 gross earned premiums, conducting business with a majority of the companies comprising the U.K. FTSE 100 stock index. We also have a significant presence in the London Market. The London Market is a market for international insurance and reinsurance, comprising mainly high exposure and complex risks. Companies operating in the London Market underwrite specialized risks such as marine, aviation and directors' and officers' liability. In 2000, commercial lines gross premiums written of £1.9 billion accounted for almost 53% of our U.K. property and casualty business. Our principal competitors are the large U.K. and European insurers writing both life and property and casualty business although the commercial market is increasingly seeing competition from major U.S. insurers.

We are the second largest U.K. insurer of commercial automobile and public and general liability and the second largest commercial property insurer, all based on 1999 gross earned premiums. We have an 18.0% share of the commercial property market, a 17.2% share of the commercial automobile market and a 11.5% share of the public and general liability market, all based on 1999 gross earned premiums. We also have significant shares of the marine, engineering and transit markets.

Our commercial customers range from individual traders and small businesses to large multinational companies in such diverse industries as construction, financial services, manufacturing and the arts. Our commercial business is managed by three regional areas and is supported by over 30 commercial service centers and approximately 6,000 people. We have structured our operations to target the needs of these diverse customer groups by arranging our commercial business into three customer segments:

- ◆ *Small Enterprise*—which is comprised of small business customers with annual gross revenues of up to £1 million who are largely price and process oriented;
- ◆ *Core*—which is comprised of mid-market customers with annual gross revenues of between £1 million and £100 million; and
- ◆ *Risk Managed*—which is comprised of large U.K. multinational companies with annual gross revenues of over £100 million who require customized products and service.

We distribute our U.K. commercial lines business nationwide, and, consistent with our strategy of providing global coverage for our commercial customers, we also offer international products to our clients with global operations. We believe our competitive advantage in the commercial market consists of our ability to underwrite a broad range of commercial products, our nationwide network, our quality-accredited claims performance and our relationship management skills.

We distribute our commercial lines business through international, national and regional brokers, independent intermediaries, agents and direct to customers. In 2000, brokers and independent agents accounted for approximately 98% of our commercial lines net premiums written in the United Kingdom. We distribute commercial lines business through a network of approximately 20,000 brokers and independent agents located throughout the United Kingdom. Direct business accounted for approximately 2% of our U.K. commercial lines net premiums written.

In the commercial market we intend to maintain our strong position in the property and casualty market by building our relationships with large U.K. corporations and developing relationships with affinity groups. We renewed our contract for a six year term in 1998 with Motability Finance Limited, a company which provides lease financing on behalf of the Motability charity to enable disabled people to remain mobile. Under the Motability Finance Limited contract, we write automobile insurance that is included in the package offered to persons leasing automobiles through Motability. In 2000, Motability business accounted for 19% of our net automobile premiums written in the United Kingdom.

United Kingdom Life and Asset Accumulation Business

We began writing life and asset accumulation business in the United Kingdom in 1720 through The London Assurance and, based on 2000 new business annual premium equivalent excluding group pensions and group risks, are the 13th largest life insurer in the United Kingdom. We are the second largest in the U.K. group life market based on 2000 new business annual premium equivalent and the seventeenth in the U.K. individual life market based on 2000 new business annual premium equivalent. Our U.K. life and asset accumulation business offers a range of individual and group life insurance and asset accumulation products nationwide through Independent Financial Advisers, or IFAs, direct marketing, a national real estate agency as well as through corporate partners. In the United Kingdom, IFAs advise and recommend life and asset accumulation products to individual clients but are not agents for any product provider. Many IFAs are part of a regional or national network.

Our United Kingdom region offers a range of products throughout the United Kingdom, including products for individuals and group customers. In 2000:

- ◆ Life and asset accumulation business in the United Kingdom accounted for £2,005 million, or 58.3%, of our consolidated life and asset accumulation net premiums written; and
- ◆ Life and asset accumulation business in the United Kingdom accounted for £164 million, or 34.4%, of our Group operating result (based on longer term investment return).

The table below presents the distribution of our 2000, 1999 and 1998 life and asset accumulation net premiums written by product group in the United Kingdom.

| | Year Ended December 31, | | | | | |
|---|-------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2000 | | 1999 | | 1998 | |
| | £ in millions | % of Total | £ in millions | % of Total | £ in millions | % of Total |
| Individual: | | | | | | |
| Periodic premium products: | | | | | | |
| With-profit (participating) contracts | 476 | 23.7% | 480 | 24.6% | 521 | 30.5% |
| Unit-linked (separate account) products | 172 | 8.6 | 188 | 9.7 | 157 | 9.1 |
| Non-participating products | 147 | 7.3 | 152 | 7.8 | 131 | 7.7 |
| Total periodic premium products | <u>795</u> | <u>39.6</u> | <u>820</u> | <u>42.1</u> | <u>809</u> | <u>47.3</u> |
| Single premium products: | | | | | | |
| With-profit (participating) contracts | 710 | 35.4 | 664 | 34.0 | 479 | 28.0 |
| Unit-linked (separate account) products | 186 | 9.3 | 219 | 11.2 | 152 | 8.9 |
| Non-participating products | 132 | 6.6 | 85 | 4.4 | 93 | 5.4 |
| Total single premium products | <u>1,028</u> | <u>51.3</u> | <u>968</u> | <u>49.6</u> | <u>724</u> | <u>42.3</u> |
| Total Individual | <u>1,823</u> | <u>90.9</u> | 1,788 | 91.7 | 1,533 | 89.6 |
| Group: | | | | | | |
| General account products | <u>182</u> | <u>9.1</u> | 162 | 8.3 | 177 | 10.4 |
| Total | <u>2,005</u> | <u>100.0%</u> | <u>1,950</u> | <u>100.0%</u> | <u>1,710</u> | <u>100.0%</u> |

The table below presents the distribution of our 2000, 1999 and 1998 life and asset accumulation new business premiums by product group and new business annual premium equivalent in the United Kingdom.

| | Year Ended December 31, | | | | | |
|---|-------------------------|---------------|------------------|---------------|------------------|---------------|
| | 2000 | | 1999 (1) | | 1998 (1) | |
| | £ in millions | % of Total | £ in millions | % of Total | £ in millions | % of Total |
| Individual: | | | | | | |
| Periodic premium products: | | | | | | |
| With-profit (participating) contracts | 5 | 0.4% | 30 | 2.8% | 35 | 4.1% |
| Unit-linked (separate account) products | 26 | 2.1 | 27 | 2.5 | 27 | 3.3 |
| Non-participating products | 14 | 1.2 | 21 | 1.9 | 15 | 1.8 |
| Total periodic premium products | <u>45</u> | <u>3.7</u> | <u>78</u> | <u>7.2</u> | <u>77</u> | <u>9.2</u> |
| Single premium products: | | | | | | |
| With-profit (participating) contracts | 710 | 57.9 | 664 | 60.9 | 479 | 57.0 |
| Unit-linked (separate account) products | 187 | 15.2 | 219 | 20.1 | 152 | 18.1 |
| Non-participating products | 132 | 10.8 | 85 | 7.8 | 93 | 11.1 |
| Total single premium products | <u>1,029</u> | <u>83.9</u> | <u>968</u> | <u>88.8</u> | <u>724</u> | <u>86.2</u> |
| Total Individual | <u>1,074</u> | <u>87.6</u> | 1,046 | 96.0 | 801 | 95.4 |
| Group: | | | | | | |
| General account products | 153 | 12.4 | 44 | 4.0 | 39 | 4.6 |
| Total new business premiums | <u>1,227</u> | <u>100.0%</u> | <u>1,090</u> | <u>100.0%</u> | <u>840</u> | <u>100.0%</u> |
| New business annual premium equivalent | <u>165</u> | <u>100.0%</u> | <u>197</u> | <u>100.0%</u> | <u>171</u> | <u>100.0%</u> |

(1) Group risk new business sales in our U.K. life and asset accumulation business are now treated as single premium rather than annual premium business. Comparative figures for 1999 and 1998 have been restated.

The U.K. life insurance market, measured on the basis of gross premiums written in 1999, is the third largest in the world and accounted for approximately 8% of life insurance gross premiums written worldwide. In 2000, individual retirement products represented 32% of new business annual premium equivalent in the U.K. market, individual life products represented 39%, group pension products represented 14% and collective investment schemes, such as unit trusts, represented 15%.

The U.K. market for life and pension products, excluding group pensions and group risks, is highly fragmented and competitive. The five largest insurers accounted for 35.5% of 2000 new business annual premium equivalent in the United Kingdom, while nearly half of the 50 largest insurers have market shares of 1% or less. Competitors are differentiated primarily by distribution channel, and to some extent by brand. Recently, we have faced competition from new entrants to the market, such as retailers offering insurance to their own customer bases. Three companies, including Royal & SunAlliance, write a majority of the group pensions and group risks business.

IFAs are the largest channel of distribution for the sale of life insurance products in the United Kingdom, accounting for 54% of new business annual premium equivalent in 2000. Direct sales forces, which consist of individuals directly managed by the insurers, together with exclusive agencies accounted for 43%, and direct marketing accounted for 3%.

In the individual life insurance market, we write regular premium life, such as whole life, term assurance and mortgage protection products, and other products, such as disability, critical illness and permanent health insurance. In the group life market, we offer a broad range of group risk products including critical illness, life and permanent health insurance. Our individual asset accumulation products include unit trusts, open ended investment companies, individual savings accounts, life investment bonds, life savings products, mortgage products, personal pensions, pensions for the executive and directors markets, and

immediate and deferred annuities. Our group asset accumulation products include corporate pensions and group personal pensions.

We are shifting the balance of our life and asset accumulation business with the aim of taking advantage of the growing opportunities in the asset accumulation sector. We are shifting our focus because of a number of external factors, including the ageing of the population that is causing the U.K. government to rethink the framework of welfare provision in favor of private savings programs. As a result, we believe the asset accumulation sector is likely to experience significant growth and that we are well placed to capitalize on this growth due to our investment performance.

The development of the market is being stimulated by a change in pensions legislation which took effect in April 2001. The new pensions legislation provides for the introduction of stakeholder pensions and a new defined contribution tax regime. Stakeholder pensions are a vehicle created by the U.K. government to encourage individuals to provide for their retirement by offering favorable tax benefits. Holders of stakeholder pensions will be permitted to make low levels of contributions and will benefit from lower charges. However, we expect that the size of the market will increase following the new legislation.

We will seek to be a specialist operator in the defined contribution pensions market. Employers will play a pivotal role in this market and we believe that our strong relationships with group customers in this market should help to allow us to participate in any growth.

In 2000, individual life insurance and savings products accounted for 55% of our new business annual premium equivalent in the United Kingdom, individual retirement products accounted for 34% and group life and retirement products accounted for 11%. In addition, deposits on retail investments sold direct to the general public, such as unit trusts and individual savings accounts, amounted to £212 million in 2000.

With-profit companies represented 76% of our U.K. life and asset accumulation actuarial liabilities as of December 31, 2000. With-profit policies are participating individual retirement products and individual life products offered by many life insurance companies in the United Kingdom. Under with-profit policies, the policyholder is entitled to participate in the earnings or surplus of the insurance company that issued the policy. This participation occurs through the distribution of dividends, referred to as bonuses in the United Kingdom, to policyholders.

Bonuses on with-profit contracts are recommended by the issuing company's actuary and approved by its board of directors. We declare bonuses out of surplus after taking account of actuarial valuations and considering a long-term view of the anticipated performance of the fund and the policyholders' reasonable expectations. A defined minimum proportion of the surplus is allocated as a bonus to the policyholders of with-profit policies. The remainder of the surplus is allocated to the issuing company's shareholders.

At least ninety percent of our with-profit business surplus is allocated to policyholders as bonuses. This allocation is required under the Articles of Association of our subsidiary, Sun Alliance & London Assurance Company Limited. As we consider policyholders' reasonable expectations in determining the level of bonuses, Royal & Sun Alliance Life & Pension Limited, our other U.K. writer of with-profit policies, generally follows the same allocation practice because our products have been marketed on that basis.

There are two main types of bonus paid from the surplus in our with-profits business, regular bonuses and terminal bonuses. Regular bonuses are credited to the policyholder at regular intervals, generally on an annual basis, and vary from product to product. Once a regular bonus has been declared, it represents a permanent addition to the guaranteed benefits under the contract, and is payable at the same time as the originally guaranteed benefits under the policy, typically at death or maturity. Historically, regular bonuses have represented a partial return of investment income. Regular bonus rates generally have not fluctuated significantly from year to year and for 2000 they have been maintained at the 1999 levels. However, we reduced the rates in 1999 due to the impact of generally lower interest rates and bond returns.

Terminal bonuses are designed to provide policyholders with their share of total investment performance, including investment income and realized and unrealized gains and losses, and other company experience, including expenses, mortality experience and taxes. For longer term contracts held to maturity,

terminal bonuses have historically represented a significant portion, often exceeding 50%, of the total amount paid at maturity. The terminal bonus payable on a policy is determined at the time of payment.

The level of bonuses paid, in addition to reflecting investment performance and company experience, has reflected our judgment as to the overall financial position of the issuing company and profits on the company's other business. In setting bonuses, we also consider policyholders' reasonable expectations and fairness among holders of contracts with different terms and maturity dates. With-profit business is marketed on the basis that payouts under policies will avoid the fluctuations in investments that would arise if payouts were linked directly to changing asset values. Therefore, in order to be consistent with policyholders' reasonable expectations, we have generally determined bonus rates so as to avoid undue changes in payouts from one year to the next.

Unit-linked, or separate account, policies are life and retirement products where the policyholder is entitled to the value of the units purchased. Policyholders choose the fund in which they wish to purchase units. We offer various funds with different investment strategies such as equity, fixed-interest or balanced. The value of a unit increases over time to reflect the investment return on the assets in the fund. The assets in the fund are recorded on our balance sheet. The amount payable to the policyholder at the time of claim is the value of the unit at the time of payment, minus charges. Our income from unit-linked policies is derived from the charges levied on the policies. Expenses are incurred out of these charges.

We distribute our life insurance and asset accumulation products in the United Kingdom through IFAs, our owned real estate agencies and direct marketing. IFAs accounted for 86% of our 2000 U.K. life and asset accumulation annualized new business premiums, direct marketing for 5%, direct sales force for 4%, real estate agencies for 3%, exclusive agencies for 1% and other distribution channels, including corporate partnerships, for 1%. During 1999, we decided to concentrate on sales from IFAs and to close distribution through exclusive agents and our direct sales force.

We have a team of approximately 148 IFA consultants operating out of 17 branches in the United Kingdom, who support the development and sale of life insurance and asset accumulation products through IFAs.

In addition, our subsidiary, Royal & Sun Alliance Property Services, is one of the largest chains of real estate agents selling and leasing properties in the United Kingdom. Royal & Sun Alliance Property Services consists of over 420 real estate agencies which operate under locally recognized names. We have a dedicated salaried sales force of over 265 insurance agents that offer our products to our real estate agency customers. We also distribute life and asset accumulation products through corporate partnerships as well as a direct investment operation that advertises and services customers directly.

Europe

Overview

Our Europe region is comprised of our businesses in Continental Europe, the Middle East and Africa. Through our Europe region, we offer a broad range of property and casualty products and life insurance and asset accumulation products. Our principal property and casualty businesses are in Scandinavia, Germany, Ireland, Italy and Spain and our principal life and asset accumulation businesses are in Denmark, Isle of Man, Benelux and Spain. We believe these businesses are well positioned in their local markets. To further assist our insurance customers, we offer insurance-related products and services to our clients in selected markets, including risk management services such as claims management and loss control services.

In Continental Europe, we write property and casualty business in 14 countries and life and asset accumulation business in 11 countries through owned operations, equity investments, representative offices and branches. In Denmark we are the third largest property and casualty insurer based on 1999 net premiums earned and in Ireland we are the fourth largest property and casualty insurer based on 1999 net premiums written. In the Middle East we offer property and casualty products in three countries through our subsidiary, representative offices and branches. In Africa, we offer property and casualty products through a 38% interest in Mutual & Federal Insurance Co Ltd, a leading property and casualty insurer in South Africa.

In 2000, our Europe region recorded segment operating result (based on longer term investment return) of £43 million, representing 9.0% of our Group operating result (based on longer term investment return). Property and casualty businesses accounted for £16 million, or 37.2%, of our total 2000 Europe segment operating result (based on longer term investment return) and life and asset accumulation business accounted for £27 million, or 62.8%, of our total 2000 Europe segment operating result (based on longer term investment return). Our Europe region employs approximately 9,500 people.

During 2000, we sold our operation in Austria. We also contracted to sell our property and casualty operation in Portugal as well as three life operations and one property and casualty operation in Italy. We completed the sales of the four Italian operations in April 2001. We expect to complete the sale of our Portuguese operation after receipt of the necessary regulatory approvals. In May 2001, through our Danish subsidiary, Codan A/S, we acquired 73.5% of the stock of AAS Balta in Latvia for approximately £17 million.

Europe Property and Casualty Business

Our Europe region conducts property and casualty business in Denmark, Sweden, Italy, Germany, Ireland, Spain and 13 other countries in Continental Europe, the Middle East and Africa. In 2000:

- ◆ Property and casualty business in Europe accounted for £1,749 million, or 20.9%, of our consolidated property and casualty net premiums written; and
- ◆ Property and casualty business in Europe accounted for £16 million, or 3.3%, of our Group operating result (based on longer term investment return).

The table below presents our 2000, 1999 and 1998 property and casualty loss, expense and combined ratios within our Europe region by line of business.

| | Year Ended December 31, | | | | | | | | |
|------------------------|-------------------------|--------------------|---------------------|-----------------|--------------------|---------------------|-----------------|--------------------|---------------------|
| | 2000 | | | 1999 | | | 1998 | | |
| | Loss Ratio % | Expense Ratio % | Combined Ratio % | Loss Ratio % | Expense Ratio % | Combined Ratio % | Loss Ratio % | Expense Ratio % | Combined Ratio % |
| Personal | 85.1 | 25.8 | 110.9 | 84.2 | 27.0 | 111.2 | 82.8 | 30.7 | 113.5 |
| Commercial | 82.7 | 28.5 | 111.2 | 81.9 | 29.4 | 111.3 | 80.5 | 33.7 | 114.2 |
| Total Europe | 84.2 | 26.8 | 111.0 | 83.3 | 27.9 | 111.2 | 81.9 | 31.9 | 113.8 |

Our principal commercial customers in Europe are small to mid-sized companies, as well as our multinational clients. We also insure some large commercial risks and market our personal lines to individual customers as well as to the customers of our corporate partners.

Competitive conditions vary considerably among the various European, Middle Eastern and African markets. Distribution methods still depend to a large extent upon the individual markets in which we operate. However, distribution in Europe continues to be predominantly via intermediaries. As in the United Kingdom, the European market has experienced significant consolidation in recent years, both among insurers and among distribution channels such as brokers and banks. Overcapacity and difficult pricing conditions remain a factor in many of the markets in which we operate. Our main competitors in Continental Europe are the large international insurance companies, as well as the locally-based insurers.

The table below presents the distribution of our 2000, 1999 and 1998 property and casualty net premiums written and combined ratios by line of business in Continental Europe, the Middle East and Africa.

| | Year Ended December 31, | | | | | | | | |
|---------------------------|-------------------------|----------------------|---------------------|---------------------|----------------------|---------------------|---------------------|----------------------|---------------------|
| | 2000 | | | 1999 | | | 1998 | | |
| | £ in millions | % of Total | Combined Ratio % | £ in millions | % of Total | Combined Ratio % | £ in millions | % of Total | Combined Ratio % |
| Personal: | | | | | | | | | |
| Scandinavia | 453 | 25.9% | 105.9 | 292 | 20.3% | 109.3 | 219 | 15.7% | 102.8 |
| Italy | 237 | 13.6 | 115.6 | 228 | 15.8 | 118.4 | 246 | 17.6 | 123.4 |
| Ireland | 114 | 6.5 | 125.0 | 93 | 6.5 | 91.3 | 92 | 6.6 | 106.2 |
| Germany | 67 | 3.8 | 106.2 | 68 | 4.7 | 105.4 | 81 | 5.8 | 120.9 |
| Spain | 163 | 9.3 | 109.9 | 160 | 11.1 | 120.4 | 151 | 10.8 | 116.9 |
| Others | 65 | 3.7 | 114.0 | 67 | 4.7 | 107.2 | 82 | 5.9 | 109.2 |
| Total Personal | <u>1,099</u> | <u>62.8</u> | <u>110.9</u> | <u>908</u> | <u>63.1</u> | <u>111.2</u> | <u>871</u> | <u>62.4</u> | <u>113.5</u> |
| Commercial: | | | | | | | | | |
| Scandinavia | 279 | 16.0 | 113.7 | 173 | 12.0 | 106.5 | 152 | 10.9 | 94.6 |
| Italy | 74 | 4.2 | 115.7 | 57 | 4.0 | 104.6 | 56 | 4.0 | 115.9 |
| Ireland | 70 | 4.0 | 115.0 | 70 | 4.9 | 115.5 | 73 | 5.2 | 135.9 |
| Germany | 69 | 3.9 | 97.1 | 71 | 4.9 | 92.2 | 82 | 5.9 | 116.4 |
| Spain | 20 | 1.1 | 111.5 | 19 | 1.3 | 105.5 | 15 | 1.1 | 108.0 |
| Others | 138 | 7.8 | 109.6 | 142 | 9.8 | 127.8 | 147 | 10.5 | 122.6 |
| Total Commercial | <u>650</u> | <u>37.2</u> | <u>111.2</u> | <u>532</u> | <u>36.9</u> | <u>111.3</u> | <u>525</u> | <u>37.6</u> | <u>114.2</u> |
| Total Europe | <u><u>1,749</u></u> | <u><u>100.0%</u></u> | <u><u>111.0</u></u> | <u><u>1,440</u></u> | <u><u>100.0%</u></u> | <u><u>111.2</u></u> | <u><u>1,396</u></u> | <u><u>100.0%</u></u> | <u><u>113.8</u></u> |

Scandinavia

We operate in Scandinavia through our Danish subsidiary, Codan A/S, the holding company of an insurer writing both life and property and casualty business. We currently own approximately 72% of Codan. The balance is publicly traded on the Fondsborsen, the Danish stock exchange. Codan offers both personal and commercial business in Denmark, particularly personal and commercial automobile, household, property, personal accident, workers' compensation and marine insurance, through exclusive agents, brokers, an employee sales force and direct marketing. Based on 1999 net premiums earned, Codan is the third largest property and casualty insurer in Denmark with a 13% share of the market.

In 2000, employed agents accounted for 69% of our property and casualty sales in Denmark, brokers accounted for 11% and call centers and direct business accounted for 20%. We have approximately 400 employed agents who work out of 37 customer centers. Codan's industrial and large client department has an employee sales force that sells and provides service direct to our large commercial clients.

We operate in Sweden through Codan's subsidiary, Trygg-Hansa Försäkrings AB Publikt and its subsidiaries. Codan acquired Trygg-Hansa Försäkrings AB Publikt, a Swedish property and casualty insurer, in August 1999. Trygg-Hansa, Sweden's fourth largest property and casualty insurer based on gross premiums written for the 12 months ended March 31, 2000, offers primarily personal and commercial automobile, household and general commercial products. The acquisition complemented Codan's existing business in Sweden and increased Codan's share of the Swedish property and casualty market to approximately 16% based upon gross premiums written for the 12 months ended March 31, 2000. Call centers accounted for 93% of our Swedish personal lines sales in 2000.

Household products accounted for 18% of our 2000 property and casualty gross premiums earned in Scandinavia, personal automobile products accounted for 27%, commercial automobile products accounted for 16%, property products accounted for 12%, personal accident products accounted for 14%, workers' compensation products accounted for 2%, marine products accounted for 4% and other products accounted for 7%. Commercial clients include a number of the leading Scandinavian companies, as well as medium and small businesses in Scandinavia.

Italy

We operate in Italy through our branch, Royal & Sun Alliance Assicurazioni, with headquarters in Genoa and offices in Milan, Rome, Padua and Turin and under the trade name Royal Insurance, our direct marketing operation in Italy. We disposed of our subsidiary, Lloyd Italo Assicurazioni SpA, in April 2001. Lloyd Italo Assicurazioni SpA recorded £155 million of net premiums written for the year ended December 31, 2000 and its combined ratio was 117.0% for that period.

We offer principally personal automobile products in Italy although we also offer household, personal accident, property, casualty, engineering and marine products. In addition, we market personal automobile products direct to customers and via the Internet. Personal automobile products accounted for 65% of our 2000 property and casualty net premiums written in Italy, commercial products accounted for 23%, personal accident products accounted for 7% and household products accounted for 5%. We have implemented a multichannel distribution strategy in Italy and in 2000, exclusive agents accounted for 70% of our property and casualty net premiums written in Italy, brokers accounted for 18%, direct sales accounted for 11% and corporate clients accounted for 1%.

Germany

We operate in Germany primarily through our subsidiary, Securitas Bremer Allgemeine Versicherungs AG. We offer personal and commercial products in Germany, principally personal and commercial automobile, marine, property and personal accident. In 2000, household accounted for 19% of our property and casualty net premiums written in Germany, personal automobile accounted for 17%, marine accounted for 15%, commercial property accounted for 13%, commercial accident accounted for 8%, commercial automobile accounted for 8%, personal accident accounted for 4%, personal legal expenses accounted for 4% and other classes accounted for 12%. We have a network of eight regional offices in Germany. Five of the regional offices distribute our products in Germany through exclusive agents accounting for 59.7% of our 2000 property and casualty net premiums written and three of our regional offices distribute our products in Germany through brokers accounting for 40.3% of our 2000 property and casualty net premiums written.

Ireland

We operate in Ireland through our branch office based in Dublin. We are the fourth largest property and casualty insurer in Ireland with a 12.5% share of the market, based on 2000 net premiums written. We offer all major classes of personal and commercial business in Ireland, principally household, personal automobile, property and casualty insurance, primarily through brokers and corporate partnerships. In 2000, personal automobile accounted for 31% of our net premiums written in Ireland, commercial multi-peril accounted for 30%, household accounted for 30%, commercial special risks, such as professional indemnity and directors' and officers' policies, accounted for 5%, marine accounted for 2% and other classes accounted for 2%. In 2000, brokers accounted for 80.4% of our property and casualty net premiums written in Ireland, corporate partnerships accounted for 13.7%, direct marketing accounted for 5.6% and agents accounted for 0.3%.

Spain

We operate in Spain through our subsidiaries, Royal & Sun Alliance S.A., based in Madrid, and Regal Insurance Club, Compañía Española de Seguros, S.A., located in Barcelona. We offer principally personal automobile, household and personal accident insurance through agents, brokers and corporate partnerships or on a direct basis. In 2000, personal automobile accounted for 58% of our net premiums written in Spain, household accounted for 24%, commercial accounted for 11% and accident and liability accounted for 7%. In 2000, agents accounted for 54.9% of our net premiums written in Spain, corporate partnerships accounted for 24.8%, brokers accounted for 10.8% and direct sales accounted for 9.5%.

Others

We also write property and casualty business through subsidiaries, equity investments, branches and representative offices in Belgium, The Netherlands, Lithuania, France, Malta, Saudi Arabia, the United Arab Emirates and Oman. In addition, we have a 38% interest in Mutual & Federal Insurance Co Ltd. Mutual & Federal is based in Johannesburg and has branches throughout South Africa, as well as subsidiaries operating in Botswana, Malawi, Namibia and Zimbabwe. Mutual & Federal offers both personal and commercial products and has a 20% share of the property and casualty market in South Africa, based on 1999 net premiums written. We primarily distribute property and casualty products in these other countries through brokers and agents.

Europe Life and Asset Accumulation Business

Our Europe region conducts life and asset accumulation business in Luxembourg, The Netherlands, Denmark, Norway, Sweden, Lithuania, Germany, Poland and Spain as well as internationally through our Isle of Man-based business. We completed the sale of our three Italian life operations in April 2001.

We offer a range of products throughout Continental Europe, including products for individuals and group customers. In 2000:

- ◆ Life and asset accumulation business in Europe accounted for £890 million, or 25.8%, of our consolidated life and asset accumulation net premiums written; and
- ◆ Life and asset accumulation business in Europe accounted for £27 million, or 5.7%, of our Group operating result (based on longer term investment return).

The table below presents the distribution of our 2000, 1999 and 1998 life and asset accumulation net premiums written by product group in our Europe region.

| | Year Ended December 31, | | | | | |
|---------------------------------|-------------------------|---------------|------------------|---------------|------------------|---------------|
| | 2000 | | 1999 | | 1998 | |
| | £ in millions | % of Total | £ in millions | % of Total | £ in millions | % of Total |
| Individual: | | | | | | |
| Periodic premium products | 322 | 36.2% | 292 | 30.4% | 303 | 37.3% |
| Single premium products | 422 | 47.5 | 543 | 56.5 | 377 | 46.4 |
| Total Individual | 744 | 83.7 | 835 | 86.9 | 680 | 83.7 |
| Group: | | | | | | |
| General account products | 146 | 16.3 | 126 | 13.1 | 132 | 16.3 |
| Total | <u>890</u> | <u>100.0%</u> | <u>961</u> | <u>100.0%</u> | <u>812</u> | <u>100.0%</u> |

Scandinavia

We began writing life and asset accumulation business in Scandinavia in 1943 and, based on 1999 net premiums earned of £214 million, are the fifth largest life insurer in Denmark with a 7% market share excluding group pensions business. Our Scandinavian figures also include the life and asset accumulation businesses in Norway, Sweden and Lithuania. In 2000, we wrote £50 million in new business periodic premiums and £20 million in new business single premiums in Scandinavia. Group products accounted for approximately 54% of our new business premiums in Scandinavia in 2000 and individual products accounted for approximately 46%. We offer group and individual life and savings products through our network of exclusive agents, who work from a network of 37 customer centers, and brokers.

Benelux

In 2000, we wrote life and asset accumulation business in Benelux through our subsidiary Royal & SunAlliance Levensverzekering NV in the Netherlands and its branch operation in Belgium, which opened in

2000. Distribution is primarily through independent intermediaries. Our main focus is on single premium investment products and pension business. In 2000, we wrote £31 million in new business single premiums and £7 million in new business periodic premiums in Benelux.

Italy

In 2000 we wrote life and asset accumulation business in Italy through our subsidiaries, Royal & Sun Alliance Vita SpA, Sun Alliance Vita SpA and Lloyd Italico Vita SpA. The sale of all three life companies was completed in April 2001. In 2000, we wrote £44 million in new business single premiums and £14 million in new business periodic premiums in Italy.

Spain

We write life and asset accumulation business in Spain through our subsidiary, Royal & Sun Alliance Vida y Pensiones S.A.. Distribution is primarily through a direct sales force and independent agents. Our main focus in Spain is single premium life products and medium and longer term savings products. In 2000, we wrote £7 million in new business periodic premiums and £4 million in new business single premiums in Spain.

Isle of Man

Our international financial services business, Royal & Sun Alliance International Financial Services Limited, operates primarily in the Far Eastern markets, particularly Hong Kong. We offer a variety of unit-linked savings, investment and trust products to customers in a wide range of international markets. Distribution is through intermediaries, including independent financial advisors, and banks. In 2000, we wrote £326 million in new business single premiums and £31 million in new business periodic premiums.

Others

We also write life and asset accumulation business in Germany and Poland. Our EuroLife operation, established to sell cross-border life and asset accumulation products across Europe from Dublin, has also started to sell products in Italy. Our mutual fund operation in Luxembourg targets asset accumulation business in selected markets and provides an underlying investment vehicle for the property and casualty and life insurance funds of our Continental European operations.

Americas

Overview

Our Americas region comprises businesses in the United States, Canada, Latin America and the Caribbean. We offer property and casualty insurance products throughout the Americas region, principally in the United States and Canada. We offer life insurance and asset accumulation products in Latin America. In June 2001, we announced an agreement to sell our Canadian life operation. The sale is subject to regulatory approval.

We have been engaged in the insurance business in the United States for almost 150 years. Following the July 1999 sale of our U.S. life and asset accumulation businesses, Royal Maccabees Life Insurance Company (“Royal Maccabees”) and Royal Life Insurance Company of New York (“Royal New York”), we now focus exclusively on property and casualty business in the United States. That emphasis was furthered with the November 1999 acquisition of Orion Capital Corporation, a leading U.S. specialty property and casualty insurer. The premium and operating result information presented below includes the results of our U.S. life and asset accumulation business up until the date of disposal and includes the results of Orion from the date of acquisition. With the addition of Orion, we became one of the 25 largest U.S. property and casualty insurers, based on 1999 net premiums written, and operate in all 50 states.

We have operated in Canada since 1851 and are the country’s fourth largest property and casualty insurer with a market share of 6.0% in 2000. We also were the 15th largest life insurer in Canada based on

new life insurance sales in 2000 and the 9th largest based on new segregated funds (a Canadian form of mutual fund that includes an insurance element) sales in 2000. As of December 31, 2000, we had a 1.0% share of the Canadian life insurance market and a 2.0% share of the Canadian segregated funds market.

We began writing business in Latin America and the Caribbean more than 150 years ago. In Latin America and the Caribbean, we write property and casualty business in 13 countries and life and asset accumulation business in 5 countries through owned operations, representative offices and branches.

In 2000, our Americas region recorded segment operating result (based on longer term investment return) of £195 million, representing 41.0% of our Group operating result (based on longer term investment return). Property and casualty businesses accounted for £171 million, or 87.7%, of our total 2000 Americas segment operating result (based on longer term investment return) and life and asset accumulation business accounted for £24 million, or 12.3%, of our total 2000 Americas segment operating result (based on longer term investment return). At the end of December 2000, our Americas region employed approximately 11,500 people.

Americas Property and Casualty Business

Our Americas region conducts property and casualty business throughout the United States, Canada and 13 countries in Latin America and the Caribbean. In 2000:

- ◆ Property and casualty business in the Americas accounted for £2,798 million, or 33.4%, of our consolidated property and casualty net premiums written; and
- ◆ Property and casualty business in the Americas accounted for £171 million, or 35.9%, of our Group operating result (based on longer term investment return).

The table below presents the distribution of our 2000, 1999 and 1998 property and casualty net premiums written by principal market and line of business within our Americas region.

| | Year Ended December 31, | | | | | |
|-------------------------------------|-------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2000 | | 1999 | | 1998 | |
| | £ in millions | % of Total | £ in millions | % of Total | £ in millions | % of Total |
| United States: | | | | | | |
| Personal | 563 | 20.1% | 255 | 14.0% | 224 | 14.4% |
| Commercial | 1,466 | 52.4 | 857 | 47.2 | 689 | 44.6 |
| Total United States | 2,029 | 72.5 | 1,112 | 61.2 | 913 | 59.0 |
| Canada: | | | | | | |
| Personal | 338 | 12.1 | 308 | 17.0 | 254 | 16.5 |
| Commercial | 204 | 7.3 | 203 | 11.1 | 194 | 12.6 |
| Total Canada | 542 | 19.4 | 511 | 28.1 | 448 | 29.1 |
| Latin America/Caribbean: | | | | | | |
| Personal | 106 | 3.8 | 83 | 4.6 | 71 | 4.6 |
| Commercial | 121 | 4.3 | 111 | 6.1 | 112 | 7.3 |
| Total Latin America/Caribbean | 227 | 8.1 | 194 | 10.7 | 183 | 11.9 |
| Total Americas | 2,798 | 100.0% | 1,817 | 100.0% | 1,544 | 100.0% |
| Total Personal | 1,007 | 36.0% | 646 | 35.6% | 549 | 35.5% |
| Total Commercial | 1,791 | 64.0 | 1,171 | 64.4 | 995 | 64.5 |
| Total Americas | 2,798 | 100.0% | 1,817 | 100.0% | 1,544 | 100.0% |

The table below presents our 2000, 1999 and 1998 property and casualty loss, expense and combined ratios within our Americas region by principal market and line of business.

| | Year Ended December 31, | | | | | | | | |
|-------------------------------------|-------------------------|--------------------|---------------------|-----------------|--------------------|---------------------|-----------------|--------------------|---------------------|
| | 2000 | | | 1999 | | | 1998 | | |
| | Loss Ratio % | Expense Ratio % | Combined Ratio % | Loss Ratio % | Expense Ratio % | Combined Ratio % | Loss Ratio % | Expense Ratio % | Combined Ratio % |
| United States: | | | | | | | | | |
| Personal | 76.3 | 27.1 | 103.4 | 62.8 | 32.9 | 95.7 | 56.3 | 33.0 | 89.3 |
| Commercial | 77.4 | 31.8 | 109.2 | 76.8 | 33.1 | 109.9 | 76.3 | 35.7 | 112.0 |
| Total United States | 77.1 | 30.5 | 107.6 | 73.4 | 33.0 | 106.4 | 71.3 | 35.1 | 106.4 |
| Canada: | | | | | | | | | |
| Personal | 72.3 | 30.2 | 102.5 | 69.4 | 29.4 | 98.8 | 66.7 | 29.8 | 96.5 |
| Commercial | 81.6 | 36.9 | 118.5 | 79.1 | 36.0 | 115.1 | 73.8 | 35.5 | 109.3 |
| Total Canada | 76.0 | 32.7 | 108.7 | 73.4 | 32.0 | 105.4 | 69.8 | 32.3 | 102.1 |
| Latin America/Caribbean: | | | | | | | | | |
| Personal | 62.6 | 41.6 | 104.2 | 67.2 | 45.0 | 112.2 | 70.1 | 47.3 | 117.4 |
| Commercial | 58.2 | 43.5 | 101.7 | 78.3 | 42.1 | 120.4 | 74.0 | 45.4 | 119.4 |
| Total Latin America/Caribbean | 60.2 | 42.6 | 102.8 | 73.6 | 43.4 | 117.0 | 72.5 | 46.1 | 118.6 |
| Total Personal | 73.6 | 29.7 | 103.3 | 66.5 | 32.8 | 99.3 | 62.8 | 33.2 | 96.0 |
| Total Commercial | 76.6 | 33.1 | 109.7 | 77.4 | 34.4 | 111.8 | 75.5 | 36.7 | 112.2 |
| Total Americas | 75.5 | 31.9 | 107.4 | 73.4 | 33.9 | 107.3 | 71.0 | 35.6 | 106.6 |

United States

Our U.S. property and casualty business is headquartered in Charlotte, North Carolina. We offer a broad spectrum of standard and specialty property and casualty products, principally commercial multi-peril, workers' compensation, personal and commercial automobile and household insurance. We conduct business through a network of independent agents and brokers across the United States. Our commercial insurance operations work with over 2,000 agents. We offer standard personal insurance business through 1,000 agents, while we offer non-standard automobile insurance through approximately 14,000 agents. We support this network of independent agents and brokers with commercial and personal field offices located throughout the United States. Our overall organization structure provides for local authority, which we believe enhances our ability to provide a local touch and customer-responsive services. We write commercial and specialty business in all 50 states and personal insurance business in 43 states. In 2000, our U.S. property and casualty business accounted for 72.5% of the Americas region's property and casualty net premiums written.

Rather than trying to provide insurance products to every possible buyer, we select specific markets where strong underwriting skills and highly responsive client service can make a difference. In November 1999, we acquired Orion, a U.S. specialty insurance operation with strong market positions in workers' compensation, professional liability and non-standard automobile insurance. The acquisition doubled the size of our U.S. business. In addition to adding greater scale and presence to our U.S. operations, the acquisition of Orion also provided valuable business mix balance, along with complementary product lines and skills that enhance our capabilities. The acquisition of Orion has enabled a shift in the overall mix of our business toward a preponderance of differentiating products, which have a narrower focus, deeper penetration and higher margin. Prior to the acquisition, our book of business was comprised mainly of commodity products, which are typical of the standard commercial insurance market, standard personal insurance market and ocean marine insurance market. The geographic mix of business and exposure has also been enhanced. Prior to the acquisition, our book of business was more heavily weighted towards property exposure in the eastern states. The acquisition has reduced this concentration of both property exposure and geographical exposure in the eastern states.

The structural and strategic integration of Orion into our operations was completed during 2000, and has resulted in a new commercial middle-market and risk management global structure, customer centric development within personal insurance, strengthened specialty platforms, and the sale of certain non-strategic

assets. We have developed a formalized strategy for our operations, and are in the process of communicating the strategy to all employees.

The combination of the two organizations has also enabled expense savings to be attained through consolidation of functions, and synergies. Savings have been accomplished through the consolidation of corporate support functions, data centers and corporate telecommunication contracts, field office closings and consolidations and reduction in staff numbers of approximately 1,000, enhancements in the combined investment portfolio, and the implementation of a shared services organization.

The U.S. personal automobile market is divided into two market segments: the standard and preferred market and the non-standard market. The standard and preferred market is dominated by a few large personal lines companies that either have significant scale and brand identity, provide customized products and services to upscale customers, or are regionally focused with strong brand identity in their market. Non-standard automobile insurance covers drivers with no prior insurance or with driving records that do not qualify them for standard or preferred premium rates. Non-standard policies are generally sold at higher premiums to offset increased risk of loss. The non-standard market is controlled by a small number of niche companies with less brand identity which compete primarily on price. A few of the large personal lines companies also write non-standard business. The personal property and casualty market is highly competitive and regulated. We compete in both segments of the personal automobile marketplace and concentrate on those states that we believe have the highest profit potential and in the standard and preferred segments that are suited to our strategy of high quality service differentiation.

For the past few years in the United States until the latter part of 1999, the commercial property and casualty market was increasingly highly competitive and under extreme pressure due to the impact on pricing of excess capital in the insurance marketplace. The assets of property and casualty insurance companies consist primarily of investments, such as stocks and bonds. As a result of the strength of the U.S. capital markets in those years, the value of these investments increased. At the same time, insurance liabilities grew at a slower pace, in part a reflection of the slowdown in inflation. The difference in the growth of investment assets over the growth in liabilities led to excess capital. Property and casualty insurance companies must maintain sufficient capital to absorb insurance losses and also to withstand unforeseen adverse loss development, such as large losses caused by catastrophes. Excess capital allows an insurance company to insure more risks by writing increased premium volumes. However, as the total demand for property and casualty insurance is finite, the principal way companies increase premium volume is to underprice competitors and thus take market share away from them. This competition is largely in the commercial markets where premium rates are less rigorously regulated than the personal markets in the United States.

During this period our businesses faced severe pricing pressure. Undifferentiated commercial product offerings, such as multi-peril package, general liability, and commercial automobile insurance, were severely low-priced for several years. Specialty product offerings, those which offer non-standard coverage and services, typically carry higher margins and generally continued to be profitable during the prolonged period of low prices. However, in 2000, we began to see signs that the market was improving and substantial price increases were reported by the industry across all commercial lines. Industry capacity began to decline and loss costs increased, thereby presenting the opportunity to raise prices. Catastrophe losses in 1999, and adverse loss development on policies written in earlier years severely impacted the surplus and solvency of some insurers within the industry, presenting the opportunity for price increases by more financially stable insurance companies. In response to the difficult market conditions of the past few years, we focused on underwriting performance and sought to build our capabilities in higher margin specialty lines. We entered new markets and expanded our range of insurance products to offer a more complete array of products to our customers, and targeted certain segments in order to improve our overall risk selection process. We also continually seek to distinguish ourselves in this competitive environment by emphasizing our global insurance capabilities.

These changing market conditions have enabled our business units to attain price increases, continuing the trends of upward pricing movement that began to emerge in the latter half of 1999. For example, the average renewal price of our middle-market commercial insurance policies increased 14% during 2000. The

average renewal price increased each quarter of the year, with the fourth quarter averaging a 20% increase. Although these price increases will help us return to more adequate pricing levels, the benefits will not be fully earned until future quarters.

Overall, our U.S. strategy remains one of dedicating capital to specialty product markets and approaches where we can distinguish ourselves with differentiated features and skills. This proposition is one of our key strategies to differentiate us in the highly competitive commercial lines marketplace.

Our commercial customers include a wide variety of insureds with not only domestic operations, but also with overseas locations, operations or assets. We have many customers that require tailored coverage to meet their unique needs. We meet many of those needs through our worldwide network that enables us to provide our customers with a broad product portfolio in over 130 countries. We organize our commercial products and service systems into three primary customer groups: middle-market commercial accounts; risk management and global accounts; and specialty products/programs.

We have realigned our middle-market operations, which focus on the segment of the commercial market between small businesses and Fortune 1000 companies. The realignment has enhanced our ability to use our underwriting, claims and accident prevention competencies to provide coverages and also improve the insurance risk profile of our customers. To do this, we have established multidisciplinary teams consisting of underwriters, accident prevention and claims personnel who work together with our clients to improve the safety of our clients' workplaces and thereby improve the insurance risk profile of our customer. As part of this realignment, we reduced the number of middle-market locations from 75 to 34. The reduction in locations focused our presence near our customers, and eliminated redundant Royal & SunAlliance and Orion locations as well as locations where the market did not support the cost of a local office. The realignment also included an aggressive review of the desirability of our overall book of business. As a result of this review, we made the strategic decision to non-renew our unprofitable policies, and also those policies where we could not attain the desired level of price increases. We have also made the strategic decision to curtail writing certain classes of middle-market commercial business that produced historical results that did not support our underwriting direction. Specifically we no longer write middle-market commercial insurance coverage in the construction, habitation and restaurant industries. These actions, which will result in an annual decrease in premium volume of approximately \$170 million, will enable us to focus on dedicated, quality service to our customers by providing underwriting, claims and accident prevention expertise via empowered local operations. We believe this strategy will enhance our ability to build a book of business that better reflects our targeted underwriting direction and expertise, and generates improved underwriting results. We have clearly communicated our underwriting direction and objectives for renewals and pricing to our partner agents and brokers, who assist us in meeting our goals.

In addition to the middle-market realignment, we have created a distinct risk management and global unit to better serve this sophisticated and diverse market segment. The complexity of these accounts and the unique expectations of customers, demand a different approach than our "local touch" middle-market strategy.

The third component of our commercial insurance operations is our specialty products/programs division. This division is made up of a number of different individual businesses each with its own specific focus on particular products or markets. The major operations within specialty are described below.

Design Professional Insurance Company ("DPIC") specializes in professional liability insurance products for architects and engineers. Royal Specialty Underwriters, Inc. ("RSUI") specializes in commercial excess and special risk casualty, property and directors' and officers' insurance through the wholesale brokerage market. Financial Structures Limited ("FSL") provides insurance solutions in connection with financial, equipment, and asset-backed transactions for U.S. and non-U.S. clients. Our Financial Services unit provides creditor insurance programs, including products offered to credit unions, banks, finance companies and other financial institutions. Our Programs unit provides tailored insurance packages to well defined customer groups, such as dairies, dental programs, hairdressers and motorcycle dealers. Our Grocers unit provides specialized property and casualty products and services for grocery stores and related businesses. Our ARTIS unit uses an alternative market approach to allow insureds, producers, and sponsoring associations

or groups to participate in underwriting and assuming the risk of their insurance program. Royal & SunAlliance Surplus Lines Insurance Services writes primary commercial general liability insurance and professional liability insurance.

Each of the businesses within the specialty unit operates in a semi-autonomous manner, and each is positioned to take advantage of opportunistic changes in its own market. Businesses are continually evaluated to determine if additional capital is required to grow the business, or conversely to determine if market events necessitate a reduction in premium volume in a specific business, or even complete withdrawal or sale. We experienced growth during 2000 in FSL and ARTIS, and sold a contracts and brokerage business which specialized in insurance for the long-haul trucking industry.

The table below presents the distribution of our 2000, 1999, and 1998 property and casualty net premiums written and combined ratios by product group in the United States.

| | Year Ended December 31, | | | | | | | | |
|----------------------------------|--------------------------|-----------------------|-----------------------------|--------------------------|-----------------------|-----------------------------|--------------------------|-----------------------|-----------------------------|
| | 2000 | | | 1999 | | | 1998 | | |
| | <u>£ in millions</u> | <u>% of Total</u> | <u>Combined Ratio %</u> | <u>£ in millions</u> | <u>% of Total</u> | <u>Combined Ratio %</u> | <u>£ in millions</u> | <u>% of Total</u> | <u>Combined Ratio %</u> |
| Personal: | | | | | | | | | |
| Household | 94 | 4.6% | 114.3 | 77 | 6.9% | 109.9 | 71 | 7.8% | 103.7 |
| Automobile | 444 | 21.9 | 102.1 | 161 | 14.5 | 91.2 | 138 | 15.1 | 85.1 |
| Other | 25 | 1.2 | 83.7 | 17 | 1.5 | 74.3 | 15 | 1.6 | 61.1 |
| Total Personal | <u>563</u> | <u>27.7</u> | <u>103.4</u> | <u>255</u> | <u>22.9</u> | <u>95.7</u> | <u>224</u> | <u>24.5</u> | <u>89.3</u> |
| Commercial: | | | | | | | | | |
| Multi-peril | 253 | 12.5 | 107.2 | 204 | 18.3 | 114.5 | 187 | 20.5 | 107.4 |
| Workers' compensation | 502 | 24.7 | 110.6 | 200 | 18.0 | 108.0 | 165 | 18.1 | 112.2 |
| Property | 77 | 3.8 | 83.1 | 61 | 5.5 | 80.4 | 56 | 6.1 | 75.3 |
| Casualty | 295 | 14.5 | 122.5 | 114 | 10.3 | 130.6 | 91 | 10.0 | 117.2 |
| Automobile | 146 | 7.2 | 104.3 | 99 | 8.9 | 108.0 | 97 | 10.6 | 130.3 |
| Other | 193 | 9.6 | 101.2 | 179 | 16.1 | 105.5 | 93 | 10.2 | 122.7 |
| Total Commercial | <u>1,466</u> | <u>72.3</u> | <u>109.2</u> | <u>857</u> | <u>77.1</u> | <u>109.9</u> | <u>689</u> | <u>75.5</u> | <u>112.0</u> |
| Total United States | <u>2,029</u> | <u>100.0%</u> | <u>107.6</u> | <u>1,112</u> | <u>100.0%</u> | <u>106.4</u> | <u>913</u> | <u>100.0%</u> | <u>106.4</u> |

Canada

We are the fourth largest property and casualty insurer in Canada based on 2000 net premiums written. Our Canadian property and casualty business is headquartered in Toronto and writes all major lines of property and casualty business in Canada primarily through a network of approximately 1,600 brokerages across the country. In addition to the business written through our expansive broker network, we write an increasing volume of business directly through affiliated companies, allowing us to offer products and services to a broader range of customers. In 2000, our Canadian property and casualty business accounted for 19.4% of the Americas region's property and casualty net premiums written.

Overall our approach is to capitalize upon our growing multi-line, multi-channel distribution capabilities by pursuing an enterprise-wide, customer-centered strategy. A key element of this strategy is a concerted e-business initiative designed to exploit Internet opportunities and to enhance employee productivity. Central to this initiative is Web-enablement of our corporate systems to permit a direct interface with our brokers, customer and suppliers, creating an opportunity to re-engineer internal processes for improved efficiency and effectiveness. Concurrently, we are adopting a customer relationship management philosophy, developing and acquiring the necessary tools to view and monitor all aspects of a customer's relationship with us. This information will provide us with a greater understanding of our customers, which can then be used to maximize our relationship through the sale of complementing products and the creation of unique products and services.

In 2000, we engaged in a number of initiatives that have strengthened our position as a leading multi-line, multi-product Canadian insurer. Selective re-underwriting activities combined with broker management

efforts and an aggressive rating program were implemented during the year and will collectively contribute to an improvement in our underlying underwriting performance. Operationally, we relocated a number of separate offices to a single location to create a highly efficient low cost insurance center that services Canada's most populated area. We are among the industry leaders in terms of technological development, possessing call center capabilities for both customer and brokers, and e-business applications that facilitate on-line sales and services.

We offer a broad range of property and casualty products in Canada, primarily personal and commercial automobile, household, property, casualty and marine insurance. The table below presents the distribution of our 2000, 1999 and 1998 property and casualty net premiums written and combined ratio by product group in Canada.

| | Year Ended December 31, | | | | | | | | |
|-----------------------------|-------------------------|----------------------|---------------------|-------------------|----------------------|---------------------|-------------------|----------------------|---------------------|
| | 2000 | | | 1999 | | | 1998 | | |
| | £ in millions | % of Total | Combined Ratio % | £ in millions | % of Total | Combined Ratio % | £ in millions | % of Total | Combined Ratio % |
| Personal: | | | | | | | | | |
| Household | 102 | 18.8% | 103.9 | 94 | 18.4% | 103.7 | 79 | 17.6% | 103.8 |
| Personal automobile | 236 | 43.6 | 101.9 | 214 | 41.9 | 96.7 | 175 | 39.1 | 93.1 |
| Total Personal | <u>338</u> | <u>62.4</u> | <u>102.5</u> | <u>308</u> | <u>60.3</u> | 98.8 | <u>254</u> | <u>56.7</u> | 96.5 |
| Commercial: | | | | | | | | | |
| Property | 55 | 10.1 | 103.0 | 57 | 11.1 | 112.1 | 56 | 12.5 | 117.5 |
| Casualty | 45 | 8.3 | 153.7 | 45 | 8.8 | 141.7 | 46 | 10.3 | 120.7 |
| Commercial automobile | 83 | 15.3 | 115.5 | 80 | 15.7 | 107.7 | 73 | 16.3 | 97.7 |
| Other | 21 | 3.9 | 93.8 | 21 | 4.1 | 92.1 | 19 | 4.2 | 101.0 |
| Total Commercial | <u>204</u> | <u>37.6</u> | <u>118.5</u> | <u>203</u> | <u>39.7</u> | 115.1 | <u>194</u> | <u>43.3</u> | 109.3 |
| Total Canada | <u>542</u> | <u>100.0%</u> | <u>108.7</u> | <u>511</u> | <u>100.0%</u> | 105.4 | <u>448</u> | <u>100.0%</u> | 102.1 |

We offer a full range of personal household products and also participate in both the standard and non-standard automobile markets.

We provide commercial coverage to businesses of all sizes and focus our marketing efforts and products on three basic categories of customers:

- ◆ *Transactional*—small businesses;
- ◆ *Individual Risk*—mid-market companies; and
- ◆ *Risk Managed*—large domestic and multinational companies.

We have undertaken a number of customer service initiatives over the past few years, including the establishment of customer call centers, 24-hour emergency claims services, valet claims service for automobile repairs and the creation of a consolidated broker call center.

We distribute both commercial and personal property and casualty products in Canada primarily through a network of brokers. To support our broker network, we have established 17 regional and district offices in key markets across Canada, each of which focuses on either personal or commercial business. Our network of offices provides regional expertise and access to our worldwide product and service capabilities. Our broker operations and affinity groups accounted for 86% of our 2000 net premiums written, our direct operations accounted for 12% and our corporate partnerships accounted for 2%.

The property and casualty industry in Canada has undergone dramatic changes over the past five years. Already the most competitive of the country's financial services industries with over 240 market participants, the property and casualty sector has faced aggressive new competition, primarily from the entrance of banks and direct writers. Consolidation among leading insurance companies also intensified during this period, increasing the market share of the top five insurers from 26% in 1995 to 37% in 2000. The industry's response to this reshaping of the market was an effort to protect market share through the

introduction of various rate reduction and policy discount measures. This contributed to an exceptionally competitive pricing environment that held prices in some markets below profitable levels. In 2000, the industry saw the first significant broad-based rate increase in many years.

Latin America and the Caribbean

We write property and casualty business in 13 countries in Latin America and the Caribbean, principally in Argentina, Chile and Puerto Rico. We also have operations in the Bahamas, Netherlands Antilles, Aruba, Brazil, Colombia, Venezuela, Peru and Uruguay, as well as agency representation in Bermuda and the Falkland Islands. During 2000 we contracted to sell our operation in the Eastern Caribbean. We expect to complete the sale after receipt of the necessary regulatory approvals. In June 2001, we acquired a further 31.8% holding in our Chilean operation, taking our holding up to 95.8% of the issued share capital. We write the major lines of property and casualty business in Latin America and the Caribbean primarily through brokers and agents. In 2000, our Latin America and Caribbean property and casualty business accounted for 8.1% of the Americas region's property and casualty net premiums written.

In Latin America and the Caribbean, we continue to aim to improve our results. A key aspect of this includes effectively managing our exposure to catastrophe risks. In the Caribbean, we continue to have a policy of reducing future catastrophe exposure through a combination of strategic sales and increased reinsurance. In accordance with this strategy, we disposed of our 51% shareholding in Royal & Sun Alliance Insurance (Jamaica) Limited in October 2000. We believe that the personal lines market in the region offers growth opportunities, particularly through corporate partnerships with banks and other financial institutions.

We write both personal and commercial lines in Latin America and the Caribbean, primarily property, automobile, marine, engineering and casualty insurance. In 2000, commercial lines accounted for £121 million, or 53.3%, of our net premiums written in Latin America and the Caribbean and personal lines accounted for £106 million, or 46.7%. We continue to see a small but increasing demand for specialty covers such as directors' and officers' and professional indemnity insurance, particularly from our larger international clients.

Our target commercial customers are large and medium sized companies. We have invested significant time and money in Latin America and the Caribbean to ensure quality service to our customers. We now have electronic broker connectivity in our operations in Argentina, Brazil, Chile, Colombia, Peru, Uruguay and Venezuela. We also have created specialist customer call centers throughout most of Latin America to better meet the needs of our corporate partners and customers.

We distribute both commercial and personal property and casualty products in Latin America and the Caribbean through the major international brokers, local agents and brokers and through corporate partnerships, primarily with banks and other financial institutions. The vast majority of our commercial business in Latin America and the Caribbean is written through international brokers and large local intermediaries, although we are growing our personal lines business principally through corporate partnerships. In 1998, we began writing personal lines business on a direct basis in Argentina. This is one of the first direct operations in Latin America.

In Latin America and the Caribbean we compete with the large international insurers and large local insurers, some of which are state-owned. The Latin American markets are competitive, driven in part by the perceived potential for growth in the region by the global and regional players, and also the excess capacity in the world reinsurance markets. During 2000 in the Caribbean, market rates started to increase but still remained competitive.

Americas Life and Asset Accumulation Business

Our Americas region conducts life and asset accumulation business in Chile, Colombia, Peru, Argentina and Uruguay. In June 2001, we announced an agreement to sell our Canadian life operation. The

sale is subject to regulatory approval. We sold our U.S. life and asset accumulation operations, Royal Maccabees and Royal New York, in July 1999. In 2000:

- ◆ Life and asset accumulation business in the Americas accounted for £297 million, or 8.7%, of our consolidated life and asset accumulation net premiums written; and
- ◆ Life and asset accumulation business in the Americas accounted for £24 million, or 5.0%, of our Group operating result (based on longer term investment return).

Canada

An agreement to sell our Canadian life operation was announced in June 2001. Through our subsidiary, Royal & SunAlliance Financial, we offered a broad portfolio of individual life insurance and asset accumulation products through a national network of independent brokers. We served these brokers through ten regional offices and 37 managing general agencies across Canada. In 2000, life and asset accumulation net premiums written were £135 million.

Our life product line included traditional term and whole life as well as our universal life product, all sold on a non-participating basis. Flexible in design and price, our universal life product offered policyholders a variety of investment options including performance links to industry benchmarks or to our own segregated funds. Our investment and retirement product line included 18 in-house segregated funds, four additional segregated funds offered through an alliance with a third party, annuities, daily interest accounts and guaranteed interest accounts with guaranteed interest rates for periods of one to 20 years. While our focus continued to be on life and asset accumulation products, we also offered lifestyle-protection plans such as long term-care insurance.

In 2000, we introduced into the segregated fund product line four passively managed index funds, two new actively managed funds and a new asset allocation program consisting of three portfolio funds designed to meet investor investment and asset accumulation objectives by investing in various underlying funds. We rationalized the life portfolio reducing the number of products available in order to focus on our target markets where universal life insurance has become the product of choice. In addition, we expanded our web-based online extranet to independent brokers to allow them, through secure access, to view policy information for their clients as well as access or download illustration software, forms and product marketing materials.

Latin America

In Latin America, we offer life and asset accumulation products through our subsidiaries in Chile, Colombia, Peru, Argentina and Uruguay. La Construcción is the second largest life and asset accumulation company in Chile, based on 2000 gross premiums written. Our primary products are individual and group life insurance, annuities and pensions. We distribute our life and asset accumulation products in Latin America through a combination of direct and agency sales forces as well as intermediaries including banks offering insurance to their customers.

Asia Pacific

Overview

Our Asia Pacific region consists of our businesses in Australia, New Zealand, China, Hong Kong, Taiwan, Japan, India, Pakistan, Korea and Southeast Asia. We offer property and casualty products throughout the Asia Pacific region, principally in Australia and New Zealand, and we offer life insurance and asset accumulation products in Australia and New Zealand. In 2000, we obtained a license to write property and casualty insurance business in Korea. In India, we own 26% of a joint venture, the maximum shareholding permitted by the Indian government. The Indian government granted this joint venture a license to write property and casualty insurance business in 2000 and the joint venture commenced writing business in 2001. We will continue to maintain our representative office in India.

We have been engaged in the insurance business in the Asia Pacific region since 1825. We have operated in Australia since 1833 and are the country's third largest property and casualty insurer, based on 1999 gross premiums earned. We are the fifth largest life risk insurer in Australia based on annual premiums in force as of June 30, 2000. We have operated in New Zealand since 1878 and are the country's third largest property and casualty insurer with a market share of approximately 13%, based on gross premiums written, for the year ended September 30, 2000. We are the fourth largest life insurer in New Zealand based on 2000 annual premiums in force.

Japan is the second largest property and casualty market in the world and the second largest life and asset accumulation market in the world. Opportunities for foreign insurers have been created by recent legislation permitting the registration of insurance brokers and by the weakening of the keiretsu groupings. The keiretsu groupings are large conglomerates of affiliated companies from various industry sectors which dominated commerce in Japan. As of March 2000, we were the second largest European insurer in Japan and are exploring opportunities in our property and casualty operations in Japan where increasing deregulation is occurring.

In 2000, our Asia Pacific region recorded segment operating result (based on longer term investment return) of £76 million, representing 16% of our Group operating result (based on longer term investment return). Property and casualty businesses accounted for £39 million of our total 2000 Asia Pacific segment operating result (based on longer term investment return) and life and asset accumulation business accounted for £37 million of our total 2000 Asia Pacific segment operating result (based on longer term investment return). Our Asia Pacific region employs approximately 5,200 people in 165 offices.

Asia Pacific Property and Casualty Business

Our Asia Pacific region conducts property and casualty business in Australia, New Zealand and 13 other markets in the rest of the Asia Pacific region. In 2000:

- ◆ Property and casualty business in Asia Pacific accounted for £677 million, or 8.1%, of our consolidated property and casualty net premiums written; and
- ◆ Property and casualty business in Asia Pacific accounted for £39 million, or 8.2%, of our Group operating result (based on longer term investment return).

The table below presents the distribution of our 2000, 1999, and 1998 property and casualty net premiums written by principal market and line of business within our Asia Pacific region.

| | Year Ended December 31, | | | | | |
|-------------------------------------|-------------------------|---------------|------------------|---------------|------------------|---------------|
| | 2000 | | 1999 | | 1998 | |
| | £ in millions | % of Total | £ in millions | % of Total | £ in millions | % of Total |
| Australia: | | | | | | |
| Personal | 344 | 50.8% | 353 | 46.4% | 264 | 46.0% |
| Commercial | 145 | 21.4 | 165 | 21.7 | 112 | 19.5 |
| Total Australia | 489 | 72.2 | 518 | 68.1 | 376 | 65.5 |
| New Zealand: | | | | | | |
| Personal | 27 | 4.0 | 31 | 4.1 | 28 | 4.9 |
| Commercial | 38 | 5.6 | 71 | 9.3 | 38 | 6.6 |
| Total New Zealand | 65 | 9.6 | 102 | 13.4 | 66 | 11.5 |
| Other Asia Pacific: | | | | | | |
| Personal | 49 | 7.3 | 62 | 8.1 | 58 | 10.1 |
| Commercial | 74 | 10.9 | 79 | 10.4 | 74 | 12.9 |
| Total Other Asia Pacific | 123 | 18.2 | 141 | 18.5 | 132 | 23.0 |
| Total Asia Pacific | 677 | 100.0% | 761 | 100.0% | 574 | 100.0% |
| Total Personal | 420 | 62.0% | 446 | 58.6% | 350 | 61.0% |
| Total Commercial | 257 | 38.0 | 315 | 41.4 | 224 | 39.0 |
| Total Asia Pacific | 677 | 100.0% | 761 | 100.0% | 574 | 100.0% |

The table below presents our 2000, 1999, and 1998 property and casualty loss, expense and combined ratios within our Asia Pacific region by principal market and line of business.

| | Year Ended December 31, | | | | | | | | |
|-------------------------------------|-------------------------|-----------------------|------------------------|--------------------|-----------------------|------------------------|--------------------|-----------------------|------------------------|
| | 2000 | | | 1999 | | | 1998 | | |
| | Loss Ratio % | Expense Ratio % | Combined Ratio % | Loss Ratio % | Expense Ratio % | Combined Ratio % | Loss Ratio % | Expense Ratio % | Combined Ratio % |
| Australia: | | | | | | | | | |
| Personal | 70.6 | 20.3 | 90.9 | 80.0 | 17.6 | 97.6 | 79.5 | 21.5 | 101.0 |
| Commercial | 107.8 | 26.3 | 134.1 | 107.2 | 24.6 | 131.8 | 86.7 | 31.4 | 118.1 |
| Total Australia | 81.9 | 22.0 | 103.9 | 88.5 | 19.9 | 108.4 | 81.7 | 24.5 | 106.2 |
| New Zealand: | | | | | | | | | |
| Personal | 69.3 | 29.7 | 99.0 | 71.8 | 25.2 | 97.0 | 74.2 | 31.9 | 106.1 |
| Commercial | 62.6 | 36.5 | 99.1 | 69.9 | 20.6 | 90.5 | 62.3 | 33.9 | 96.2 |
| Total New Zealand | 64.9 | 33.6 | 98.5 | 70.6 | 22.0 | 92.6 | 67.0 | 33.1 | 100.1 |
| Other Asia Pacific: | | | | | | | | | |
| Personal | 48.0 | 81.0 | 129.0 | 47.2 | 90.6 | 137.8 | 47.1 | 100.3 | 147.4 |
| Commercial | 63.7 | 57.1 | 120.8 | 81.3 | 56.7 | 138.0 | 56.5 | 46.8 | 103.3 |
| Total Other Asia Pacific | 57.7 | 66.6 | 124.3 | 66.4 | 71.7 | 138.1 | 52.1 | 70.4 | 122.5 |
| Total Personal | 67.8 | 27.9 | 95.7 | 74.7 | 28.3 | 103.0 | 73.0 | 35.4 | 108.4 |
| Total Commercial | 86.6 | 36.7 | 123.3 | 92.7 | 31.8 | 124.5 | 72.4 | 36.9 | 109.3 |
| Total Asia Pacific | 75.4 | 31.2 | 106.6 | 82.0 | 29.7 | 111.7 | 72.7 | 36.0 | 108.7 |

Australia

Our Australian property and casualty business writes primarily personal automobile and household business. We also write commercial broker business, financial insurance consisting primarily of lenders' mortgage insurance, multinational risks, marine and workers' compensation products.

The Australian property and casualty market is extremely competitive in both commercial and personal lines. Commercial rates have increased over the last year after many years of lower rates. Rates for personal lines increased but at a lower rate than for commercial lines.

The table below presents the distribution of our 2000, 1999, and 1998 property and casualty net premiums written and combined ratios by product group in Australia.

| | Year Ended December 31, | | | | | | | | |
|------------------------------|-------------------------|---------------|---------------------|------------------|---------------|---------------------|------------------|---------------|---------------------|
| | 2000 | | | 1999 | | | 1998 | | |
| | £ in millions | % of Total | Combined Ratio % | £ in millions | % of Total | Combined Ratio % | £ in millions | % of Total | Combined Ratio % |
| Personal: | | | | | | | | | |
| Household | 70 | 14.3% | 87.3 | 69 | 13.3% | 87.1 | 56 | 15.0% | 98.1 |
| Personal automobile | 251 | 51.3 | 94.8 | 254 | 49.0 | 104.0 | 187 | 49.7 | 103.1 |
| Other | 23 | 4.7 | 42.3 | 30 | 5.8 | 33.2 | 21 | 5.6 | 77.8 |
| Total Personal | <u>344</u> | <u>70.3</u> | <u>90.9</u> | <u>353</u> | <u>68.1</u> | <u>97.6</u> | <u>264</u> | <u>70.3</u> | 101.0 |
| Commercial: | | | | | | | | | |
| Property | 20 | 4.1 | 136.5 | 25 | 4.8 | 121.0 | 27 | 7.2 | 139.4 |
| Casualty | 49 | 10.0 | 183.6 | 47 | 9.1 | 198.8 | 23 | 6.1 | 126.2 |
| Commercial automobile | 29 | 6.0 | 96.4 | 31 | 6.0 | 114.0 | 37 | 9.8 | 108.4 |
| Other | 47 | 9.6 | 109.4 | 62 | 12.0 | 104.9 | 25 | 6.6 | 100.5 |
| Total Commercial | <u>145</u> | <u>29.7</u> | <u>134.1</u> | <u>165</u> | <u>31.9</u> | <u>131.8</u> | <u>112</u> | <u>29.7</u> | 118.1 |
| Total Australia | <u>489</u> | <u>100.0%</u> | <u>103.9</u> | <u>518</u> | <u>100.0%</u> | 108.4 | <u>376</u> | <u>100.0%</u> | 106.2 |

We distribute both commercial and personal property and casualty products in Australia, primarily through a network of independent agents and brokers, corporate partnerships, and our two direct writing subsidiaries, Australian Associated Motor Insurers Limited, or AAMI, and Australian Alliance Insurance Company Limited, or AAI. AAMI and AAI focus on personal lines insurance. These direct sales & marketing operations in Australia, which contributed 83% of our total Australian personal net premiums written in 2000, have shown strong profitable growth over the last seven years, with net premiums written growing to £287 million in 2000 from £99 million in 1994 at constant exchange rates. AAMI focuses on personal automobile and household products. It has successfully maintained a low cost base and has been recognized for providing good customer service. AAMI's growth in gross premiums written has averaged 18% per annum for the last five years. Its total policy sales growth for the same period averaged 12% per annum. AAMI had 1.8 million policyholders at the end of 2000. AAI offers personal automobile and household products to a target group of retirement age individuals.

On May 1, 2000, we acquired the Shannons Classic Car Insurance agency ("Shannons") for £4 million, which we operate as a distribution business. Shannons offers specialty classic car insurance for its targeted market of automobile enthusiasts. The result from this business is now classified separately in our personal insurance result, having been previously included in our commercial insurance result in 1999 when Shannons was an independent agent. Our 2000 personal net premiums written include £10 million from the Shannons business for the year ended December 31, 2000.

In 2000, our direct operations accounted for 60% of our property and casualty net premiums written in Australia, brokers accounted for 30% and the corporate partnership channel accounted for 10%.

In January 2001, we acquired 50% of the capital of RAC Insurances Pty Limited ("RACI"), a new joint venture insurance company, for £26 million. Our joint venture partner is The Royal Automobile Club of Western Australia ("RAC"). The joint venture writes direct domestic automobile and household insurance in

the state of Western Australia and the RAC has brought to the joint venture a portfolio of gross premiums written of approximately £56 million. Our Australian results as of December 31, 2000 do not contain any financial results from the RACI joint venture.

New Zealand

We write property and casualty business in New Zealand through our subsidiary Royal & Sun Alliance Insurance (New Zealand) Limited. We have acquired four property and casualty businesses in New Zealand over the past 13 years and our gross premiums written have grown from £12.6 million in 1987 to £71.2 million in 2000 on a constant exchange rate basis. With the privatization of workers' compensation insurance during 1999 we wrote significant workers' compensation business in New Zealand. The incoming government in 1999 re-nationalized workers' compensation insurance during 2000 which has resulted in premium levels for 2000 returning to similar levels for 1998.

We offer both personal and commercial lines in New Zealand. Our principal commercial lines are property, accident, automobile, engineering and marine insurance. Commercial lines accounted for 60% of our 2000 property and casualty gross premiums written in New Zealand. Of this amount, property products accounted for 41%, automobile products accounted for 20%, marine products accounted for 19%, accident products accounted for 16% and engineering products accounted for 4%.

Our principal personal lines are household, travel, automobile and pleasure hull insurance. Personal lines accounted for approximately 40% of our 2000 property and casualty gross premiums written in New Zealand. Of this amount, household products accounted for 56%, automobile products accounted for 38% and personal marine products accounted for 6%.

We distribute our products primarily through international and local brokers, corporate partnerships and through our two direct writing brands, Sun Direct and Superannuitants Insurance Services ("SIS"). Sun Direct and SIS focus on personal insurance products with SIS specifically targeted at customers aged over 50 years. In 2000, brokers accounted for 83% of our property and casualty gross premiums written in New Zealand, direct sales accounted for 13% and corporate partnerships accounted for 4%.

Other Asia Pacific

We write property and casualty business in Japan, China, Hong Kong, Taiwan, Singapore, India, Pakistan, Korea, the Philippines, Malaysia, Indonesia, Thailand and Brunei through owned operations and equity investments. We also maintain a representative office in India. Our representative office in Vietnam has been closed. We established a property and casualty business in Korea in 2000. In India, we obtained approval in 2000 to write property and casualty business via our joint venture with Sundaram Finance Ltd, a local company, which began writing business in 2001. We hold a 26% shareholding in this joint venture. Local regulations in some of these markets create significant barriers to entry for foreign firms, make majority foreign ownership difficult and ensure that local companies maintain substantial market share. However, increasing deregulation and liberalization of the insurance market is occurring in Japan. We expect further steps to open up the Chinese market following China's proposed entry into the World Trade Organization.

Other than Japan, where approximately 65% of our 2000 gross premiums written were derived from personal lines, we are predominantly a commercial lines writer in these markets. In 2000, commercial lines accounted for approximately 60% of our property and casualty gross premiums written in Other Asia Pacific and personal lines accounted for approximately 40%. We primarily offer commercial property, casualty, engineering and marine insurance. Our personal lines consist principally of automobile insurance. Most of our Other Asia Pacific property and casualty premiums were derived from brokers and agents and the balance from corporate partnerships. In Japan, we also write personal accident insurance direct through corporate partnerships and with individual clients.

Competition is strong in the Asia Pacific region among numerous local and international insurers. Most of the Asia Pacific markets outside of Australia and New Zealand are dominated by local insurers as the availability of insurance licenses for foreign insurers is limited. In Japan, the property and casualty market

is dominated by four local companies who control almost 50% of the market based on net premiums written for the year ended March 31, 2000. Already publicly announced mergers will see the top four companies' market share rise to 68% on a pro-forma basis.

Asia Pacific Life and Asset Accumulation Business

Our Asia Pacific region conducts life and asset accumulation business in Australia and New Zealand only. In 2000:

- ◆ Life and asset accumulation business in Asia Pacific accounted for £247 million, or 7.2%, of our consolidated life and asset accumulation net premiums written; and
- ◆ Life and asset accumulation business in Asia Pacific accounted for £37 million, or 7.8%, of our Group operating result (based on longer-term investment return).

The table below presents the distribution of our 2000, 1999, and 1998 life and asset accumulation net premiums written by product in our Asia Pacific region.

| | Year Ended December 31, | | | | | |
|---|-------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2000 | | 1999 | | 1998 (1) | |
| | £ in millions | % of Total | £ in millions | % of Total | £ in millions | % of Total |
| Individual: | | | | | | |
| Periodic premium products: | | | | | | |
| With-profit (participating) contracts | 10 | 4.1% | 15 | 6.1% | 12 | 9.3% |
| Unit-linked (separate account) products | 21 | 8.5 | 30 | 12.1 | 26 | 20.2 |
| Non-participating products | 79 | 32.0 | 74 | 30.0 | 31 | 23.9 |
| Total periodic premium products | 110 | 44.6 | 119 | 48.2 | 69 | 53.4 |
| Single premium products: | | | | | | |
| Unit-linked (separate account) products | 45 | 18.4 | 54 | 21.9 | 22 | 17.1 |
| Non-participating products | 7 | 2.7 | 12 | 4.8 | 22 | 17.1 |
| Total single premium products | 52 | 21.1 | 66 | 26.7 | 44 | 34.1 |
| Total Individual | 162 | 65.7 | 185 | 74.9 | 113 | 87.5 |
| Group: | | | | | | |
| General account products | 8 | 3.1 | 6 | 2.4 | — | — |
| Unit-linked (separate account) products | 77 | 31.2 | 56 | 22.7 | 16 | 12.4 |
| Total Group | 85 | 34.3 | 62 | 25.1 | 16 | 12.4 |
| Total | 247 | 100.0% | 247 | 100.0% | 129 | 100.0% |

(1) Our 1998 net premiums written have been restated due to the reclassification of certain business between our individual and group lines.

Australia

We offer a broad portfolio of life insurance and asset accumulation products in Australia primarily through independent agents, brokers and financial advisers. We also distribute our products through corporate partnerships and direct marketing. In 2000, our operations in Australia accounted for 80% of the Asia Pacific region's life and asset accumulation net premiums written.

The Australian life insurance market is a mature market dominated by the four largest insurers, which control 56% of the market measured by annual premiums in force as of June 30, 2000. The Australian life insurance market is the 8th largest in the world measured on the basis of gross premiums in 1999. For the 12 months ended March 31, 2000, individual retirement products accounted for approximately 58% of

Australia's life insurance gross premiums in force, group retirement products accounted for 31% and individual life products accounted for 11%.

Our principal products in Australia include disability income insurance, term life insurance, retirement savings and retirement income products. We offer superannuation products and non-superannuation products. Superannuation products, similar to 401K savings plans in the United States, are for employer sponsored employee savings plans which have favorable tax treatment for the employee. Non-superannuation products are similar to superannuation products but do not have a favorable tax treatment. We also conduct wholesale business where we invest pooled funds on behalf of trustees or administrators but do not administer the policies.

In 2000, single premium products accounted for 60% of our total premium income in Australia and periodic premium products accounted for 40%. In 2000, total new business sales were split between single premiums of £66.4 million and periodic premiums of £8.1 million. Of our total periodic premium new business, term life accounted for 65%, disability income insurance accounted for 17%, and critical illness insurance, which is referred to as trauma insurance in Australia, accounted for 18%. Of the total single premium new business, master fund business accounted for 94%, complying lifetime pensions accounted for 4%, and non-superannuation products accounted for 2%.

New Zealand

We began writing life and asset accumulation business in New Zealand in 1878. In 2000, our operations in New Zealand accounted for 20% of the Asia Pacific region's life and asset accumulation net premiums written.

The New Zealand life and asset accumulation market is relatively mature and subject to strong competitive pressures. The economy has benefited from low inflation although its relatively small size has made it vulnerable to interest rate and exchange rate fluctuations. Nine life insurance companies, unit trust companies and bank life companies account for the majority of the market share. The life insurance market has remained static and, despite an aging population and government promotion of saving for retirement, the asset accumulation market has also remained relatively static although the life insurers' share of this business was reduced by 30% during 2000. The industry has virtually withdrawn from guaranteed fixed interest return products in the last twelve months. There is little employer subsidized superannuation business providing income or lump sum payments upon retirement.

We offer asset accumulation products that provide for lump sum payments at retirement or death prior to retirement, immediate annuities, term life insurance, disability insurance and trauma/critical illness insurance predominantly on an individual basis through brokers, exclusive agents, corporate partnerships and direct marketing.

In 2000, periodic premium life insurance and asset accumulation products accounted for 77% of our total gross premium income and single premium life insurance and asset accumulation products accounted for 23%. Life insurance products accounted for 54% of our 2000 total gross premium income and asset accumulation products, consisting almost entirely of unit-linked (separate account) products, accounted for 46%. Based upon annual premium equivalent, traditional life insurance products accounted for 56% of the new business written in New Zealand and asset accumulation products accounted for 44%.

Brokers accounted for 57% of our 2000 new business periodic premiums, exclusive agents accounted for 27%, direct marketing accounted for 14% and other sources accounted for 2%. Brokers accounted for 65% of our 2000 new business single premiums and exclusive agents accounted for 35%.

WORLDWIDE ASSET MANAGEMENT

Overview

We manage our own insurance investments, as well as third party funds. Our insurance investment portfolios consist of our worldwide general insurance investment portfolios, which include the assets supporting our property and casualty liabilities as well as our shareholders' funds, and our worldwide life insurance investment portfolios. The table below presents the estimated fair value of our assets under management as of December 31, 2000, 1999 and 1998.

| | As of December 31, | | |
|---|----------------------|---------------|---------------|
| | 2000 | 1999 | 1998 |
| | (£ in millions) | | |
| Total Investments: | | | |
| Worldwide general insurance investment portfolios (1) | 15,705 | 15,851 | 15,786 |
| Worldwide life insurance investment portfolios | 31,869 | 31,319 | 30,493 |
| Unit-linked (separate account) assets | 8,713 | 8,304 | 6,675 |
| Third party funds | 6,895 | 5,515 | 3,914 |
| Total (2) | <u>63,182</u> | <u>60,989</u> | <u>56,868</u> |

- (1) Includes shareholder fund investments attributable to our life and asset accumulation business of £254 million in 2000, £233 million in 1999 and £391 million in 1998.
- (2) These amounts differ from the total investments shown in our consolidated balance sheet as they include assets held to cover separate accounts and third party funds that are not included in our consolidated balance sheet. These amounts exclude interests in associated undertakings, value of long term (life) business and deposits with ceding undertakings which are shown as investments in our consolidated balance sheet, but are not managed as part of our worldwide investment portfolios.

Our London-based principal investment subsidiaries Royal & Sun Alliance Investment Management Limited ("RSAIM") and Royal & Sun Alliance Property Investments Limited managed £40 billion, or 63%, of our worldwide assets under management as of December 31, 2000.

In addition to our U.K.-based investment operations, we have investment operations in Scandinavia, the United States, Canada, Australia, Germany, and New Zealand. As of December 31, 2000, we managed £6.6 billion in Scandinavia, £5.5 billion in the United States, £2.0 billion in Canada, £1.6 billion in Australia, £0.8 billion in Germany and £0.7 billion in New Zealand. In addition to the direct management of assets in the United Kingdom, RSAIM has contractual arrangements to manage portfolios on behalf of a number of our subsidiaries in continental Europe and it also provides investment advice to our smaller international investment operations. Guidelines are set for the activities of our other investment operations where a further £6.0 billion of funds are invested and transactions are monitored on a regular basis to ensure compliance.

In Scandinavia, following the purchase of Trygg-Hansa in August 1999, we transferred the investment team and day-to-day management of our Scandinavian investment portfolios, excluding real estate, to Skandinaviska Enskilda Bank, or SEB, the former parent of Trygg-Hansa. Under the investment management agreement between Codan and SEB we set the investment policy for these assets.

Third Party Asset Management

In the United Kingdom, we managed assets for over 110 U.K. institutional pension funds. During 2000 we launched a new pooled pension fund for U.K. clients, investing U.K. and sterling non-government debt in anticipation of demand by trustees of pension funds for higher returns than those available from British government stocks (referred to as gilts) and in anticipation of legislative changes that would make it more attractive to plan sponsors to invest in debt instruments other than gilts. We sell pooled discretionary investment funds in the growing market for defined contribution pensions in the United Kingdom and sell both pooled and segregated discretionary investment funds to plan sponsors in the defined benefit market.

RSAIM and other Group companies, primarily the U.K. life companies, distribute these products both directly to plan sponsors and also through investment consultants. Outside of the United Kingdom, we have a capability to offer third party asset management services in Australia, New Zealand and North America.

In the United Kingdom, our goal is for our asset management operation to increase its external funds under management, primarily through the acquisition of retail investments and segregated institutional pension funds. To this end, the business development side of the business was strengthened during 2000, complemented by the hiring of experienced fund managers from major U.K. investment houses.

Insurance Investments

Our results are in part dependent upon the quality and performance of our investment portfolios. As of December 31, 2000, the estimated fair value of our general insurance investment portfolios was £15,705 million, and the estimated fair value of our life insurance investment portfolios was £31,869 million. These amounts differ from the total investments shown in our consolidated balance sheet as they exclude interests in associated undertakings, value of long term (life) business and deposits with ceding undertakings which are shown as investments in our consolidated balance sheet, but are not managed as part of our worldwide investment portfolios.

The table below presents our net investment results on our worldwide general insurance investment portfolios for the years ended December 31, 2000, 1999 and 1998.

| | <u>Year Ended December 31,</u> | | |
|--|--------------------------------|-----------------|-----------------|
| | <u>2000</u> | <u>1999 (1)</u> | <u>1998 (1)</u> |
| | (£ in millions) | | |
| Income and realized gains and losses from: | | | |
| Fixed income securities | 689 | 589 | 570 |
| Equity securities | 91 | 117 | 154 |
| Other investments | 114 | 126 | 157 |
| Net realized gains and losses | 442 | 752 | 816 |
| Investment expenses (2) | <u>(155)</u> | <u>(79)</u> | <u>(213)</u> |
| Net investment income | <u>1,181</u> | <u>1,505</u> | <u>1,484</u> |

- (1) Investment income has been restated in 1999 and 1998 for the unwind of discount in respect of claims outstanding, previously netted against investment income, which has been reclassified to the general business technical account to provide additional disclosure.
- (2) Investment expenses in 1999 include £14 million of premium paid on repurchase of long term subordinated liabilities of our U.S. operations and investment expenses in 1998 include £142 million representing premium paid on repurchase of our outstanding 7.25% subordinated convertible bonds due 2008.

The table below presents our net investment results on our worldwide life insurance investment portfolios for the years ended December 31, 2000, 1999 and 1998.

| | <u>Year Ended December 31,</u> | | |
|--|--------------------------------|--------------|--------------|
| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
| | (£ in millions) | | |
| Income and realized gains and losses from: | | | |
| Fixed income securities | 979 | 954 | 954 |
| Equity securities | 391 | 394 | 396 |
| Other investments | 279 | 231 | 288 |
| Net realized gains and losses | 1,839 | 2,266 | 2,127 |
| Investment expenses | <u>(83)</u> | <u>(60)</u> | <u>(52)</u> |
| Net investment income | <u>3,405</u> | <u>3,785</u> | <u>3,713</u> |

Investment Strategy

General Insurance Investment Portfolios

We invest our shareholders' funds together with our assets supporting our property and casualty insurance liabilities. Our investment policy focuses on maximizing our total expected returns while managing the inherent volatility of the various types of our investments. In determining our investment policy, we are primarily concerned with:

- ◆ ensuring that our investments can be liquidated into cash to meet our insurance liabilities as they arise; and
- ◆ matching the currency of our investments with our liabilities to avoid unnecessary exchange exposure.

With these considerations in mind, we believe that we can maximize our expected return on capital by investing all of our shareholders' funds and 5% of our insurance reserves in equities. We invest the balance of our insurance reserves in fixed income securities and cash deposits after funding working capital. We continually review our investment policy in light of changing market circumstances and shareholder requirements.

In connection with the introduction of our risk-based model, we established a Global Investment Strategy team in April 1999 under the direction of our Group Director, Investment & Financial Services. This team determines and manages the level of risk in our general insurance investment portfolios, with a particular focus on setting the level of our exposure to equity securities.

Our general insurance investment portfolios are concentrated in listed securities. We use derivative financial instruments to reduce our exposure to adverse fluctuations in interest rates, foreign exchange rates and equity markets. We have strict controls over the use of derivative instruments. A discussion of the risks associated with these derivatives and risk management techniques is included in "Item 11—Quantitative and Qualitative Disclosures About Market Risk". Although guidelines are set for our other investment operations, the distribution of fixed income securities by credit quality and asset type is determined on a country-by-country basis in accordance with locally determined guidelines that reflect local insurance regulations and fixed income markets.

Life Insurance Investment Portfolios

We seek to provide a competitive return on our life insurance investment portfolios consistent with ensuring the financial stability of the portfolios. Our guidelines generally provide for the anticipated investment returns and the estimated duration of investments to match the estimated duration and currency of our liabilities, taking into account estimated levels of surrenders and withdrawals. In the United Kingdom, an appointed actuary advises on how much of our life insurance investment portfolios we should invest in fixed income securities based on our potential liabilities with respect to each life insurance fund. We may then invest the remainder of our life insurance investment portfolios in other investments. We base investments in equity securities and real estate on the outlook for the major investment markets and constantly review the level of such investments with the aim of ensuring that they remain appropriate in light of the reasonable expectations of our policyholders to earn a competitive return. We structure our life insurance investment portfolios in accordance with local regulatory requirements.

Investment Portfolios

The table below presents the estimated fair value of our worldwide general insurance investment portfolios as of December 31, 2000, 1999 and 1998.

| | As of December 31, | | | | | |
|--|--------------------|---------------|---------------|---------------|---------------|---------------|
| | 2000 | | 1999 | | 1998 | |
| | £ in millions | % of Total | £ in millions | % of Total | £ in millions | % of Total |
| Fixed income securities | 9,681 | 61.7% | 9,712 | 61.3% | 8,320 | 52.7% |
| Equity securities | 4,635 | 29.5 | 4,856 | 30.6 | 5,663 | 35.9 |
| Mortgage loans | 125 | 0.8 | 115 | 0.7 | 100 | 0.6 |
| Real estate | 557 | 3.5 | 519 | 3.3 | 970 | 6.2 |
| Other investments, including cash deposits | 707 | 4.5 | 649 | 4.1 | 733 | 4.6 |
| Total | <u>15,705</u> | <u>100.0%</u> | <u>15,851</u> | <u>100.0%</u> | <u>15,786</u> | <u>100.0%</u> |

The table below presents the estimated fair value of our worldwide life insurance investment portfolios as of December 31, 2000, 1999 and 1998.

| | As of December 31, | | | | | |
|--|--------------------|---------------|---------------|---------------|---------------|---------------|
| | 2000 | | 1999 | | 1998 | |
| | £ in millions | % of Total | £ in millions | % of Total | £ in millions | % of Total |
| Fixed income securities | 15,992 | 50.2% | 14,934 | 47.7% | 15,544 | 51.0% |
| Equity securities | 13,145 | 41.2 | 13,887 | 44.3 | 12,444 | 40.8 |
| Mortgage loans | 350 | 1.1 | 352 | 1.1 | 391 | 1.3 |
| Real estate | 2,142 | 6.7 | 1,866 | 6.0 | 1,694 | 5.5 |
| Other investments, including cash deposits | 240 | 0.8 | 280 | 0.9 | 420 | 1.4 |
| Total | <u>31,869</u> | <u>100.0%</u> | <u>31,319</u> | <u>100.0%</u> | <u>30,493</u> | <u>100.0%</u> |

Fixed Income Securities

We hold fixed income securities in both our general insurance and our life insurance investment portfolios with an emphasis on listed securities that are liquid. Fixed income securities covering our life insurance liabilities vary in duration depending on the underlying mix of business in a given market, but generally have a much longer average duration than those covering property and casualty liabilities.

The majority of our fixed income portfolio is rated by Standard & Poor's, Moody's or similar rating agencies. As of December 31, 2000, 92% of our fixed income portfolio was invested in investment-grade (BBB or better) securities and 55% of our fixed income portfolio was invested in AAA rated securities.

The table below presents the scheduled maturities for our investments in fixed income securities for our worldwide general insurance investment portfolios as of December 31, 2000, 1999 and 1998.

| | As of December 31, | | | | | |
|---|--------------------|---------------|---------------|---------------|---------------|---------------|
| | 2000 | | 1999 | | 1998 | |
| | £ in millions | % of Total | £ in millions | % of Total | £ in millions | % of Total |
| Due in one year or less | 1,388 | 14.3% | 1,342 | 13.8% | 1,337 | 16.1% |
| Due after one year through five years | 4,446 | 45.9 | 5,077 | 52.3 | 3,886 | 46.7 |
| Due after five years through 10 years | 1,626 | 16.8 | 1,910 | 19.7 | 1,838 | 22.1 |
| Due after 10 years through 20 years | 1,173 | 12.2 | 817 | 8.4 | 827 | 9.9 |
| Other | 1,048 | 10.8 | 566 | 5.8 | 432 | 5.2 |
| Total | <u>9,681</u> | <u>100.0%</u> | <u>9,712</u> | <u>100.0%</u> | <u>8,320</u> | <u>100.0%</u> |

The table below presents the scheduled maturities for our investments in fixed income securities for our worldwide life insurance investment portfolios as of December 31, 2000, 1999 and 1998.

| | As of December 31, | | | | | |
|---|----------------------|----------------------|---------------|---------------|---------------|---------------|
| | 2000 | | 1999 | | 1998 | |
| | £ in millions | % of Total | £ in millions | % of Total | £ in millions | % of Total |
| Due in one year or less | 1,083 | 6.8% | 515 | 3.4% | 277 | 1.8% |
| Due after one year through five years | 1,507 | 9.4 | 1,143 | 7.7 | 1,907 | 12.3 |
| Due after five years through 10 years | 2,397 | 15.0 | 2,781 | 18.6 | 3,928 | 25.3 |
| Due after 10 years through 20 years | 10,947 | 68.5 | 10,460 | 70.1 | 8,924 | 57.3 |
| Other | 58 | 0.3 | 35 | 0.2 | 508 | 3.3 |
| Total | <u>15,992</u> | <u>100.0%</u> | <u>14,934</u> | <u>100.0%</u> | <u>15,544</u> | <u>100.0%</u> |

The table below presents the composition of our consolidated fixed income securities portfolio based on estimated fair value as of December 31, 2000, 1999 and 1998 by Standard & Poor's investment rating.

| | As of December 31, | | | | | |
|-------------------------|----------------------|----------------------|---------------|---------------|---------------|---------------|
| | 2000 | | 1999 | | 1998 | |
| | £ in millions | % of Total | £ in millions | % of Total | £ in millions | % of Total |
| AAA (1) | 14,210 | 55.3% | 14,044 | 57.0% | 13,940 | 58.4% |
| AA | 5,979 | 23.3 | 5,944 | 24.1 | 5,445 | 22.8 |
| A | 2,615 | 10.2 | 2,231 | 9.0 | 2,224 | 9.3 |
| BBB | 825 | 3.2 | 506 | 2.1 | 560 | 2.4 |
| Less than BBB | 200 | 0.8 | 112 | 0.5 | 101 | 0.4 |
| Non-rated (2) | 1,844 | 7.2 | 1,809 | 7.3 | 1,594 | 6.7 |
| Total | <u>25,673</u> | <u>100.0%</u> | <u>24,646</u> | <u>100.0%</u> | <u>23,864</u> | <u>100.0%</u> |

(1) Includes U.K. government guaranteed fixed income securities that are not rated.

(2) Primarily represent U.K. listed but unrated corporate debt.

Equity Securities

Our equity security investments are concentrated in our investment portfolios in the United Kingdom, the United States, Canada, Scandinavia, Germany, Australia and New Zealand. For our general insurance investment portfolios, we invest in equity securities to support shareholders' funds and with the aim of achieving capital appreciation. For our life insurance investment portfolios, we invest in equity securities with the aim of achieving capital appreciation, and in order to help to achieve our aim of meeting our policyholders' reasonable expectations of returns earned on individual life products.

Our equity investments are actively managed and performance is measured against local benchmarks. Approximately 97% of our equity investments by estimated fair value as of December 31, 2000 were listed on approved securities markets. Our portfolios are diversified so as to provide a broad exposure across all sectors of individual stock markets with restrictions on the maximum investment in any one equity security or equity sector set by reference to local benchmarks and insurance regulations. Within our actively managed portfolios, no single issuer accounted for more than 10% of the fair value of our individual equity portfolios as of December 31, 2000. In addition to these portfolios, we also hold a number of strategic equity investments in our general insurance investment portfolios, the two largest of which as of December 31, 2000 were our investments in The Chubb Corporation and Rothschilds Continuation Holdings.

Mortgage Loans

Our commercial mortgage portfolio is principally located in Germany, North America and Chile. In Germany, mortgage loans are held within our life insurance investment portfolio and secured almost entirely by residential buildings. In the United States and Canada, we hold mortgage loans secured by commercial buildings and land in our general insurance and our Canadian life insurance investment portfolios. We also hold mortgage loans in Chile, as part of our life insurance investment portfolio, which are secured by residential buildings. We invest in mortgage loans primarily for the purpose of matching our insurance liabilities. We set limits on the amount, as well as the distribution by property type and location, of mortgage loans within our funds.

Real Estate

Real estate accounted for £2,699 million of the estimated fair value of our investment portfolios as of December 31, 2000, which includes £405 million of property used by our various operations. The majority of our real estate portfolio is located in the United Kingdom. As of December 31, 2000, the estimated fair value of our real estate portfolio in the United Kingdom was £1,860 million, up from £1,670 million as of December 31, 1999. We intend to maintain a balanced real estate portfolio within our U.K. life insurance investment portfolios with a view to maximizing investment returns on an ongoing basis. Outside of the United Kingdom, our primary real estate investments are in Denmark. As of December 31, 2000, the estimated fair value of our real estate portfolio in Denmark was £501 million.

Other Investments, including Cash Deposits

The principal component of our other investments is cash held within our portfolios. We had £651 million in cash in our worldwide general insurance investment portfolios and £179 million in cash in our worldwide life insurance investment portfolios as of December 31, 2000. We hold cash either to meet known short-term commitments or as an asset allocation decision in the relevant investment portfolios.

PROPERTY AND CASUALTY RESERVES

General

We establish property and casualty loss reserves to account for the anticipated ultimate costs of all losses and related loss adjustment expenses, or LAE, on losses that have already occurred. We establish reserves for reported losses and LAE, as well as for incurred but not yet reported, or IBNR, losses and LAE. Loss reserve estimates are based on known facts and on interpretation of circumstances including our experience with similar cases and historical claims payment trends. We also consider the development of loss payment trends, levels of unpaid claims, judicial decisions and economic conditions.

We use a variety of statistical techniques and a number of different bases to set reserves, depending on the business unit and line of business in question. Our reserving managers consider claims developments separately for each line of business and subdivide certain lines of business by major claim types or subclassifications of business. Large claims impacting each relevant account are also generally assessed separately, either being reserved at the face value of the loss adjusters' estimates or projected separately in order to allow for the future development of large claims.

Reserves are calculated gross of any reinsurance recovery, with a separate asset recorded for the reinsurer's share having due regard to collectability.

As permitted under local statutory guidelines, claims provisions relating to workers' compensation and other non-life disability case reserves in the United States, Canada, Scandinavia and Australia paid on an annuity basis are included after reflecting interest expected to be earned. The total discount applied to these reserves was £189 million in 2000 and £127 million in 1999. The income statement impact of this discounting was a £45 million credit in 2000 and a £9 million credit in 1999. Other than with respect to the above reserves, we do not record reserves on a discounted basis.

We analyze claims progressions according to calendar year accident periods, underwriting years and notification years, with allowances for pure IBNR claims effected in the last instance by way of analyses of claims notification delay tables.

The process of estimating loss reserves is subject to a number of internal and external variables such as changes in claims handling procedures, inflation, judicial trends and legislative changes. Many of these items involve considerable uncertainty. Additionally, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to us. We continually refine reserve estimates in a regular ongoing process as experience develops and further losses are reported and settled. We reflect adjustments to reserves in the results of the periods in which we make such adjustments. In establishing reserves, we take into account estimated recoveries for salvage and subrogation.

We derive reserves for reported losses and LAE from estimates of future payments that will be made in respect of reported losses, including settlement costs, having regard to our particular experience with the type of risk involved.

Local regulation in some countries also requires the establishment of catastrophe equalization reserves. Such reserves defer a portion of income with respect to a line of business to future periods in which catastrophe losses might occur (as a result of such factors as hail, nuclear incidents, storms, floods and pollution) in that line of business. Catastrophe equalization reserves are required under U.K. statutory requirements to be presented under the heading "Technical Provisions" in our consolidated balance sheet. Catastrophe equalization reserves are not included in the loss development tables and the reconciliation of reserves for losses and LAE presented below.

From time to time we supplement our claims and underwriting processes by utilizing third party adjusters, appraisers, engineers, inspectors, other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims.

Because the establishment of loss reserves is an inherently uncertain process, there can be no assurance that ultimate losses and LAE will not exceed existing loss reserves. Actual losses and LAE may deviate, perhaps substantially, from estimates of reserves reflected in our consolidated financial statements.

We believe based on the information currently available to us that, overall, our loss reserves as of December 31, 2000 were adequate.

Loss Reserve Development

The tables below present changes in the historical property and casualty reserves that we established in 1993 and subsequent accounting years. The top line of the tables shows the estimated reserves for unpaid losses and LAE set up as of each balance sheet date. Each amount in the top line represents the estimated amount of future payments to be made for losses and LAE for losses occurring in that year and in prior years. The upper (paid) portion of the table presents the cumulative amounts paid through each subsequent year on those losses for which reserves were carried as of each balance sheet date. The lower (reserve re-estimated) portion of the table shows the re-estimate of the initially recorded reserves as of each succeeding year-end, ignoring claims paid, at the latest period end rate of exchange. The estimate changes as more information becomes known about the actual losses for which the initial reserves were set up and as the rate of exchange changes. The cumulative redundancy/(deficiency) line reflects the cumulative changes in estimate since the initial reserve was established. The cumulative redundancy/(deficiency) is equal to the initial reserve less the liability re-estimated as of December 31, 2000.

Reserves for losses and LAE are an accumulation of the estimated amounts necessary to settle outstanding claims as of the date for which the reserve is stated. The following data is cumulative and therefore ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years.

**CONSOLIDATED LOSS DEVELOPMENT—GROSS OF REINSURANCE
(U.K. GAAP BASIS)**

| | As of December 31, | | | | | | | |
|--|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
| | (£ in millions) | | | | | | | |
| Initial net reserves for unpaid losses and LAE | 9,473 | 9,533 | 9,805 | 9,305 | 9,388 | 9,391 | 10,834 | 10,992 |
| Initial retroceded reserves | <u>2,513</u> | <u>2,451</u> | <u>2,224</u> | <u>2,241</u> | <u>2,240</u> | <u>2,152</u> | <u>3,183</u> | 3,476 |
| Initial gross reserves | <u>11,986</u> | <u>11,984</u> | <u>12,029</u> | <u>11,546</u> | <u>11,628</u> | <u>11,543</u> | <u>14,017</u> | 14,468 |
| Fair value adjustment to acquired loss reserves | | | | | | | 130 | |
| Paid (cumulative) as of: | | | | | | | | |
| One year later | 3,262 | 3,591 | 3,327 | 3,320 | 3,469 | 3,564 | 4,796 | |
| Two years later | 5,530 | 5,337 | 5,156 | 5,125 | 5,303 | 5,562 | | |
| Three years later | 6,786 | 6,662 | 6,325 | 6,313 | 6,655 | | | |
| Four years later | 7,754 | 7,476 | 7,146 | 7,251 | | | | |
| Five years later | 8,327 | 8,070 | 7,747 | | | | | |
| Six years later | 8,770 | 8,578 | | | | | | |
| Seven years later | 9,161 | | | | | | | |
| Reserve re-estimated as of: | | | | | | | | |
| One year later | 11,863 | 12,006 | 11,192 | 11,147 | 11,397 | 11,387 | 14,430 | |
| Two years later | 12,055 | 11,510 | 11,069 | 10,871 | 11,080 | 11,617 | | |
| Three years later | 11,718 | 11,421 | 10,879 | 10,639 | 11,214 | | | |
| Four years later | 11,632 | 11,236 | 10,626 | 10,739 | | | | |
| Five years later | 11,458 | 11,050 | 10,685 | | | | | |
| Six years later | 11,349 | 11,153 | | | | | | |
| Seven years later | 11,448 | | | | | | | |
| Cumulative redundancy/(deficiency) | 538 | 831 | 1,344 | 806 | 414 | (74) | (283) | |

**CONSOLIDATED LOSS DEVELOPMENT—NET OF REINSURANCE
(U.K. GAAP BASIS)**

| | As of December 31, | | | | | | | |
|---|--------------------|-------|-------|-------|-------|-------|--------|---------------|
| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
| | (£ in millions) | | | | | | | |
| Initial net reserves for unpaid losses and LAE | 9,473 | 9,533 | 9,805 | 9,305 | 9,388 | 9,391 | 10,834 | 10,992 |
| Fair value adjustment to acquired loss reserves | | | | | | | 130 | |
| Paid (cumulative) as of: | | | | | | | | |
| One year later | 2,580 | 2,833 | 2,613 | 2,499 | 2,706 | 2,863 | 3,772 | |
| Two years later | 4,308 | 4,181 | 3,852 | 3,905 | 4,133 | 4,588 | | |
| Three years later | 5,278 | 5,093 | 4,826 | 4,942 | 5,277 | | | |
| Four years later | 5,895 | 5,767 | 5,744 | 5,652 | | | | |
| Five years later | 6,365 | 6,364 | 6,067 | | | | | |
| Six years later | 6,822 | 6,680 | | | | | | |
| Seven years later | 7,046 | | | | | | | |
| Reserve re-estimated as of: | | | | | | | | |
| One year later | 9,309 | 9,437 | 8,901 | 8,897 | 9,085 | 9,112 | 11,117 | |
| Two Years later | 9,344 | 8,901 | 8,692 | 8,709 | 8,780 | 9,193 | | |
| Three years later | 9,114 | 8,868 | 8,595 | 8,501 | 8,819 | | | |
| Four years later | 8,984 | 8,774 | 8,379 | 8,527 | | | | |
| Five years later | 8,917 | 8,628 | 8,414 | | | | | |
| Six years later | 8,803 | 8,683 | | | | | | |
| Seven years later | 8,855 | | | | | | | |
| Cumulative redundancy/(deficiency) | 618 | 850 | 1,391 | 778 | 569 | 198 | (153) | |

Movements due to changes in the rates of exchange are a significant component of the cumulative redundancy/(deficiency) shown in the tables above. The increase in estimate due to changes in exchange rates net of reinsurance is £274 million for the initial reserve established at the end of 1999, £105 million for 1998 and £104 million for 1997. Hence, the cumulative redundancy net of reinsurance excluding the effect of changes in exchange rates is £121 million for the initial reserve established at the end of 1999, £303 million for 1998 and £673 million for 1997. This favorable loss reserve development is a result of improvements in our claims settlement processes and the effect of declining inflation rates.

The change in estimate due to changes in exchange rates net of reinsurance of £274 million for the initial reserve established at the end of 1999 was mainly due to the strengthening of the U.S. dollar and Canadian dollar exchange rates against sterling.

Future reserve development may not necessarily benefit to the same extent given the continuing pressure on the cost of medical and personal injury claims worldwide and the anticipated trends in inflation rates. In addition, conditions and trends that have affected development of the liability for unpaid claims and LAE in the past will not necessarily recur in the future. Accordingly, it is not appropriate to extrapolate future redundancies or deficiencies based on the data in the above table.

In 2000, goodwill was increased by an amount that included £130 million as a fair value adjustment to the Orion acquired claims provisions for accident years 1997 to 1999. As this item is not a profit or loss account item for U.K. GAAP, it is shown as an adjustment to the deficiency for the year. For U.S. GAAP purposes, this item is reflected in the income statement. Loss reserve estimates are based on known facts and on interpretation of circumstances including our experience with similar cases and historical claims payment trends. We continually refine reserve estimates in a regular ongoing process as experience develops and further losses are reported and settled. The adjustment was based on an actuarial evaluation undertaken as part of this ongoing process in the fourth quarter of 2000. Claims handling and estimating procedures are

inevitably affected by integration activity following an acquisition and this increases uncertainty concerning the adequacy of loss reserves for a period.

A substantial proportion of our property and casualty business, principally personal automobile and household, is short tail and therefore losses are reported and settled relatively quickly. It can be seen from the loss development table, net of reinsurance, that by three years later over 50% of the total claims initially reserved are generally paid. Generally, by five years later the historical cumulative payment percentage is over 60% and by six years later it is approximately 70%.

Other than for the reinsurance arrangements with The Chubb Corporation described below, there have been no portfolio transfers significant enough to distort the reserve development tables. The tables presented include the run-off of acquired operations only for those periods subsequent to acquisition. Run-off on the claims reserves of Trygg-Hansa and Orion, both acquired in 1999, are reflected in the loss development tables for 2000 for the first time. A number of non-material acquisitions have been made in the periods covered by the development tables, none of which has significantly affected run-off.

The merger of Royal and Sun Alliance in 1996 did not bring about any material change in reserving methodology or require additional reserving other than as described below. Some refinement to process took place in the respective actuarial units but on the whole the methodologies used by the two companies produced reserve levels of a consistent strength. It was general practice in both Royal and Sun Alliance to run a variety of statistical techniques on each reserving population and to select the technique that best approximated the ultimate costs of settling the claim. The selection of method was driven by the nature of the product and the claims experience data available. Methods used included chain ladder, Bornhuetter-Ferguson and average cost per claim. We continue to run a variety of statistical methods on reserving populations. The selection of the actuarial technique adopted has been affected by the nature of the products selected by the Group post-merger, the availability of data following changes to reserving systems and the introduction of consistent case handling and reserving philosophies. We continue to refine both reserving population and method selection with the aim of improving reserving quality. The most significant methodology change after the merger was the use of consulting actuaries in 1999 to model pollution and asbestos risks on our inbound reinsurance book of business covering old U.S. risks. The impact of this review is discussed below.

A reinsurance arrangement between Sun Alliance in the United Kingdom and The Chubb Corporation in the United States was terminated with effect from January 1, 1997. The effect of the change to the reinsurance arrangement was to transfer a portfolio of £175 million of existing net assumed reserves to Chubb. This transfer had no effect on the reserve development redundancies/deficiencies.

In the years 1992 and 1993, both of our pre-merger predecessors experienced a period of particularly adverse operating results that, coupled with a downturn in the U.K. economy, required them to strengthen significantly their IBNR loss reserves. In 1993 in the United Kingdom, this amounted to approximately £275 million, with approximately £200 million added to IBNR for the domestic mortgage indemnity business and £75 million to the marine and inbound reinsurance IBNR. Subsequent changes to policy wordings and the discontinuance of particularly unprofitable lines of business has helped to return these lines of business to profitability.

During this period the only exceptional reserve strengthening, other than in 1993, took place in 1996 in respect of asbestos and environmental IBNR in the United States where we increased reserves by £117 million.

Other than for the issues discussed above, we have had no material reserve strengthening or releases, nor have we noted any exceptional trends in our claims development in the seven years preceding 2000. After adjusting for changes in exchange rates, we have had favorable loss reserve development in the more recent years as a result of selective underwriting, improvements in our claims settlement processes and the effects of declining inflation rates.

The loss development tables presented are on a U.K. GAAP basis. The trends reflected would be materially unchanged if these tables were presented on a U.S. GAAP basis, with the exception of the Orion goodwill adjustment of £130 million discussed above.

The table below reconciles, as of the dates indicated, the gross loss reserve information presented above to the reserves presented in our consolidated financial statements.

**CONSOLIDATED RECONCILIATION OF RESERVES FOR LOSSES AND LAE
(U.K. GAAP BASIS)**

| | As of December 31, | | |
|---|--------------------|---------------|---------------|
| | 2000 | 1999 | 1998 |
| | (£ in millions) | | |
| Net reserves for unpaid losses and LAE at beginning of year | 10,834 | 9,391 | 9,388 |
| Reinsurance recoveries/receivables for unpaid losses and LAE at beginning of year | <u>3,183</u> | <u>2,152</u> | <u>2,240</u> |
| Gross reserves for losses and LAE at beginning of year | <u>14,017</u> | <u>11,543</u> | <u>11,628</u> |
| Effect of changes in foreign exchange rates | <u>173</u> | <u>234</u> | <u>(147)</u> |
| Effect of claims portfolio transfer and acquisitions | <u>125</u> | <u>2,215</u> | <u>—</u> |
| Incurred related to: | | | |
| Current year | 8,241 | 6,799 | 6,309 |
| Prior years | <u>91</u> | <u>(137)</u> | <u>(217)</u> |
| Total incurred losses and LAE | <u>8,332</u> | <u>6,662</u> | <u>6,092</u> |
| Paid related to: | | | |
| Current year | 3,384 | 3,073 | 2,561 |
| Prior years | <u>4,795</u> | <u>3,564</u> | <u>3,469</u> |
| Total paid losses and LAE | <u>8,179</u> | <u>6,637</u> | <u>6,030</u> |
| Gross reserves for losses and LAE at end of year | <u>14,468</u> | 14,017 | 11,543 |
| Reinsurance recoverable | <u>3,476</u> | <u>3,183</u> | <u>2,152</u> |
| Net reserves for losses and LAE at end of year | <u>10,992</u> | <u>10,834</u> | <u>9,391</u> |
| Total incurred as a percentage of gross reserves | 59.4% | 57.7% | 52.4% |
| Current year incurred as a percentage of total incurred | 98.9% | 102.1% | 103.6% |
| Prior years incurred as a percentage of total incurred | 1.1% | (2.1)% | (3.6)% |
| Total paid as a percentage of net reserves | 75.5% | 70.7% | 64.2% |
| Current year paid as a percentage of total paid | 41.4% | 46.3% | 42.5% |
| Prior years paid as a percentage of total paid | 58.6% | 53.7% | 57.5% |

The acquisitions of Trygg-Hansa and Orion in 1999 have led to the significant increase in reserves. The increase in reserves for these operations has been reflected in the claims portfolio transfer and acquisitions line item on the table.

Included in the “effect of claims portfolio transfer and acquisitions” for 2000 is £130 million of additional goodwill arising from Orion which was acquired in 1999.

Reserves for Asbestos and Environmental Losses

The tables below present the changes in the historical asbestos and environmental reserves established by us for 1998 and subsequent accounting years.

ASBESTOS LOSS DEVELOPMENT TABLE—GROSS OF REINSURANCE (U.K. GAAP BASIS)

| | As of December 31, | | |
|--|--------------------|-------------|--------------------|
| | 1998 | 1999 | 2000 |
| | (£ in millions) | | |
| Initial net reserves for unpaid losses and LAE | 301.6 | 293.2 | 317.5 |
| Initial retroceded reserves | <u>75.7</u> | <u>44.9</u> | <u>43.0</u> |
| Initial gross reserves | 377.3 | 338.1 | 360.5 |
| Paid (cumulative) as of: | | | |
| One year later | 25.5 | 31.6 | |
| Two years later | 54.9 | | |
| Reserve re-estimated as of: | | | |
| One year later | 341.7 | 389.5 | |
| Two years later | 394.6 | | |
| Cumulative redundancy/(deficiency) | (17.3) | (51.4) | |

ASBESTOS LOSS DEVELOPMENT TABLE—NET OF REINSURANCE (U.K. GAAP BASIS)

| | As of December 31, | | |
|---|--------------------|--------|--------------|
| | 1998 | 1999 | 2000 |
| | (£ in millions) | | |
| Internal net reserves for unpaid losses and LAE | 301.6 | 293.2 | 317.5 |
| Paid (cumulative) as of: | | | |
| One year later | 23.1 | 26.5 | |
| Two years later | 47.4 | | |
| Reserve re-estimated as of: | | | |
| One year later | 298.9 | 341.5 | |
| Two years later | 349.5 | | |
| Cumulative redundancy/(deficiency) | (47.9) | (48.3) | |

**ENVIRONMENTAL LOSS DEVELOPMENT TABLE—GROSS OF REINSURANCE
(U.K. GAAP BASIS)**

| | As of December 31, | | |
|--|--------------------|-------------|--------------------|
| | 1998 | 1999 | 2000 |
| | (£ in millions) | | |
| Initial net reserves for unpaid losses and LAE | 301.3 | 317.1 | 272.0 |
| Initial retroceded reserves | <u>70.6</u> | <u>71.9</u> | <u>67.5</u> |
| Initial gross reserves | 371.9 | 389.0 | 339.5 |
| Paid (cumulative) as of: | | | |
| One year later | 36.9 | 60.8 | |
| Two years later | 94.5 | | |
| Reserve re-estimated as of: | | | |
| One year later | 397.0 | 398.0 | |
| Two years later | 406.5 | | |
| Cumulative redundancy/(deficiency) | (34.6) | (9.0) | |

**ENVIRONMENTAL LOSS DEVELOPMENT TABLE—NET OF REINSURANCE
(U.K. GAAP BASIS)**

| | As of December 31, | | |
|--|--------------------|-------|--------------|
| | 1998 | 1999 | 2000 |
| | (£ in millions) | | |
| Initial net reserves for unpaid losses and LAE | 301.3 | 317.1 | 272.0 |
| Paid (cumulative) as of: | | | |
| One year later | 27.9 | 55.4 | |
| Two years later | 80.6 | | |
| Reserve re-estimated as of: | | | |
| One year later | 318.9 | 325.6 | |
| Two years later | 326.8 | | |
| Cumulative redundancy/(deficiency) | (25.5) | (8.5) | |

We have exposure to liabilities for asbestos related and environmental pollution (“A&E”) losses arising from the sale of commercial liability and multi-peril policies prior to 1987. After 1987, policy wordings contained more prescriptive, and in many cases absolute, exclusions for these types of exposure thereby considerably reducing the potential for loss.

Coverages provided under which these liabilities have emerged were in most cases with smaller commercial customers and involved small policy aggregate limits and limits to coverage. We wrote a limited amount of excess coverage in the United States, most of which were excess policies on top of our own primary covers as opposed to primary policies written by other insurers. As a result, to a large extent, we were able to maintain underwriting and policy wording discipline. Excess policies are insurance policies which provide coverage in excess of the policy limits of another insurance policy, sometimes referred to as the primary policy. In other words, primary policies provide insurance coverage only to a defined limit of liability. Excess policies provide additional coverage beyond this liability limit.

Reserving for A&E claims is subject to a range of uncertainties that are generally greater than those presented by other types of claims. These include long reporting delays, unresolved legal issues on policy coverage and the identity of the insureds. As a consequence, traditional loss reserving techniques cannot wholly be relied on and we have employed specialized techniques to determine reserves in a prudent manner using the extensive knowledge of both internal A&E experts and external legal and professional advisors. Despite the uncertainties, management believes that reserves are adequate to cover both notified claims and losses yet to be reported. However, changes to existing legal interpretation or new legislation could adversely impact reserves and thus results in further periods.

Total net outstanding A&E claims reserves at the end of 2000 amounted to £590 million. Net A&E reserves have decreased from £610 million at the end of 1999, primarily as a result of the settlement of claims partially offset by adverse development on open claims. The A&E reserves are mainly in the United Kingdom and the United States (approximately £548 million), and to a lesser extent in Canada and Australia (approximately £42 million). Amounts recoverable from reinsurers as of December 31, 2000 amounted to £111 million. Unrecoverable amounts, which are not included in the above figure, are not significant and have been fully provided for.

Reserves for environmental liabilities include provision for IBNR claims. The Group has provided for IBNR claims based on modeling performed by both internal experts and external consulting actuaries.

As with other claims reserves, A&E reserves are subject to regular internal review and updating. It is our practice to periodically subject reserves to independent actuarial review and in 1996 following a comprehensive review by an independent actuarial consulting firm, A&E reserves in the United States were strengthened by £117 million and in the United Kingdom by £25 million. Our A&E reserves in the United States were reviewed by independent actuaries in 1999 and our overall level of claims reserves remains in the range indicated by the actuaries. Asbestos reserves on inbound reinsurance business in the United Kingdom were reviewed by consulting actuaries in 1999. Resulting from this and other reviews, we released gross reserves of £40 million. The net impact of this release after reinsurance was £6 million.

Over the past few years, our U.S. operation has been aggressively pursuing A&E claims settlements. This process has involved, where possible, legally enforceable settlement agreements to limit our liabilities. In 2000 the environmental claim payments were higher than 1999 mainly due to the settlement of one large claim for £20 million.

UNDERWRITING AND PRICING

Underwriting and Pricing

Disciplined underwriting, encompassing risk assessment, risk management, pricing and exposure control is critical to our success. To reinforce this position the Group has now appointed a Group Director of Underwriting to strengthen the application of prudent standards and further facilitate the transfer of knowledge around the world.

The Group's property and casualty underwriting policies identify the broad approach to be adopted in respect of risk selection and management, pricing adequacy, identification and management of aggregation to exposure and claims handling. These principles are adapted to local market, legal and regulatory environments and further embodied in detailed underwriting procedures. The goal is for our underwriters to be in a position to:

- ◆ understand and assess each risk;
- ◆ make appropriate decisions;
- ◆ differentiate between risks;
- ◆ apply suitable terms and conditions in order to manage the portfolio;
- ◆ control exposure; and
- ◆ improve the predictability of the loss experience and make appropriate use of our capacity.

In establishing prices, each of our businesses has access to extensive customer data from its own records and access to appropriate market data. We have an extensive range of underwriting practice teams and intranets which pool knowledge from across our operations on specific subjects and ensure that the full body of corporate knowledge is available to any one of our underwriters when they are presented with a risk which may be outside their immediate experience.

We have a world-wide Risk Review Committee. It is comprised of members from each of our disciplines and helps our businesses evaluate risk and risk exposure. Its task is to:

- ◆ provide an emerging risk identification process, including the identification of emerging issues and the setting of these into risk scenarios for consideration by the regions as part of an overall process of self appraisal;
- ◆ consider aggregation of risk across regions;
- ◆ assist Group Financial Control on issues identified through the process of self appraisal;
- ◆ maintain and develop the Group risk model; and
- ◆ monitor and report on the Group's approach to managing risks.

Pricing for property and casualty products is generally based upon historic claims frequencies and claims severity averages, adjusted for inflation and trended forward to recognize anticipated changes in claims patterns. While claims remain our principal cost, we also make allowance in the pricing procedures for acquisition expenses, administration expenses and reasonable profit. Pricing for our life insurance products is generally based upon the expected pay out of benefits calculated through the use of assumptions regarding mortality, morbidity, expense, persistency and investment returns as well as certain economic factors such as inflation. Pricing for our asset accumulation products varies depending upon the specific product but is generally based upon investment return, expenses and persistency.

Catastrophe Risk and Exposure Controls

Like other property and casualty insurers, we are exposed to multiple insured losses arising out of a single occurrence, whether a natural event such as a hurricane, flood or an earthquake, or another catastrophe such as an explosion or fire at a major industrial facility. Any such catastrophic event could generate insured

losses under one or more of our policies. Our largest single net catastrophe loss in recent years arose from Hurricane Georges in 1998, which produced pre-tax catastrophe losses, net of reinsurance, of £87 million. Catastrophic events in recent years have caused us, like other property and casualty insurers generally, to reevaluate the probability of certain types of catastrophic events and the potential losses resulting from geographic concentrations of risk, and to more frequently monitor our overall exposure.

The ability of our businesses in each territory to assess the aggregation risk of a single event impacting on thousands of policyholders is vital. We employ proprietary exposure measurement systems to assess these risks. In some markets, particularly in the United Kingdom, we have in addition developed our own expertise in catastrophe modeling that we use in conjunction with outside consultants. The accurate estimation of our potential expected maximum loss for a catastrophe is critical and is the primary factor we consider when we design our catastrophe reinsurance program.

We share expertise among the Group on catastrophe modeling through our Worldwide Reinsurance Practice Group that also provides us with an overview of our company-wide catastrophe exposures and reinsurance adequacy. We consider a reinsurance program to be “adequate” only if it covers at least 99 out of 100 possible events by loss size. We refer to this as the “1 in 100 year expected maximum loss”. In all cases we buy sufficient catastrophe reinsurance to provide for exposures beyond our expected maximum loss. From 1999, we set our total retention for a single catastrophic event based on geographic location. Our total retentions for a single event for 2001 are:

- ◆ £200 million total retention for an event in Europe, including the United Kingdom;
- ◆ £75 million for an event effecting our operations both in the United States and the Caribbean;
- ◆ £50 million total retention for an event in North America (including the combined cost of events effecting our Canadian or U.S. businesses);
- ◆ £25 million total retention for an event anywhere else in the world.

Our subsidiaries are responsible for buying reinsurance to protect their results against catastrophes and for determining their own retentions. However, the aggregate of the retentions set by all of our subsidiaries on their external catastrophe reinsurance programs for a single event falls within the Group totals set forth above.

The following table summarizes our estimated gross catastrophe exposures (measured by the total cost of claims before reinsurance) by geographic area for the periods indicated. These are calculated on an estimated maximum loss basis for a return period of at least 100 years.

| | Year Ended December 31, | | |
|-----------------------------------|----------------------------|------|------|
| | 2000 | 1999 | 1998 |
| | (£ millions) | | |
| United Kingdom | 917 | 825 | 985 |
| Canada | 231 | 195 | 250 |
| United States | 188 | 165 | 165 |
| Caribbean and Latin America | 208 | 180 | 175 |
| Australia | 276 | 176 | 213 |
| New Zealand | 225 | 225 | 198 |

Although the above represents the areas of our largest probable maximum loss exposures, we also regularly monitor our exposure in all markets in which we have property and casualty business, none of which currently represents an estimated gross maximum loss exposure in excess of £150 million, before reinsurance.

REINSURANCE

We reinsure a portion of the risks we underwrite to control our exposure to losses, stabilize earnings and protect surplus. Our reinsurance strategy is to purchase reinsurance in the most cost-effective manner from reinsurers who meet the security standards set by our Worldwide Group Office for all of our subsidiaries. Each of our insurance company subsidiaries is empowered to purchase the reinsurance that it deems appropriate for the insurance that it writes.

We have a captive reinsurer, Globe Reinsurance (IOM) Limited, that enables us to retain risk internally which we would otherwise cede to the external reinsurance market. In the interest of minimum volatility on our operating results, we have scaled back the activities of our captive in 2001 and more risk is now transferred externally.

We cede to reinsurers a portion of our risks and pay premiums based upon the risk and exposure of the policies subject to such reinsurance. Reinsurance recoveries are subject to collectability in all cases and to aggregate loss limits in certain cases. Although the reinsurer is liable to us to the extent of the reinsurance ceded, we remain primarily liable as the direct insurer on all risks reinsured. We hold collateral, including escrow funds and letters of credit, under certain reinsurance agreements. We monitor the financial condition of reinsurers on an ongoing basis, and review our reinsurance arrangements regularly.

In monitoring our reinsurance:

- ◆ We review the adequacy of our reinsurance arrangements with a view to ensuring that they reflect our maximum exposure in any of our insurance company subsidiaries. We use external modeling agencies to calculate our potential catastrophe exposures in addition to our own analyses.
- ◆ Our strategy is to seek reinsurers with the best combination of credit rating, price and capacity. We publish internally a list of authorized reinsurers who have passed our security review process. We carry out a review of the financial security of each of our reinsurers as well as noting the work of Rating Agencies.
- ◆ As a part of this review work, we look at the public ratings of our reinsurers. Reinsurers that have a public rating less than BBB with Standard & Poor's or comparable with A M Best are removed from our authorized list unless our own review discovers exceptional circumstances in favor of the reinsurer. Further, if a Rating Agency reduces a reinsurer's rating, we carry out our own review of that reinsurer to see whether it should remain on our list of authorized reinsurers.

Each of our primary reinsurers is rated A+ or higher by Standard & Poor's.

As of December 31, 2000, over 92% of our property and casualty treaty cessions by premium were with reinsurers rated A or higher. The table below sets forth the ratings assigned by Standard & Poor's to our primary property/casualty treaty reinsurers and the amounts ceded to them during the year ended December 31, 2000. Treaty cessions are the risks we pass to our reinsurers under treaty reinsurance agreements. This type of reinsurance is based on a predetermined portion or category of specified risks underwritten by the ceding company and automatically assumed by the reinsurer. For each reinsurance group to which we cede material total premiums, the table shows the ratings of all reinsurance companies in that reinsurance group with which we do business.

| <u>Reinsurance Group</u> | <u>2000 Ceded Treaty Premiums (£ in millions)</u> | <u>S&P Rating</u> |
|-------------------------------------|---|-----------------------|
| General Cologne Re | 58.4 | AAA |
| Swiss Re Group | 57.6 | AAA |
| Lloyd's of London | 47.6 | A+ |
| Munich Re Group | 45.1 | AAA |
| G E Capital | 28.9 | AAA |
| XL Group | 20.3 | AA |
| The St Paul Companies Inc | 18.5 | AA |
| AXA | 12.6 | AA |
| ACE Ltd. | 10.5 | A+ |
| Zurich Insurance Group | 9.6 | AA |

Our facultative placements, other than those with captive reinsurers of our major retail clients, are overwhelmingly with the same reinsurers as shown above. Facultative placements, or risks under facultative treaties, reinsure all or part of a single policy determined on a contract-by-contract basis.

We monitor the amounts due to and from each of our major reinsurers. As of December 31, 2000, we had a reinsurance recoverable with our two largest reinsurers, both with a Standard & Poor's rating of AAA, of approximately £450 million and £320 million. We aim to limit the impact of credit risk on claims due from captive reinsurers, with whom we deal as part of our commercial lines business, by analysis of their finances and controlling the maximum exposures of the captives.

We monitor changes in the financial security of reinsurers to see whether their ability to pay recoverables in full is doubtful. Where we believe a reinsurer's ability to pay in full is doubtful, our Worldwide Group Office sets guidelines for provisioning for uncollectable reinsurance. These guidelines apply to all operations. An operation setting provisions other than at the guideline level is required to notify our Worldwide Group Office of the reasons for doing so. This is so that, in setting guidance for future years, Worldwide Group Office is aware of locally available information. Worldwide Group Office analyzes local provisions versus our guidelines. As of December 31, 2000, total provisions for uncollectable reinsurance were £31.6 million.

Certain of our subsidiaries are members of government-mandated pools in various parts of the world. As of December 31, 2000 the largest pool (by premium volume) was Pool Re operated by the U.K. government to provide terrorism cover. Total premiums paid by our U.K. operations to Pool Re in 2000 were approximately £15.2 million.

REGULATION

General

Our insurance business is subject to detailed regulation in all the jurisdictions in which we transact business. In addition, European Union, or EU, directives have had and will have a significant impact on the regulation of the insurance industry in the EU as such directives are implemented through legislation adopted within each member state.

The 1992 EU insurance directives on direct life insurance and direct insurance other than life insurance were implemented in the United Kingdom and certain other jurisdictions through legislation, which became effective in July 1994. These directives are based on the “home country control” principle according to which the ongoing regulation of insurance companies, including their non-home insurance operations (whether direct or through branches) is the responsibility of the home country insurance regulatory authority. The home country insurance regulatory authority monitors compliance with applicable regulations, the solvency of the insurer and its actuarial liabilities and the supporting assets. As a result of the implementation of these directives, most insurance companies that have been licensed to conduct insurance business in one jurisdiction of the EU may do business directly or through branches in all other jurisdictions of the EU without being subject to licensing requirements under the laws of the additional jurisdictions. Selling activities of non-home insurance operations, however, are regulated by the regulatory authorities in the country in which the sale of the insurance product takes place.

Set forth below is a description of the principal regulations to which we and our principal insurance subsidiaries are subject.

United Kingdom

General

Insurance companies in the United Kingdom for both long term (life) and general (property and casualty) insurance are regulated principally by the Insurance Companies Act 1982 (the “1982 Act”) and various regulations promulgated thereunder and EU insurance directives. The principal objective of the U.K. insurance regulations is protection of the policyholder. Legislation has been enacted to ensure that there is much closer control over certain aspects of the operations of insurance companies than for non-financial services companies. Much of the legislation is based on EU directives, so that the legislative environment in the United Kingdom is similar to that in many other European Economic Area, or EEA, member states.

The current regulatory framework is complex with a number of different bodies potentially exerting regulatory influence over different aspects of an insurance company’s operations. There are basically two different types of regulation, which have an impact on insurance companies:

- ◆ *Prudential supervision.* The FSA (formerly called the Securities and Investments Board, or SIB) has general supervisory authority under the 1982 Act. The 1982 Act gives the FSA (under the auspices of Her Majesty’s Treasury (the “Treasury”)) wide-ranging powers for the authorization of insurance companies, on-going supervision, powers of intervention in the management of insurance companies and, ultimately the power to withdraw authorization or petition for the winding up of an insurance operation. Under powers granted under the 1982 Act, the Treasury is able to issue regulations from time to time, which deal primarily with the supervision of insurance companies.
- ◆ *Sales practices regulation.* Monitoring of retail selling practices and the business conduct of an insurance company carrying on investment business (which includes most long term (life) business) is the responsibility of the FSA under the power conferred by the Financial Services Act 1986. In practice, this is being carried out by the FSA, acting as agent for the relevant Self Regulatory Organizations, or SROs, namely the Personal Investment Authority, or PIA, and the Investment Management Regulatory Organization, or IMRO.

The FSA has assumed de facto responsibility for both the prudential and business conduct regulation of insurance companies effective January 1, 1999. There has been substantial consultation over various aspects of their intended approach.

The FSA will assume the regulatory and registration functions of the PIA, IMRO and the Treasury under the Financial Services and Markets Act 2000 (the "Act"), passed in June 2000. The Act is designed to replace all current U.K. regulatory legislation including the Financial Services Act 1986, the 1982 Act, the Policyholders Protection Act 1975 and secondary legislation governing the regulation of insurance companies. The FSA issued a number of consultative papers to gauge industry and consumer opinion on the rules that are likely to be implemented and, having taken such opinions into consideration, has issued final rules to cover a number of areas. There is no current intention for the sale of general (property and casualty) insurance products to be made subject to the kind of sales practices regulation which currently applies to investment business, although the FSA will have powers to intervene in the event of misleading promotions of these insurance products. General insurance products all come under the jurisdiction of the General Insurance Standards Council, however, consideration is being given to applying these sales practice regulations to mortgage related products. The FSA has stated that the Act will be implemented no later than the end of November 2001.

Company Regulation

All insurers (including non-U.K. concerns wishing to establish and operate an insurance subsidiary within the U.K.) must be authorized by the FSA which grants authorizations after consideration of the applicant's capital resources, proposed business plan, underwriting policies and reinsurance arrangements and the qualifications of its directors and management. Authorizations may include limitations, for example, on gross premiums written, investments and transactions with associated companies or as the FSA otherwise deems appropriate.

However, if the applicant is a direct insurer (or a branch of a direct insurer) that is already authorized to write insurance business in its home jurisdiction within the EU, then it need only comply with minimal notification formalities.

All U.K. authorized insurance companies must submit to the FSA annual returns and, in some cases, more frequent returns, together with audited annual financial statements. The FSA uses the annual return to monitor the solvency (ability to meet current and future claims payments to policyholders) of an insurance company, and, for general (property and casualty) business, to assess retrospectively the adequacy of the company's claim provisions. For a long term (life) insurance company, the FSA is also concerned that the company is able to meet policyholders' reasonable expectations. For long term (life) business, the appointed actuary must sign a certificate as to whether admissible assets are sufficient to cover the long term (life) business liabilities. In the event that a long term (life) insurance company is insolvent, the parent company cannot pay out dividends. The directors are also required to sign a certificate, which includes a statement as to whether the company has maintained the required minimum margin of solvency throughout the year, and whether there has been appropriate segregation of long term (life) business funds from other funds and operations of the business.

The FSA has the authority to direct that assets be put under the control of an approved trustee as well as to investigate a company's affairs at any time and to determine whether an individual is a fit and proper person to control or manage an insurance company.

Compensation Schemes

A potential annual assessment for the protection of individuals is imposed on all insurance companies (whether a U.K. or non-U.K. insurer) underwriting long term (life) and general (property and casualty) business in the United Kingdom to fund the Policyholders Protection Board, established under the Policyholders Protection Act 1975. The assessment is based on relevant net premium income with a maximum levy of 1.0% in any year. The funds collected by imposition of the assessment are used to provide compensation for individual policyholders in the event of insolvency of the insurance company. In practice,

the levies made on insurers in recent years have related to general (property and casualty) business. No levy has been imposed in the last four years. In 1996, a 0.25% levy was imposed.

The Investors' Compensation Scheme created under the Financial Services Act 1986 is a fund set up to provide compensation to customers of authorized firms, including long term (life) insurance companies in the event that the company goes into liquidation. A charge is made on all PIA members to finance this fund. A levy was announced in May 1997 in connection with the pension misselling review on long term (life) insurance companies which received personal pension business from independent financial advisers between July 1, 1988 and June 30, 1994. Since this date, further levies have arisen and are likely to continue until the pensions misselling review has been completed. This is scheduled for June 2002.

The FSA intends, under the Financial Services and Markets Act 2000, to integrate the above schemes under one compensatory scheme, together with other schemes applicable in the financial services area.

In addition, there is a Motor Insurers' Bureau, or MIB, scheme, which imposes a levy on all companies underwriting automobile business. The MIB is used to compensate victims of uninsured and untraced drivers. The levy is made annually and will in part depend upon the total amount that the MIB needs to raise to finance compensation during the year. The levy is calculated by reference to gross premiums written.

Consumer Complaints

The FSA, in November 1999, issued its second Consultation Paper ("CP33") on arrangements that should apply for handling consumer complaints under the new system of financial services regulation. The paper sets out detailed proposals relating to key aspects of the Financial Ombudsman Scheme (the "Scheme"), which will replace the eight existing dispute resolution mechanisms in the financial services area.

The statutory framework, the Scheme and the respective responsibilities of the FSA and the Scheme Operator, the separate company that will operate the Scheme, are set out in the Act.

The Scheme is expected to be the largest Ombudsman in the world with a budget of £20 million. At least 10,000 firms are expected to be subject to the Scheme's Compulsory Jurisdiction which will apply to FSA authorized firms only. The new Scheme will provide a free, simple, informed and accessible alternative to the courts. It will cover similar kinds of dispute to the existing schemes including, for example, complaints about misselling, unsuitable advice, unfair treatment, maladministration, misleading advertising, delay and poor service in relation to products or services provided by financial services firms.

The Scheme will comply with the criteria of Ombudsmen schemes set out by the British and Irish Ombudsman Association which are, independence from the industry, accessibility for complainants, fairness in its decision making and public accountability. The main change from the current schemes' arrangements will be that small business customers of insurers will be eligible to bring a complaint to the Scheme for the first time. Following consultation, small companies or partnerships will be those that have a called up share capital or net assets of less than £1 million.

Investments and Reserves

The FSA requires that adequate reserves be maintained for each class of business underwritten both in respect of reported claims and those incurred but not reported. While no specific regulations exist that dictate the types of investment that must support insurance liabilities, there are asset admissibility rules for purposes of measuring solvency. In addition, an insurance company must ensure that such funds are not depleted to a point where they are no longer sufficient to meet the required margin of solvency.

Solvency

U.K. minimum solvency requirements are in accordance with relevant EU legislation. The required solvency margin and the guarantee fund minimum are calculated using the ECU British pound exchange rate on October 31, each year. The October 31, 2000 ECU rate was £0.5809. For general (property and casualty)

insurers, the margin required is generally the larger of (a) 18% of the first 10,000,000 ECU of gross premiums for the year plus 16% of the remainder reduced by the ratio of gross reinsurance recoveries to gross claims paid during the last year (maximum reduction 50%), (b) 26% of the first 7,000,000 ECU of average gross claims for the past three years plus 23% of the remainder reduced by a reinsurance factor as under the premium basis, and (c) a fixed amount, referred to as the minimum guarantee fund, ranging from 200,000 ECU to 1,400,000 ECU depending on the class of business and, in the case of credit insurance business, the amount of premiums and contributions due in respect of that business.

For long term (life) insurers, the minimum solvency margin is assessed by a mathematical formula. However, the minimum guarantee fund must generally be at least 800,000 ECU should the formula produce a lesser figure.

The EU is in the process of a wholesale review of solvency margins. In 1998, the EU adopted a further directive on the supplementary supervision of insurance undertakings in insurance groups, which includes a requirement for insurers to include in their returns to the regulatory authorities a parent-undertaking solvency margin calculation. This takes into account not merely the net assets of the parent undertaking but also its share of the surplus assets of its related direct insurers and reinsurers and of intermediate insurance holding companies. The FSA is currently consulting on proposals to implement this directive in the United Kingdom, which is required to be adopted for financial years beginning on or after January 1, 2001. An enhancement of the percentages for certain classes of business is likely to result.

Auditing Requirements

The process of auditing an insurer's financial statements and part of the annual return is required to be carried out by a qualified and independent auditor who reports on the truth and fairness of the financial statements as presented. Under certain circumstances, the auditor may issue a qualified report. Failure to produce audited financial statements and the annual return as required by Treasury regulations may lead to the imposition of sanctions on the insurer.

Appointed Actuary

Under U.K. insurance legislation, each insurer carrying on long term (life) business must appoint an actuary who will prepare an annual report for the company's directors in relation to the company's long term (life) business quantifying the liabilities and confirming the solvency of the long term (life) business fund. The FSA must receive full details of the appointed actuary's report including the methods and assumptions adopted. The appointed actuary has a professional duty to be satisfied at all times as to the solvency of the insurance company's long term (life) fund and to report, with recommendations, on bonus rates and premium rates.

Supervision of Management and Control

No U.K. insurance company may appoint any person as managing director or chief executive without the FSA's prior approval, and no person may become a "controller" (as defined in the 1982 Act, but the term includes, broadly, all holding companies, and the managing directors, the chief executives of holding companies of those companies which are insurance companies and any other company or person holding more than 10% of the shares in an insurance company or one of its holding companies) of an insurance company without such approval. In addition, a person who is already a controller of an insurance company may generally not acquire a "notifiable holding" in the company unless the person has served on the FSA notice of its intention to acquire such a holding and the number of shares or details of the voting rights which it proposes to acquire. The term "notifiable holding" means voting rights or shares of the insurance company or of a corporation of which it is a subsidiary which, if acquired either alone or with any associates by any person that is already a controller of the insurance company, will result in its increasing its percentage holding to 10% or more, to 20% or more, to 33% or more or to 50% or will result in the insurance company becoming a subsidiary of that person.

Products

Only products that fall within the classes of business in respect of which an authorization is granted by the FSA may be underwritten. Applications to underwrite an additional class or classes of business will be considered by the FSA provided all regulatory requirements are fulfilled. Failure to write business in a class over a certain period of time may lead to the withdrawal of the authorization.

Marketing

There is minimal specific regulation of the marketing of general (property and casualty) insurance in the United Kingdom. The 1982 Act requires certain information to be disclosed to policyholders at the time or shortly after a policy is taken out and contains certain provisions regarding advertisements but these regulatory requirements are not onerous.

The marketing of most long term (life) insurance business (including pension business) falls within the definition of “investment business” for the purposes of the Financial Services Act 1986. Any authorized insurer which markets such products is obliged to ensure that its marketing activities comply with the provisions of that Act and, in particular, with rules made by the FSA or by any of the SROs to which the FSA has delegated its rule making authority. In the case of long term (life) insurance companies, the relevant SRO is currently the PIA. Becoming a member of PIA and thereby agreeing to comply with its rules gives long term (life) insurers the requisite authorization to market insurance products which also qualify as investment business.

So-called “polarization” rules mean that those advising on the sale of investment products must either act for a single insurance product provider or must be completely independent, such as an independent financial adviser. In either case, there is a duty to disclose the tied or independent status and to recommend to prospective policyholders only products that are suited to their needs. Regulations prohibit insurers from establishing a commission structure that may encourage the promotion of any particular product at the expense of customer requirements.

The FSA has recently announced its decisions to modify the concept of polarization effective March 29, 2001. The FSA has decided to amend the polarization rules in accordance with its proposals set out in CP80 except for CAT-standard ISAs which will, at the moment, remain with the current polarization regime. As a result, changes to polarization of stakeholder pensions and direct offer financial promotions will be made.

Training and Competence

U.K. self-regulatory authorities have imposed strict requirements with respect to training and selling methods in recent years. In particular PIA members must have a training program for their agents, who must demonstrate that they meet certain competence standards. This training program must meet PIA requirements. All sales people whether working for an independent financial adviser or for a direct product provider are now required to pass examinations in order to sell long term (life) insurance and pension products. In addition, long term (life) insurance companies are required to appoint a compliance officer whose responsibility is to ensure compliance with training and selling regulations. The compliance officer must report to a director of the company, unless the PIA agrees on an alternative approach. The costs of such training and oversight have increased insurers’ costs.

Regular inspections of members, known as periodic inspection visits, or PIVs, are carried out by the PIA. The PIA has the authority to discipline members. The PIA also has a complaints bureau, the Ombudsman, which is compulsory for all PIA members.

Disclosure Regulations

Detailed information is required to be disclosed to the customer at the time of sale about any investment product being purchased, in particular the projection of surrender and maturity values based on the insurer’s own charges and expenses, and commission to be paid or commission plus benefits and services to

be provided to the sales person as a reward for the introduction. The customer is also entitled to documents explaining key features of the contracts in non-technical language and to the right to cancel the contract within 14 days. These regulations exceed the disclosure standards mandated by EU directives.

Underwriting

At the end of 1996, regulations came into force restricting discrimination by insurers against applicants on the grounds of disability, unless the underwriting decision is based upon a reasonable application of information relevant to the assessment of the risk to be insured, and from a source upon which it is reasonable to rely.

The Association of British Insurers (“ABI”) has issued a Code of Practice for Genetic Testing which endorses a moratorium on insurers asking for any genetic information when people apply for mortgage related life insurance up to £100,000. The moratorium is reviewed annually and is currently applicable until December 2001. There are also strict statutory rules covering the confidential storage of and access to personal medical details.

The House of Commons Science & Technology Select Committee has recently published a report highly critical of the use of test results by the insurance industry, which the Government has backed. The ABI is initiating an urgent review, which may lead to a temporary moratorium on the use of test results on all business as a necessary measure to prevent a legislative ban which may be significantly less flexible in the future.

The Human Genetics Commission is also due to publish a report to Government in June on this topic.

New Regulatory Developments

A Labour government was elected in May 1997 with a manifesto including plans for significant changes to the regulatory structure governing financial services, income tax treatment of certain investment products, and pensions legislation. This resulted in the publication of the Act. The core of the new financial regulatory structure was created on October 28, 1997 when the SIB formally changed its name to the FSA.

Since then, the Bank of England has transferred its supervisory responsibilities to the FSA. The regulatory role currently discharged by the Treasury and the SROs will in due course be formally transferred to the FSA, when the Financial Services and Markets Act 2000 is brought into force which the FSA has indicated will be no later than the end of November 2001.

In February 2001, the FSA issued a Policy Statement relating to High Level Standards for Firms and Individuals. The Policy Statement explained adjustments made to previous consultation papers on:

- ◆ The Principles for Business;
- ◆ Senior management arrangements, systems and control;
- ◆ The Statements of Principle and Code of Practice for Approved Persons; and
- ◆ Fitness and Propriety.

These adjustments arose out of responses to related consultation papers including those on the Conduct of Business Sourcebook. These four modules form a substantial part of Block 1 of the FSA’s Handbook containing rules and guidance for member firms.

The Approved Persons regime will replace the current systems of SRO Individual Registration and the notification and vetting processes available to the statutory regulators (banking, insurance, building societies and friendly societies). In addition to Board directors of the various U.K. authorized firms, this will affect those senior managers who are currently individually registered under the PIA and IMRO requirements.

Under the Approved Persons regime, individual directors and senior managers within a U.K. authorized firm will have their own regulatory obligations and will have to abide by a Code of Practice. The Code of Practice includes seven “Statements of Principle for Approved Persons”—the first four apply to all

Approved Persons and the latter three are applicable only to those in significant influence controlled functions, such as directors and senior managers.

The Act states that the FSA may specify controlled functions only if one of the following three conditions is met:

1. The person carrying out the function is likely to be able to exert significant influence over the conduct of the firm, essentially directors and other senior management.
2. The person carrying out the function will be involved in dealing directly with customers, such as direct salesforce advisers.
3. The person carrying out the function will be involved in dealing with the property of customers, principally individuals who manage funds or act in a management capacity as custodians.

The FSA has specified twenty-seven functions for which persons will need to be approved. Of these, there are twenty “significant influence” functions covering those who direct and manage the affairs of a U.K. authorized firm. In addition, there are seven “customer” functions applying to investment advisers and fund managers.

Specific rules also apply in respect of temporary and emergency situations. If a “significant influence” controlled function is undertaken for more than twelve weeks in total in a consecutive twelve month period, the person performing it will need to be an Approved Person.

The FSA has also reviewed their proposals on outsourcing.

A review of current pensions legislation has resulted in government proposals for “stakeholder” pension legislation, which came into effect in April 2001. Such pensions are offered by existing product providers. These products are subject to low charges and allow individuals to make a very low level of contribution.

Apart from the new stakeholder pensions and a new defined contribution tax regime introduced in April 2001, the U.K. government is introducing a new Second State Pension which will replace the existing state funded earnings related schemes possibly in 2002. This is still at the consultation stage.

United States

General State Supervision

In the United States, our U.S. subsidiaries are authorized to transact the business of insurance in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. As licensed insurance companies, our U.S. subsidiaries are subject to considerable regulation and supervision by state insurance administrators. Each state has a chief insurance official (generally the commissioner or superintendent of insurance) and a staff (generally the department of insurance) to fulfill this regulatory mandate. The extent of regulation varies but generally has its source in statutes that delegate regulatory, supervisory and administrative authority to a department of insurance in each state. Among other things, state insurance commissioners regulate insurer solvency standards, insurer and agent licensing, authorized investments, premium rates, restrictions on the size of risks that may be insured under a single policy, loss and expense reserves and provisions for unearned premiums, deposits of securities for the benefit of policyholders, policy form approval and market conduct regulation, including the use of credit information in underwriting and other underwriting and claims practices. In addition, many states have enacted variations of competitive ratemaking laws, which allow insurers to set premium rates for certain classes of insurance without obtaining the prior approval of the state insurance department. State insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to the financial condition of companies and other matters.

Many states have insurance holding company laws which require notice to, and approval by, the state insurance commissioner for the declaration or payment of any dividend, which together with other

distributions made within the preceding twelve months, exceeds the lesser of (i) 10% of the insurer's surplus or (ii) the insurer's net income for the twelve-month period ending the preceding December 31, in each case determined in accordance with statutory accounting practices. Such declaration or payment is further limited by adjusted unassigned surplus, as determined in accordance with statutory accounting practices. These same holding company laws will in many instances require notice (at times on a prior approval basis) of certain intra-group transactions and agreements.

Virtually all states require licensed insurers to participate in various forms of guaranty associations in order to bear a portion of the loss suffered by certain insureds caused by the insolvency of other insurers. Depending upon state law, insurers can be assessed an amount that is generally equal to between 1% and 2% of the annual premiums written for the relevant lines of insurance in that state to pay the claims of an insolvent insurer. Most of these assessments are recoverable through premium rates, premium tax credits or policy surcharges. Significant increases in assessments could limit the ability of our insurance subsidiaries to recover such assessments through tax credits. In addition, there have been legislative efforts to limit or repeal the tax offset provisions, which efforts, to date, have been generally unsuccessful. These assessments may increase or decrease in the future depending upon the rate of insolvencies of insurance companies.

Our insurance subsidiaries are also required to participate in various involuntary assigned risk pools, principally involving workers' compensation and automobile insurance, which provide various insurance coverages to individuals or other entities that otherwise are unable to purchase such coverage in the voluntary market. Participation in these pools in most states is generally in proportion to voluntary writings of related lines of business in that state.

The impact of the 1999 Federal Services Modernization (Gramm-Leach-Bliley) Act upon our operations has been relatively modest. Thus far we have not seen any marketplace changes which have been propelled by this enactment that have had a material impact upon our business. In the area of privacy protection, the law, in conjunction with various state requirements, has imposed limitations upon our use of certain non public personal information that we have obtained from customers and potential customers. We have attained compliance with these privacy provisions in a fashion that has avoided any significant disruption of our operations.

Risk-Based Capital

In order to enhance the regulation of insurer solvency, a Risk Based Capital, or RBC, formula and model were adopted by the National Association of Insurance Commissioners, or NAIC. RBC is designed to assess minimum capital requirements and raise the level of protection that statutory surplus provides for policyholder obligations. The RBC formula for property and casualty insurance companies measures four major areas of risk: (i) underwriting, which encompasses the risk of adverse loss developments and inadequate pricing; (ii) declines in asset values arising from credit risk; (iii) declines in asset values arising from investment risks; and (iv) off-balance sheet risk arising from adverse experience from non-controlled assets, guarantees for affiliates or other contingent liabilities and reserve and premium growth. Pursuant to the law, insurers having less statutory surplus than that required by the RBC calculation will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy.

The RBC methodology provides for four levels of regulatory action. The extent of regulatory intervention and action increases as the level of surplus to RBC falls. The "Company Action Level" (as defined by the NAIC) requires an insurer to submit a plan of corrective actions to the regulator if surplus falls below 200% of the RBC amount. The "Regulatory Action Level" (as defined by the NAIC) requires an insurer to submit a plan containing corrective actions and permits the relevant insurance commissioner to perform an examination or other analysis and issue a corrective order if surplus falls below 150% of the RBC amount. The "Authorized Control Level" (as defined by the NAIC) allows the relevant insurance commissioner to rehabilitate or liquidate an insurer in addition to the aforementioned actions if surplus falls below 100% of the RBC amount. The "Mandatory Control Level" (as defined by the NAIC) requires the relevant insurance commissioner to rehabilitate or liquidate the insurer if surplus falls below 70% of the RBC amount.

The formulas have not been designed to differentiate among adequately capitalized companies that operate with higher levels of capital. Therefore, it is inappropriate and ineffective to use the formulas to rate or to rank such companies. Our U.S. subsidiaries have satisfied the RBC formula since it was created in the mid-1990s and have exceeded all recognized industry solvency standards. At December 31, 2000, all of our U.S. property and casualty insurance subsidiaries had adjusted capital in excess of amounts requiring company or regulatory action at any of the four levels.

NAIC Ratios

The NAIC Insurance Regulatory Information System, or IRIS, was developed to assist state regulators identify companies that may require special attention. The IRIS system consists of a statistical phase and an analytical phase whereby financial examiners review annual statutory basis statements and financial ratios. The statistical phase consists of eleven key financial ratios that are generated from the NAIC database annually; each ratio has an established “usual range” of results. These ratios assist state insurance departments in executing their statutory mandate to oversee the financial condition of insurance companies.

A ratio result falling outside the usual range of IRIS ratios is not considered a failing result; rather, unusual values are viewed as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. An insurance company may fall out of the usual range for one or more ratios because of specific transactions that are in themselves immaterial. Generally, an insurance company will become subject to regulatory scrutiny if it falls outside the usual ranges of four or more of the ratios. In normal years, 15% of the companies included in IRIS are expected by the NAIC to be outside the usual range on four or more ratios.

Based on statutory filings for the year ended December 31, 2000, several of the individual insurance companies within our U.S. operations generated ratios outside the usual range for four or more of the IRIS ratios. Different factors contributed to these ratios, in particular the loss reserve strengthening actions taken during 2000, and the fair value adjustments recorded in 1999 on the acquisition of Orion. We expect to receive enquiries from the NAIC and state insurance departments regarding those companies, and believe that our explanation and plans for realigning our intercompany reinsurance agreements, as described below, will be accepted as satisfactory explanations by the NAIC.

During 2000, our operations in the United States were conducted through 37 insurance companies which operate in four intercompany reinsurance or pooling arrangements, whereby each of the participants in the pool retains a specified percentage of the total insurance operations of the pool members. In addition, 9 of the 37 companies operate autonomously and do not participate in any of the pooling arrangements. During 2001, it is our intention to change the U.S. group’s overall intercompany reinsurance or pooling arrangement. We intend to combine the core operating companies into a single pool. We intend to retain certain other companies, which operate in the excess and surplus lines market or are focused on specific specialty products, independent from this arrangement, and will not have these companies participate in the pool. Companies which do not fall into one of these categories will be sold to realize the value of their insurance licences. The project will require the approval of many of the jurisdictions in which the companies operate, and the timing for completion of the project cannot be predicted with any accuracy.

Codification of Statutory Accounting Principles

The NAIC also developed the Codification of Statutory Accounting Principles (the “Codification”) for life insurers as well as property and casualty insurers effective January 1, 2001. Prior to implementation by our U.S. insurance subsidiaries, the Codification requires adoption by relevant domestic state insurance departments. In general, the states have adopted or have indicated an intent to adopt the Codification; however, it is anticipated that full implementation will vary from state to state. The NAIC’s goal in developing the Codification was to be surplus-neutral, and the Codification is not expected to have a material adverse impact; however, a detailed analysis by our U.S. insurance subsidiaries will be necessary to determine the actual impact of Codification on our statutory results of operations and financial positions.

Change of Control

Many state insurance laws intended primarily for the protection of policyholders require advance approval by state insurance commissioners of any change in control of an insurance company that is domiciled (or, in some cases, having such substantial business that it is deemed to be commercially domiciled) in that state. "Control" is generally presumed to exist through the ownership of 10% or more of the voting securities of a domestic insurance company or of any company that controls a domestic insurance company. In addition, many state insurance laws contain provisions that require prenotification to the insurance commissioners of a change in control of a non-domestic admitted insurance company in that state. Generally the states in which the insurer maintains a non-domestic license give significant regulatory deference to the company's state of domicile regarding a change in control. While these states could, under their own regulatory authority, exert greater scrutiny over a change in control of a non-domestic admitted insurance company, in practice they rarely do. Any future transactions that would constitute a change in control of our U.S. subsidiaries would generally require prior approval by the insurance departments of the insurance subsidiaries' states of domicile or commercial domicile and may require pre-acquisition notification in applicable states that have adopted pre-acquisition notification provisions.

Federal Initiatives

Although, with limited exceptions such as flood insurance, the U.S. federal government does not directly regulate the business of insurance, federal initiatives often have an impact on the insurance industry. Legislation has been introduced in Congress during the past several sessions that, if enacted, would result in substantially greater federal regulation of the insurance business. Current and proposed federal measures that may affect the property and casualty industry may include: possible changes to the tax laws governing property and casualty insurance companies; proposals regarding natural disaster protection and tort reform (including limits to product liability lawsuits).

Other Markets

Our insurance operations are also subject to regulation in the other markets in which we operate, including Canada, Australia, Denmark, Norway and Sweden.

Canada

The insurance market in Canada is regulated federally by the Office of the Superintendent of Financial Institutions, or OSFI, which reviews an insurance company's financial soundness and the scope of its business operations. OSFI derives its powers from, and is responsible for, administering the Insurance Companies Act (Canada), which sets out the rules for the structure and operation of federally incorporated insurance companies. The insurance market is also regulated provincially by ten separate provincial and three territorial governments as to the licensing of companies, agents and brokers, policy wordings and policyholder rights. In Canada, we are authorized to engage in insurance activities in all ten provinces and three territories.

Insurance companies in Canada provide information to OSFI on an ongoing basis. Such information includes both corporate and financial information such as copies of the annual report, signed and audited annual financial statements, annual financial returns, and various monthly, quarterly and annual financial information. OSFI's continuing supervision includes analysis of this information and regular examinations of insurance companies. Generally, OSFI's review focuses on capital, assets, management, earnings and liquidity, as well as reinsurance, actuarial liabilities and underwriting and increasingly on governance. OSFI assesses each of these areas and makes recommendations to the company with respect to any situations that may need improvement. Failure to maintain minimum capital levels may result in a directive to increase or take some other action to rectify any deficiency.

OSFI has moved to replace its measure of solvency, the Minimum Asset Test, with a more representative, risk based capital requirement, the Minimum Capital Test. The intention of the minimum capital requirements is to ensure that companies maintain adequate capital to cover risks associated with the types of assets and liabilities they hold. The expectation is that the new risk based capital requirements will

be reasonably neutral in terms of the level of capital required for the industry in aggregate. This test is to be submitted on a trial basis throughout 2001 with full compliance in 2002.

The Insurance Companies Act (Canada) imposes a number of requirements on a company's Appointed Actuary to report to the company's board of directors and to file regular reports with OSFI. In addition, OSFI has recently mandated that all insurers have Legislative Compliance Management Systems, or LCMS, regarding the Insurance Companies Act (Canada). The LCMS requirements are extensive and require a system evidencing compliance. OSFI has also issued a lengthy directive on the management of third party outsourcing arrangements, with which insurers must work towards full compliance starting in 2001.

Draft standards of Business and Financial Practice for property and casualty companies have recently been developed and these will be revised and implemented in the next year. Whilst these were developed using the life standards as a precedent, the amendments will follow the amended bank standards.

The federal government has also passed legislation for the protection of personal information. Insurance companies have a transition period of 3 years to comply.

Finally, OSFI has a number of policies and directives regarding the conduct of the life insurance business. Beginning in 1998, insurers are required to demonstrate compliance with the Standards of Sound Business and Financial Practices. This requires a company to identify all risks material to its business and any offsetting controls and to file statements of compliance. Wherever an insurer cannot demonstrate compliance, an action plan for moving into compliance has to be filed. OSFI assigns a ranking to the company that then requires OSFI to audit more extensively and perhaps more frequently. The *Inspecteur Generale* of Quebec adopted a similar policy and insurers are required to demonstrate compliance and file in Quebec as well.

Australia

Australian life insurers are subject to the Life Insurance Act, 1995 while Australian property and casualty insurers are regulated primarily by the Insurance Act, 1973. Workers' compensation and compulsory third party automobile insurance and trustee companies are separately regulated at the state level. Superannuation funds and investment management in Australia are regulated under the Superannuation Industry (Supervision) Act 1993 and the Corporations Law respectively. The Australian Prudential Regulation Authority, or APRA, is responsible for prudential regulation of insurance companies, superannuation funds, banks and other financial institutions. Consumer protection in the financial services industry generally and regulation of investment management are amongst the responsibilities of the Australian Securities and Investments Commission.

An Australian life insurance company is required to prepare financial statements in accordance with APRA's rules and to meet a solvency test and a capital adequacy test. Australian property and casualty insurers are required to meet a solvency test and prepare financial statements in accordance with Australian accounting standards. APRA is currently undertaking a review of the prudential guidelines for property and casualty insurers including discussion papers proposing the adoption of a risk based approach to capital adequacy. Superannuation fund and managed investment scheme trustees must file audited financial statements based on Australian accounting standards. The Group's Australian trustee company is required to prepare financial statements in accordance with state regulations.

Life insurance companies in Australia are required to establish and maintain in the records of the company at least one statutory fund that relates solely to the life insurance business of the company. Where a company writes policies providing investment-linked benefits to policyholders in Australia, that business must be maintained in a separate statutory fund that is exclusive to that business. Likewise, the business of overseas branches established after July 1, 1995, must be maintained in a separate statutory fund or funds. Pursuant to the Life Insurance Act, 1995, an insurance company must allocate at the end of each fiscal year the profits and losses of each of its statutory funds and credit such amounts to the fund's retained earnings accounts to be held for distribution to the fund's participating policyholders and the insurance company's shareholders. Distributions of a statutory fund's retained earnings must be made in accordance with the

requirements of the Life Insurance Act. The auditor and the appointed actuary of a life insurance company in Australia each have reporting obligations to directors and APRA relating to compliance with the Life Insurance Act, 1995 and protection of policyholder interests.

Product disclosure, advice and sales are currently regulated by a number of different specific statutes, codes and guidelines as well as general consumer protection legislation and common law. The Australian Government has current detailed proposals for the introduction of a single product disclosure, advice and sales regime for all financial products and services.

Acquisitions of substantial stakes in Australian insurance companies and businesses must be approved by one or more Australian Government authority.

The Australian federal government has introduced fundamental changes to the tax arrangements for life insurers. Under these changes, effective from July 1, 2000, the previous tax advantaged treatment of life insurers was removed. The changes introduced and supported by legislation have increased both the taxation burden of conducting a life insurance business as well as the shareholder's proportion of that burden.

The additional tax has a negative impact upon future profits thereby reducing the embedded value of companies carrying on the business of life insurance in Australia but the long term effect of this is yet to be fully measured in view of the effects of premium increases and treatment of various tax measures.

The second part of the government's announced reforms which were due to be implemented on July 1, 2001, will now be deferred until at least July 1, 2002. These reforms are related to the tax treatment of policyholders and will allow greater access to tax deductions and franking credits in respect of traditional endowment/investment type policies written as new business. In this regard, the impact on us is expected to be minimal.

Scandinavia

Denmark

Insurance companies in Denmark are subject to regulation under the Insurance Business Act, or IBA. Pursuant to the IBA, the Danish Insurance Supervisory Authority, or DISA, has authority to grant regulatory permission to provide insurance for one or more of the classes recognized by the EU directives on non-life (property and casualty) and life insurance. Insurance companies are entitled to engage in insurance and closely related businesses only. Non-life (property and casualty) and life insurance operations must be organized in independent legal entities.

Insurance operations report their annual accounts to the DISA. They also annually submit to the DISA a detailed financial report and key figures statement for their insurance operations. In addition, the external and internal auditors' long form audit reports relating to the annual accounts must be filed with the DISA. The detailed financial report and key figures statement allows the DISA to check the business on a class-by-class basis and review the continuity of the business and the adequacy of actuarially calculated reserves. The DISA is also entitled to ask for any additional information from the board, management, internal auditors and external auditors. Every four to five years, the DISA conducts a thorough on-site inspection of an insurance company and its business. The DISA may review other issues such as IT-security, Year 2000 problems, reinsurance adequacy and valuation of assets at any time between the general inspections.

The IBA and DISA also regulate how funds are to be invested to minimize risks to the company's policyholders. Assets corresponding to life insurance reserves are registered as available exclusively to cover those obligations.

Acquisitions of more than 10 percent of the shares of an insurance company, and the passing of additional 10 percent intervals, must be reported to, and are subject to the DISA's approval. This approval is based on the filing of a statutory information questionnaire to allow the DISA to determine that the shareholder is acceptable. Also, new directors and executive managers must present an information questionnaire and their criminal record certificate to allow the DISA to determine that they are fit and proper persons to be involved in running the business.

Norway and Sweden

The regulations and legislation in Norway and Sweden are similar to those described above for Denmark.

ORGANIZATIONAL STRUCTURE

The table below presents our significant subsidiaries as of June 26, 2001. Except as otherwise indicated, we own 100% of the ownership and voting interests in such subsidiaries.

| | <u>Principal activity</u> |
|--|---------------------------------|
| United Kingdom | |
| Royal Insurance Holdings plc | Holding company |
| Royal & Sun Alliance Insurance plc | Property and casualty insurance |
| British Aviation Insurance Company Ltd (57.1%) | Property and casualty insurance |
| FirstAssist Group Ltd. | Insurance services |
| The Globe Insurance Company Ltd. | Property and casualty insurance |
| Legal Protection Group Holdings Ltd. | Holding company |
| The London Assurance | Property and casualty insurance |
| The Marine Insurance Company Ltd. | Property and casualty insurance |
| Phoenix Assurance plc | Composite insurance |
| Royal International Insurance Holdings Ltd. | Property and casualty insurance |
| Royal & Sun Alliance Reinsurance Limited | Property and casualty insurance |
| Royal & Sun Alliance Property Services Ltd. | Real estate agencies |
| Royal & Sun Alliance Life & Pensions Ltd. | Life insurance |
| Royal & Sun Alliance Linked Insurances Limited | Life insurance |
| RSA E-Holdings Ltd. | Holding company |
| Sun Alliance and London Insurance plc | Property and casualty insurance |
| Sun Alliance and London Assurance Company Ltd. | Life insurance |
| Royal & Sun Alliance Life Holdings Ltd. | Holding company |
| Sun Insurance Office Ltd. | Property and casualty insurance |
| Argentina | |
| Royal & Sun Alliance Seguros (Argentina) SA . . | Property and casualty insurance |
| RSA Marketing (Latin America) SA | Property and casualty insurance |

| | | <u>Principal activity</u> |
|------------------|--|---------------------------------|
| Australia | Royal & Sun Alliance Australia Holdings Ltd. . . . | Holding company |
| | Royal & Sun Alliance Insurance Australia Ltd. . . | Property and casualty insurance |
| Bahamas | Royal & Sun Alliance Financial Services Limited | Life insurance |
| | Royal & Sun Alliance Insurance (Bahamas) Ltd (80.0%) | Property and casualty insurance |
| Brazil | Royal & Sun Alliance Seguros (Brasil) SA | Property and casualty insurance |
| Canada | Roins Financial Services Ltd. | Holding company |
| | Compagnie d'Assurance du Quebec (95.8%) | Property and casualty insurance |
| | The Johnson Corporation | Property and casualty insurance |
| | Royal & Sun Alliance Insurance Company of Canada | Property and casualty insurance |
| | Royal & Sun Alliance Life Insurance Company of Canada | Life insurance |
| | Western Assurance Company | Property and casualty insurance |
| Chile | Royal & Sun Alliance Seguros (Chile) SA (95.8%) | Property and casualty insurance |
| | Compañía de Seguros de Vida La Construcción (51.0%) | Life insurance |
| Colombia | Royal & Sun Alliance Seguros (Colombia) SA (86.3%) | Property and casualty insurance |
| | Royal & Sun Alliance Seguros de Vida (Colombia) SA (86.3%) | Life insurance |
| Denmark | Codan A/S (71.7%) | Holding company |
| | Codan Forsikring A/S (71.7%) | Property and casualty insurance |
| France | A/S Forsikringselskabet Codan Liv (71.7%) | Life insurance |
| | Royal & Sun Alliance SA | Property and casualty insurance |
| Germany | Securitas Bremer Allgemeine Versicherungs AG (99.9%) | Property and casualty insurance |
| | Securitas-Gilde Lebensversicherung AG (99.8%) | Life insurance |
| Guernsey | Insurance Corporation of Channel Islands Ltd. . . . | Property and casualty insurance |
| Hong Kong | Royal & Sun Alliance Insurance (Hong Kong) Ltd. | Property and casualty insurance |

| | | <u>Principal activity</u> |
|-----------------------------|--|---------------------------------|
| Ireland | Royal & Sun Alliance Eurolife Ltd. | Life insurance |
| Isle of Man | Royal & Sun Alliance International Financial Services Ltd. | Life insurance |
| | Tower Insurance Company Ltd. | Property and casualty insurance |
| Netherlands | Royal & SunAlliance Schadeverzekering NV | Property and casualty insurance |
| | Royal & SunAlliance Levensverzekering NV | Life insurance |
| Netherlands Antilles | Royal & Sun Alliance Insurance (Antilles) NV (51.0%) | Property and casualty insurance |
| New Zealand | Royal & Sun Alliance Insurance (New Zealand) Ltd. | Property and casualty insurance |
| | Royal & Sun Alliance Life & Disability (New Zealand) Ltd. | Life insurance |
| Peru | Compania de Seguros La Fenix Peruana (64.9%) | Property and casualty insurance |
| Puerto Rico | Royal & Sun Alliance Insurance (Puerto Rico) Inc (94.3%) | Property and casualty insurance |
| Saudi Arabia | Royal & Sun Alliance Insurance (Middle East) Limited E.C. (50.01%) | Property and casualty insurance |
| Singapore | Royal & Sun Alliance Insurance (Singapore) Ltd. | Property and casualty insurance |
| Spain | Regal Insurance Club Compañía Española de Seguros SA | Property and casualty insurance |
| | Royal & Sun Alliance SA (99.9%) | Property and casualty insurance |
| | Royal & Sun Alliance Vida y Pensiones SA (99.9%) | Life insurance |
| Sweden | Holmia Försäkring AB (71.7%) | Property and casualty insurance |
| | Trygg-Hansa Försäkrings AB, Publikt (71.7%) . . . | Property and casualty insurance |

| | | <u>Principal activity</u> |
|---------------------------------|--|------------------------------------|
| United States of America | Royal & Sun Alliance USA, Inc. | Holding company |
| | Royal Indemnity Company | Property and casualty insurance |
| | Royal Insurance Company of America | Property and casualty insurance |
| | Orion Capital Corporation | Holding company |
| | Security Insurance Company of Hartford | Property and casualty insurance |
| | Guaranty National Insurance Company | Property and casualty insurance |
| Uruguay | Royal & Sun Alliance Seguros (Uruguay) SA ... | Property and casualty insurance |
| Venezuela | Royal & Sun Alliance Seguros (Venezuela) SA (99.4%) | Property and casualty insurance |

DESCRIPTION OF PROPERTY

Our global headquarters is located at 30 Berkeley Square, London, England. We also have the following regional headquarters:

- ◆ Our U.K. region has its headquarters in London, Liverpool and Horsham, England;
- ◆ Our Europe region has its headquarters in London, England and Copenhagen, Denmark;
- ◆ Our Americas region has its headquarters in Charlotte, North Carolina; and
- ◆ Our Asia Pacific region has its headquarters in Singapore and Sydney, Australia.

In addition to our headquarter offices, we have major offices in Liverpool and Horsham, England; Toronto, Canada; Copenhagen, Denmark; and Sydney, Australia. We own or lease office space in about 50 countries around the world. We believe that these facilities are adequate for our present needs in all material respects. We also hold other properties for investment purposes.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Amendment No. 1 on its behalf.

Royal & Sun Alliance Insurance Group plc

By: /s/ Julian Hance

Name: Julian Hance

Title: Group Finance Director

Dated: July 20, 2001