Company Number 93792

ROYAL & SUN ALLIANCE INSURANCE PLC

DIRECTORS' REPORT & ACCOUNTS
For the year ended 31 December 2004

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DIRECTORS

Directors

Mr D M Boyle

Mr M G Culmer

Mr A K Haste

Mr A P Latham

Secretary

Ms J E Fox

Registered office

St Mark's Court, Chart Way, Horsham, West Sussex RH12 1XL, England

DIRECTORS' REPORT

The directors of Royal & Sun Alliance Insurance plc present their report and the audited financial statements of the Company for the year ended 31 December 2004.

PRINCIPAL ACTIVITY

The principal activity of the Company, its subsidiaries and overseas branches is the transaction of insurance and related financial services in the United Kingdom and overseas.

REVIEW OF THE YEAR AND FUTURE DEVELOPMENTS

The Group made a profit on ordinary activities before exceptional items and tax of **£357m** (2003 £389m). The improvement in the underlying underwriting result was after total year prior year items of **£255m** (2003 £665m).

DIVIDENDS

There was a profit attributable to the shareholders, after taxation, for the year of **£34m** (2003 loss of £9m).

The directors approved payment of a dividend of **£100m** to shareholders on the register of members at the close of business on 29 July 2004. After dividends, the transfer from retained profits was **£66m** (2003 £249m).

DIRECTORS AND THEIR INTERESTS

The names of the current directors are listed on page 2. D M Boyle, M G Culmer and A P Latham were appointed as directors of the Company on 17 March 2004, 19 May 2004 and 16 November 2004 respectively. J C Hance, R O Hudson and I D Hutchinson resigned as directors on 2 April 2004, 30 July 2004 and 28 September 2004 respectively. The other directors whose names appear on page 2 held office throughout the year. None of the directors had any interests in the shares of the Company.

The interests in the ordinary shares of Royal & Sun Alliance Insurance Group plc of M G Culmer and A K Haste, who were also directors of that company during the year, and further information on their remuneration, is disclosed in the report and accounts of Royal & Sun Alliance Insurance Group plc.

The interests in the ordinary shares of Royal & Sun Alliance Insurance Group plc of D M Boyle and A P Latham are as follows:

	Ordinary shares held at 1 January 2004 (or on appointment) (note 1)	Ordinary shares acquired	Ordinary shares disposed	Ordinary shares held at 31 December 2004 (note 1)
D M Boyle	14,634	–	–	14,634
A P Latham	8,652	–	–	8,652

Notes:

1. Ordinary shares of 27.5p each.

In addition to the interests shown above, D M Boyle and A P Latham had a beneficial interest, as at 31 December 2004, in **12,369,290** (2003 12,371,801) shares of 27.5p each in Royal & Sun Alliance Insurance Group plc held in the Royal & Sun Alliance ESOP Trust and all directors had a beneficial interest, as at 31 December 2004, in **3,038,984** (2003 3,038,984) shares of 27.5p each in Royal & Sun Alliance Insurance Group plc held in the Royal & Sun Alliance ESOP Trust No. 2. All employees of the Group have a beneficial interest in the shares held in these trusts with the exception of the executive directors of Royal & Sun Alliance Insurance Group plc who are excluded from the beneficiaries of the Royal & Sun Alliance ESOP Trust.

The interests in options to subscribe for ordinary shares of Royal & Sun Alliance Insurance Group plc of D M Boyle and A P Latham are as follows:

	Held at 1 January 2004 (or on appointment)	Granted	Lapsed	Held at 31 December 2004
D M Boyle	487,310	232,345	(5,770)	713,885
A P Latham	421,887	63,158	–	485,045

No options were exercised during the year.

Long-term incentive scheme interests held during 2004 in respect of the ordinary shares of Royal & Sun Alliance Insurance Group plc as a result of Share Matching Plan awards are as follows:

		Share awards held at 1 January 2004 or on appointment	Share awards granted	Share awards exercised	Share awards lapsed	Share awards held at 31 December 2004
D M Boyle	Deferred share awards	–	100,493	–	–	100,493
	Matching share awards	–	301,479	–	–	301,479
A P Latham	Deferred share awards	40,619	–	–	–	40,619
	Matching share awards	121,857	–	–	–	121,857

Details of the Share Matching Plan are contained in the Report and Accounts of Royal & Sun Alliance Insurance Group plc.

EMPLOYMENT POLICY

The Company's employment policies reflect our belief in achieving competitive advantage in product design and service excellence through the quality, diversity, skills, motivation and commitment of employees at all levels in the organisation.

Business Units subscribe to an Equal Opportunity and Diversity Policy which involves treating all employees fairly, accepting and valuing differences, communicating clear objectives and operating recruitment, training, pay and incentive programmes free of gender bias and other forms of stereotyping. Particular attention is paid to risk assessment, the health, safety and security of employees and the accommodation of people with impaired vision, hearing or mobility.

The Company is constantly updating its skill development programmes, making increased use of technology to aid delivery, as well as its procedures for identifying and developing exceptionally talented employees and candidates for succession to executive positions in each of its operations.

We recognise the vital role in maintaining the commitment of employees of clear communication and consultation. A wide range of media is used including Intranet, house magazines and regular management meetings and team briefings. The Company attaches considerable importance to fostering a constructive relationship with independent Trade Unions wherever they are recognised, ensuring regular dialogue on business issues and early discussion and consultation on changes affecting the workforce. An annual employee survey is conducted to measure organisational effectiveness and the impact of employment policies.

The Company actively encourages employees to become involved and to support their local communities, both through the recognition of charitable efforts or fundraising by individual employees or teams and formal partnerships or corporate sponsorships.

SUPPLIER PAYMENT POLICY

It is the Company's policy to agree appropriate terms and conditions in advance with its suppliers and to make payment in accordance with those terms and conditions, provided that the supplier has complied with them. In most cases, agreements for the supply of goods or services are made under standard terms of contract that lay down payment terms. In the United Kingdom these are available on request from UK Purchasing, Leadenhall Court, 1 Leadenhall Street, London EC3V 1PP.

The Company's outstanding indebtedness to trade creditors on 31 December 2004 amounted to **£5,515,227** corresponding to four days payment when averaged over the year.

AUDITORS

PricewaterhouseCoopers LLP have confirmed their willingness to continue in office as auditors of the Company and a resolution for their reappointment will be proposed at the Annual General Meeting.

By order of the directors

Andy Haste
Director

London, 24 March 2005

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The directors are required to ensure that adequate accounting records are maintained so as to disclose, at any time and with reasonable accuracy, the financial position of the Group. They are also responsible for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

They must present financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing such financial statements, they are required to:

- select suitable accounting policies and apply them on a consistent basis using reasonable and prudent judgement;
- state whether or not applicable accounting standards have been followed and explain any material departures; and
- use the going concern basis unless it is inappropriate to do so.

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

We have audited the financial statements which comprise the Consolidated Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Movements in Shareholders' Funds, the Consolidated Balance Sheet, the Parent Company Balance Sheet and the related notes including the Accounting Policies, Estimation Techniques, Uncertainties and Contingencies, Segmental Information, the statements of Principal Subsidiary Companies and the Principal Associated Undertakings and Other Significant Shareholdings which have been prepared in accordance with the Accounting Policies.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report.

BASIS OF AUDIT OPINION

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

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

EQUALISATION RESERVES

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amount set aside at 31 December 2004, and the effect of the movement in those reserves during the year on the General Business Technical Account and profit on ordinary activities before tax, are disclosed in note 9.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2004 and of the results of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southwark Towers, London, 4 March 2005

ACCOUNTING POLICIES

FINANCIAL STATEMENTS

The financial statements are prepared in accordance with applicable UK accounting standards and the Statement of Recommended Practice (SORP) issued by the Association of British Insurers in November 2003. As noted in the investment accounting policy the true and fair override has been adopted in respect of the valuation of the Group's investment properties and no depreciation is provided.

GROUP ACCOUNTS

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

The Consolidated Profit and Loss Account and Consolidated Balance Sheet are drawn up in accordance with the provisions of section 255A of, and schedule 9A to, the Companies Act 1985. The Parent Company Balance Sheet is drawn up in compliance with the provisions of section 255 of, and schedule 9A to, the Companies Act 1985. As permitted by section 230 of the Companies Act 1985, the Parent Company Profit and Loss Account has not been included in these financial statements.

Subsidiaries acquired during the year are consolidated from the effective date of acquisition.

Principal associated undertakings are accounted for by the equity method in the consolidated financial statements. The figures included for interests in principal associated undertakings are for the accounting periods indicated in the list of Principal Associated Undertakings and Other Significant Shareholdings.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities and results of both businesses and associates denominated in foreign currencies are translated into sterling at rates ruling at the year end and the resulting differences are taken to reserves or in the case of long term business are included within the Long Term Business Technical Account. Transactions denominated in foreign currencies are translated at the prevailing rate at the date of the transaction and the resulting exchange differences are included within the Profit and Loss Account.

DERIVATIVES

Interest rate swaps are treated as hedges. The interest payable or receivable on interest rate swaps is included in interest paid. Other derivatives are included within the category to which the contract relates and are valued at market value.

GENERAL BUSINESS TECHNICAL ACCOUNT

General business is accounted for on an annual basis. Premiums written are accounted for in the year in which the contract is entered into and include estimates where the amounts are not determined at the balance sheet date. Premiums written exclude taxes and duties levied on premiums. The commission and other acquisition costs incurred in writing the business are deferred and amortised over the period in which the related premiums are earned.

Claims paid represent all payments made during the period whether arising from events during that or earlier periods.

The balance on the General Business Technical Account is arrived at after taking account of changes in the equalisation provisions.

LONG TERM BUSINESS TECHNICAL ACCOUNT

Premiums and annuity considerations are accounted for when due except premiums in respect of linked business which are accounted for when the policy liabilities are created. Single premiums are those relating to products issued by the Group where there is a contractual obligation for the payment of only one premium. Annual premiums are those where there is a contractual obligation for the payment of premium on a regular basis. Claims arising on maturity are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or the date at which the policy ceases to be included in the long term business provision or the technical provisions for linked liabilities.

Acquisition costs comprise direct and indirect costs of obtaining and processing new business. These costs are deferred as an explicit deferred acquisition cost asset, gross of tax relief and amortised over the period in which they are expected to be recovered out of margins in matching revenues from related policies. At the end of each accounting period, deferred acquisition costs are reviewed for recoverability by category, against future margins from the related policies in force at the balance sheet date.

The profits on long term insurance business represent the transfer from the long term funds to shareholders following the actuarial valuation of liabilities, and the movements in certain reserves attributable to shareholders held within the long term funds. Profits are shown in the Non-Technical Account grossed up for tax at the effective rate of corporation tax applicable in the period. For business transacted overseas, results have been included in accordance with local generally accepted accounting principles where they are consistent with UK practice.

New business premiums are recognised when the policy liability is established. New single premiums include recurrent single premium contracts including DSS rebates and increments under group pension schemes. Where products are substituted by the policyholder or pension contracts are vested, these transactions are reflected as new business only to the extent that they give rise to incremental premiums.

Reversionary bonuses are recognised when declared; terminal bonuses are recognised when payable.

Shareholders' accrued interest for long term business represents the excess of accumulated profit recognised under the modified statutory basis of reporting over the statutory transfers made from the long term funds to shareholders. The amount of profit recognised as shareholders' accrued interest is credited to the Profit and Loss Account within capital and reserves.

INVESTMENT RETURN

Income from investments is included in the Profit and Loss Account on an accruals basis. Dividend income on ordinary shares is recognised when the related investment goes 'ex dividend'. Realised and unrealised gains and losses on investments attributable to long term business are dealt with in the Long Term Business Technical Account. Realised and unrealised gains and losses on other investments, including the Group's share of realised and unrealised gains and losses of associated undertakings, are dealt with in the Non-Technical Account. Realised gains and losses on investment disposals represent the difference between net sale proceeds and cost of acquisition. Unrealised gains and losses on investments represent the difference between the carrying value at the year end and the carrying value at the previous year end or, in the case of investments purchased in the year, the cost of acquisition.

TAXATION

Taxation in the Non-Technical Account and Long Term Business Technical Account is based on profits and income for the year as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior years. UK tax in respect of overseas subsidiaries and principal associated undertakings is based on dividends received. Taxation in the Non-Technical Account includes the tax by which the balance on the Long Term Business Technical Account has been grossed up.

Deferred tax is provided in full and consists of the estimated taxation or relief from taxation which is expected to arise from material timing differences using rates based on tax rates and laws that have been substantively enacted by the balance sheet date. Provision is made for taxation which might arise on the distribution of profits retained by overseas subsidiaries or associated undertakings only to the extent that dividends have been accrued as receivable. Credit is taken for relief for trading and other losses only to the extent that the directors anticipate that suitable profits will absorb such losses in future periods.

Deferred tax balances that derive from undiscounted cash flows and for which the impact of discounting is material have been discounted using appropriate rates.

GOODWILL

Goodwill, being the difference between the cost of an acquisition and the fair value of the net tangible assets acquired, arising on the acquisition of subsidiary companies and associated undertakings, is capitalised in the balance sheet and amortised to the Profit and Loss Account on a straight line basis. The cost of acquisition is the amount of cash paid and the fair value of other purchase consideration given together with associated expenses. The period of amortisation, which does not exceed 20 years, is determined by an assessment of the useful economic life of the goodwill, this being the period over which the value of the businesses acquired are expected to exceed the value of their underlying assets. Goodwill arising prior to 31 December 1997 has been eliminated against reserves in accordance with the Group accounting policy at the date of acquisition.

In the event of the disposal of a business acquired prior to this date, the related goodwill is charged to the Profit and Loss Account in the year of sale.

Goodwill is reviewed for impairment at the end of the first full year following an acquisition and when events or changes in circumstances indicate that the carrying amount may not be recoverable.

The present value of the shareholders' interest in the acquired value of in force long term business is included as part of the fair value of the acquired net tangible assets in the goodwill calculation and is dealt with as described below.

The fair value of general business claims provisions relating to businesses acquired is established after making allowance for future investment income. The discount, being the difference between the fair value and the undiscounted value at which they are accounted for on consolidation, is capitalised as goodwill in acquired claims provisions and amortised to the Profit and Loss Account over the expected run off period of the related claims.

INVESTMENTS

Investments and assets held to cover linked liabilities are shown at market value, for which purpose unlisted investments, mortgages and loans are included at directors' valuation and properties at professional valuation. For listed securities the stock exchange values are used except that fixed income securities held for long term business in certain overseas operations are included on an amortised cost basis. Properties are valued annually at open market value.

The Companies Act requires properties to be depreciated over their expected useful economic lives. The directors consider that depreciation of investment properties would not give a true and fair view. In accordance with Statement of Standard Accounting Practice 19 'Accounting for Investment Properties', no depreciation is provided on these properties on the basis that depreciation is already reflected in the annual valuations. The amounts attributed to this factor by the valuers cannot reasonably be separately identified or quantified.

It is the Group's practice to maintain properties occupied by the Group in a continual state of sound repair. Accordingly the directors consider that the economic lives of these properties and their residual values, based on prices prevailing at the time of acquisition or subsequent valuation, are such that any depreciation is insignificant and is thus not provided.

Investments in subsidiaries are included in the Parent Company Balance Sheet at net asset value and unrealised gains and losses are dealt with in the revaluation reserve.

ACQUIRED VALUE OF LONG TERM BUSINESS

This represents the value of the shareholders' investment in the long term business not already recognised under the modified statutory principles of profit recognition at the date of acquisition less amounts charged to the Profit and Loss Account.

The present value of in force long term business existing at acquisition is amortised in the Long Term Business Technical Account on a systematic basis over the anticipated periods of the related contracts in the portfolios as the profit on these acquired contracts is recognised.

TANGIBLE ASSETS AND DEPRECIATION

Tangible assets, other than land and buildings in the Parent Company Balance Sheet, comprise fixtures, fittings and equipment (including computers and motor vehicles) which are stated at cost and depreciated over periods not exceeding their estimated useful lives (between three and ten years) after taking into account residual value.

FUND FOR FUTURE APPROPRIATIONS

Certain long term funds comprise either participating, or both participating and non participating long term business contracts, where policyholders have a contingent interest in the excess of assets over liabilities in the fund. Accordingly the excess of assets over liabilities within these funds is not allocated between policyholders and shareholders and is taken to the fund for future appropriations.

TECHNICAL PROVISIONS

The provision for unearned premiums in respect of general business represents the proportion of premiums written relating to periods of insurance subsequent to the balance sheet date, calculated principally on a daily pro rata basis.

The provision for claims outstanding, whether reported or not, comprises the estimated cost of claims incurred but not settled at the balance sheet date. It includes related expenses and a deduction for the expected value of salvage and other recoveries. The provision is determined using the best information available of claims settlement patterns, forecast inflation and settlement of claims.

General business provisions for claims outstanding, and related reinsurance recoveries, are discounted where there is a particularly long period from incident to claims settlement and where there exists a suitable claims payment pattern from which to calculate the discount. In defining those claims with a long period from incident to claims settlement, those categories of claims where the average period of settlement is six years or more from the balance sheet date, has been used as a guide.

Claims provisions relating to long term permanent disability claims in the US, Canada and Scandinavia are determined using recognised actuarial methods.

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

Provision is made, based on information available at the balance sheet date, for any estimated future underwriting losses relating to unexpired risks after taking into account future investment income on relevant technical provisions. The unexpired risk provision is assessed in aggregate for business classes which, in the opinion of the directors, are managed together.

The long term business provision is derived from actuarial valuation. For with profits business, the calculation includes explicit allowance for vested bonuses (including those vesting following valuation at the balance sheet date). No explicit provision is made for future reversionary or terminal bonuses except on certain accumulating with profits contracts.

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

The technical provisions for linked liabilities are the repurchase value of units allocated to in force policies including any liability in respect of deferred tax at the balance sheet date, where the policy benefits are wholly or partly related to investments of any description or to indices of the value of investments.

OPERATING LEASES

Payments made under operating leases are charged on a straight line basis over the term of the lease.

PENSION COSTS

The Group operates a number of defined benefit pension schemes for its employees. The cost of providing these pension benefits is accounted for over the employees' working lives on a systematic basis as advised by qualified actuaries. The effects of variations from regular cost are spread over the expected remaining service lives of members of the schemes. Contributions to defined contribution pension plans are charged as they become payable.

ESTIMATION TECHNIQUES, UNCERTAINTIES AND CONTINGENCIES

INTRODUCTION

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks.

The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The uncertainty in the financial statements principally arises in respect of the technical provisions of the company.

The technical provisions include the provision for unearned premiums and unexpired risks, the provision for outstanding claims and the long term business provision. The provisions for unearned premiums and unexpired risks represent the amount of income set aside by the company to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the balance sheet date. The provision for outstanding claims represents the company's estimate of the cost of settlement of claims that have occurred by the balance sheet date but have not yet been finally settled.

In addition to the inherent uncertainty of having to make provision for future events, there is also considerable uncertainty as regards the eventual outcome of the claims that have occurred by the balance sheet date but remain unsettled. This includes claims that may have occurred but have not yet been notified to the company and those that are not yet apparent to the insured.

As a consequence of this uncertainty, the insurance company needs to apply sophisticated estimation techniques to determine the appropriate provisions.

ESTIMATION TECHNIQUES

In general business, claims and unexpired risks provisions are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions and economic conditions.

The Group employs a variety of statistical techniques and a number of different bases to determine these provisions. These include methods based upon the following:

- the development of previously settled claims, where payments to date are extrapolated for each prior year;
- estimates based upon a projection of claims numbers and average cost;
- notified claims development, where notified claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected loss ratios.

In addition, the Group uses other methods such as the Bornhuetter-Ferguson method, which combines features of the above methods. The Group also uses bespoke methods for specialist classes of business.

Large claims impacting each relevant business class are generally assessed separately, being measured either at the face value of the loss adjusters' estimates or projected separately in order to allow for the future development of large claims.

Where possible the Group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

The general business claims provisions are subject to close scrutiny both within our business units and at Group Corporate Centre. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisors who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. As an example, the Group's exposure to asbestos and environmental pollution is examined at least triennially on this basis. The results of these reviews are considered when establishing the appropriate levels of provisions for outstanding claims and unexpired periods of risk.

It should be emphasised that the estimation techniques for the determination of general insurance business liabilities involve obtaining corroborative evidence from as wide a range of sources as possible and combining these to form the overall estimate. This technique means that the estimate is inevitably deterministic rather than stochastic. A stochastic valuation approach, whereby a range of possible outcomes is estimated and probabilities assigned thereto, is only possible in a limited number of situations.

The pension asset and pension and post retirement liabilities calculated in accordance with Financial Reporting Standard 17 (FRS 17) are disclosed in note 7. These assets, liabilities, and profit and loss account charge, calculated in accordance with FRS 17, are sensitive to the assumptions set out in that note.

UNCERTAINTIES AND CONTINGENCIES

The uncertainty arising under insurance contracts may be characterised under a number of specific headings, such as:

- uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss;
- uncertainty as to the extent of policy coverage and limits applicable;
- uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring; and
- uncertainty over the timing of a settlement to a policyholder for a loss suffered.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks. For certain classes of policy the value of the settlement of a claim may be specified under the policy terms while for other classes (eg motor insurance) the cost of a claim will be determined by an actual loss suffered by the policyholder.

There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the Group. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretations and court judgements that broaden policy coverage beyond the intent of the original insurance, legislative changes and claims handling procedures.

The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates. The Group seeks to provide appropriate levels of claims provision and provision for unexpired risks taking the known facts and experience into account. However, by their nature the quantification of the provisions must remain very uncertain.

ASBESTOS AND ENVIRONMENTAL CLAIMS

The estimation of the provisions for the ultimate cost of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of business. As a result it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims, particularly in periods when theories of law are in flux. Consequently, traditional techniques for estimating claims provisions cannot wholly be relied upon and the Group employs specialised techniques to determine provisions using the extensive knowledge of both internal asbestos and environmental pollution experts and external legal and professional advisors.

Factors contributing to this higher degree of uncertainty include:

- plaintiffs' expanding theories of liability, compounded by inconsistent court decisions and judicial interpretations;
- a few large claims, accompanied by a very large number of small claims or claims made with no subsequent payment, often driven by intensive advertising by lawyers seeking claimants;
- the tendency for speculative, inflated and/or unsupported claims to be made to insurers, with the aim of securing a settlement on advantageous terms;
- the long delay in reporting claims and exposures, since the onset of illness and disability arising from exposure to harmful conditions may only become apparent many years later (for example, cases of mesothelioma can have a latent period of up to 40 years);
- inadequate development patterns;
- difficult issues of allocation of responsibility among potentially responsible parties and insurers;
- complex technical issues that may give rise to delays in notification arising from unresolved legal issues on policy coverage and the identity of the insureds;
- the tendency for social trends and factors to influence jury verdicts; and
- developments pertaining to the Group's ability to recover reinsurance for claims of this nature.

The position in the US is particularly problematic as plaintiffs have expanded their focus to defendants beyond the 'traditional' asbestos manufacturers and distributors. This has arisen as a consequence of the increase in the number of insureds seeking bankruptcy protection because of asbestos related litigation and the exhaustion of their policy limits. Plaintiffs, supported by lawyers remunerated on a contingent fee basis, are now seeking to draw in a wide cross section of defendants who previously only had peripheral or secondary involvement in asbestos litigation. This may include companies which have distributed or incorporated asbestos containing parts in their products or operated premises where asbestos was present. There are also increasing signs of attempts to reopen and reclassify into other insurance coverages previously settled claims, and the filing of claims under the non aggregate premises or operation section of general liability policies. There are also indications that plaintiffs may seek damages by asserting that insurers had a duty to protect the public from the dangers of asbestos. Added to this, there is also the possibility, however uncertain, of federal legislation that would address asbestos related problems.

Against this background and in common with the industry generally, the Group in the US receives notifications and approaches from, and on behalf of, insureds who previously had peripheral or secondary involvement in asbestos litigation indicating that they may be seeking coverage under Group policies. Given the uncertainties outlined above as to the potential of loss suffered, the availability of coverage and the often long delay in reporting these issues it is difficult to predict the outcome of these notifications and approaches. The greatest difficulty is with estimating whether the Group has any liability as many of these are discharged at no cost to the Group or have been settled below the quantum sought, although there can be no certainty that this will always be the case. It is clear that there is unlikely to be any firm direction in case law or legislation which would allow for these issues to be resolved satisfactorily in the near term and no likelihood of the plaintiffs' bar in the US easing its aggressive stance with litigation. Management, therefore, expect that these notifications and approaches will continue to be received for some time to come. One such approach received during 2004 from General Motors Corporation is now the subject of litigation.

REPRESENTATIONS AND WARRANTIES

In the course of disposal of businesses the Group provides representations and warranties to counterparties in contracts in connection with various transactions and may also provide indemnifications that protect the counterparties to the contracts in the event that certain liabilities arise (covering such matters as tax, property, environmental issues, etc). While such representations, warranties and indemnities are essential components of many contractual relationships, they do not represent the underlying purpose for the transaction. These clauses are customary in such contracts.

FINANCIAL ENHANCEMENT PRODUCTS

In the UK, US and Korea the Group has exposures to financial enhancement products which provide surety to banks, lending institutions and credit facilities that insure principal and interest repayment on debt securities. The Group no longer writes such business; however, the nature of such contracts is normally that the Group is on risk for more than one year and therefore liabilities remain for an extended period. Further information on financial enhancement products in the US is discussed below.

US FINANCIAL ENHANCEMENT PRODUCTS

Within the financial enhancement portfolio of Financial Structures Limited, a subsidiary of the US Group, are a variety of credit default product exposures including collateralised debt obligations (CDO), credit enhancement and residual value insurance contracts for which the majority of premium has not been earned and losses are provided on an arising basis. These products are no longer written. Losses for the remaining CDOs during 2004 amount to £17m. The ultimate loss estimate for these CDOs is £158m against which we have made payments of £24m and have established total provisions of £109m. The ultimate loss estimate over the life of these CDOs is based on a model which utilises S&P's historical average default patterns and recovery values. However, the ultimate losses from this business will depend upon the performance of underlying debt obligations.

LITIGATION, MEDIATION AND ARBITRATION

The Group, in common with the insurance industry in general, is subject to litigation, mediation, arbitration and regulatory inquiries in the normal course of its business. The directors do not believe that any current mediation, arbitration, regulatory inquiries and pending or threatened litigation or dispute, as outlined elsewhere in this note, will have a material adverse effect on the Group's financial position, although there can be no assurance that losses resulting from any pending mediation, arbitration, regulatory inquiries and threatened litigation or dispute will not materially affect the Group's financial position or cash flows for any period.

REINSURANCE

The Group is exposed to disputes on, and defects in, contract wordings and the possibility of default by its reinsurers, including from the credit risk taken in fronting arrangements. The Group monitors the financial strength of its reinsurers, including those to whom risks are no longer ceded. Allowance is made in the financial position for non recoverability due to reinsurer default by requiring operations to provide, in line with Group standards, having regard to companies on the Group's 'Watch List'. The 'Watch List' is the list of companies whom the directors believe will not be able to pay amounts due to the Group in full.

RATING AGENCIES

The ability of the Group to write certain types of general insurance business is dependent on the maintenance of the appropriate credit ratings from the rating agencies. The Group has the objective of maintaining single 'A' ratings from Standard & Poor's (S&P) and from AM Best. At the present time the ratings are 'A-' from S&P and 'A-' from AM Best. The actions announced by the Group since 2002 are intended to improve its capital position and regain the target ratings. Any worsening in the ratings would have an adverse impact on the ability of the Group to write certain types of general insurance business.

REGULATORY ENVIRONMENT

The Financial Services Authority (FSA) has brought into force its Integrated Prudential Sourcebook (PRU) in relation to insurers. This contains prudential rules and guidance for insurers implementing a range of capital measures, including the EU Insurance Groups Directive (IGD) as amended by the Financial Groups Directive, the Enhanced Capital Requirement (ECR) and the Individual Capital Assessment (ICA). Whilst the introduction of PRU has removed considerable uncertainty for determining the solvency requirements of UK insurance companies and groups, the Group is still anticipating further capital developments in 2005 through to 2007, in particular reaching agreement with the FSA on its ICA. Inevitably, until agreement is reached, there will be uncertainty as to the implications for Group solvency and the impact could materially increase our solvency requirements. The directors are confident that, following the actions announced, including the disposal of the UK and Scandinavian life companies and the restructuring of the Group's debt position, the Group will continue to meet all future regulatory capital requirements.

US REGULATORY CAPITAL

The Group embarked on a programme of structural change in relation to its US business. Through the consolidation of certain US insurance companies, the US business has successfully reduced the number of domicilliary states from 11 to 6, which reduces the complexity of the structure. The number of insurance entities has also been reduced from 25 to 10, lowering capital requirements by some $90m.

At the year end, the level of capital was reviewed in the light of the stabilisation that had been achieved and it was determined that the sale of the non standard auto business is the right action to achieve an appropriate level of capital support in the US. Year end US filings have been submitted showing a consolidated US regulatory capital and surplus position at 31 December 2004 of $1,018m, which is at approximately 1.8 times the NAIC ratio. Constructive dialogue is underway with US regulators on corrective plans.

WORLD TRADE CENTER

The estimated cost of the insurance losses associated with the terrorist action of 11 September 2001 is a gross loss in excess of £1bn, reduced to £280m net of reinsurance. This was an unprecedented event, which still has unresolved issues in respect of both the gross loss and consequent extent of the reinsurance recoveries. The loss estimate has been prepared on the basis of the information currently available as to the magnitude of the claims, including business interruption losses. The final cost may be different from the current estimate due to the uncertainty associated with the valuation and allocation process which is currently underway in respect of the Twin Towers complex. Nevertheless, the directors believe their estimate of the gross and net loss is appropriate based on the information available to them and that there will be no material adverse effect on the Group's financial position.

STUDENT FINANCE CORPORATION

In early 2002, issues arose in connection with a series of credit risk insurance policies covering loans made to students in various post secondary trade schools, primarily truck driving schools. At 31 December 2004, the loan portfolio had a face value of approximately $501m. In June and July 2002, Royal Indemnity Company, a US subsidiary, filed lawsuits in Texas state court, seeking among other things rescission of these policies in response to a systematic pattern of alleged fraud, misrepresentation and cover up by various parties, which among other things concealed default rate of the loans. As Royal Indemnity's lawsuits seek rescission of these policies, all the Group's financial accounting entries associated with the transactions have been reversed. The ultimate outcome of the suit is uncertain.

The foregoing rescission actions gave rise to other related lawsuits filed in Delaware by MBIA Insurance Corporation (MBIA) and various banks, seeking to enforce the Royal Indemnity credit risk insurance policies. Plaintiffs in the Delaware actions were Wells Fargo Bank Minnesota, NA (Wells Fargo), in its capacity as trustee of a number of securitisations that were collateralised by student loans, MBIA which insured the obligations issued through these securitisations and PNC Bank and Wilmington Trust, both of which provided interim financing prior to securitisation. These actions are all pending in US district court, District of Delaware. Plaintiffs in the Delaware actions moved for summary judgement. The court granted summary judgement to MBIA and Wells Fargo on 30 September 2003 and to PNC Bank and Wilmington Trust on 26 March 2004. Royal Indemnity appealed each of these judgements; oral arguments on the appeal were heard on 19 January 2005 and the parties await judgement.

Calculated through 31 December 2004, the total amount awarded by the foregoing summary judgements was approximately $521m (including, as of the calculation date, additional accrued claims, prejudgements interest and post judgement interest).

The ultimate outcome of these lawsuits is necessarily uncertain. In the event Royal Indemnity's lawsuits do not result in complete rescission of all applicable policies, any loss on the loan portfolio will be reduced to the extent of reinsurance available to Royal Indemnity, recoveries from the original borrowers on the defaulted loans, and reserves, if any. Any losses may be further offset by recoveries from other third parties. To that end, Royal Indemnity has filed recovery actions against certain trucking school entities. However, there can be no assurance that the outcome of these lawsuits, the availability of reinsurance recoveries, the extent and amount of recoveries from the borrower under the respective loan programmes and/or reserves, if any, among other factors, will be resolved in favour of Royal Indemnity.

Based on current knowledge of the circumstances, legal advice received and the range of other actions available to the Group to manage any insurance exposure, the directors believe that the resolution of the legal proceedings in respect of these credit risk insurance policies will not have a material adverse effect on the Group's financial position.

US RESTRUCTURING

Our US restructuring plans are complex and are subject to particular risks. Although we have reduced the number of lead regulatory states, our US subsidiaries are subject to government regulation in their states of domicile and also in each of the jurisdictions in which they are licensed or authorised to do business. In the US, the conduct of insurance business is regulated at the state level and not by the federal government. The implementation of our restructuring plans in the US will be subject to the approval of a number of insurance regulators. We are engaged in constructive dialogue on our restructuring plans with the US regulators in a number of jurisdictions applying differing insurance regulations. The outcome of such proceedings and approvals may lead to conflicting pronouncements and amendments to our restructuring plans that may have a material impact on our financial condition and business prospects. Some events or transactions comprised in the restructuring plans may give rise to risks and/or liabilities which, individually or taken together, are sufficiently material to require the provision of additional capital.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 £m	2003 £m
Gross premiums written		**6,732**	9,929
Outward reinsurance premiums		**(1,526)**	(3,299)
Premiums written, net of reinsurance		**5,206**	6,630
Change in the gross provision for unearned premiums		**866**	658
Change in the provision for unearned premiums, reinsurers' share		**(292)**	13
Earned premiums, net of reinsurance		**5,780**	7,301
Claims paid			
Gross amount		**(5,917)**	(6,841)
Reinsurers' share		**1,558**	1,570
		(4,359)	(5,271)
Change in the provision for claims			
Gross amount		**220**	(602)
Reinsurers' share		**(87)**	130
		133	(472)
Unwind of discount in respect of claims outstanding		**(72)**	(63)
Claims incurred, net of reinsurance		**(4,298)**	(5,806)
Acquisition costs		**(1,291)**	(1,928)
Change in deferred acquisition costs		**(197)**	(167)
Administrative expenses		**(615)**	(655)
Reinsurance commissions and profit participation		**214**	400
Net operating expenses	3	**(1,889)**	(2,350)
Amortisation of goodwill in acquired claims provisions	15	**(14)**	(19)
Underwriting result		**(349)**	(811)
Unwind of discount in respect of claims outstanding		**(72)**	(63)
Balance on the technical account before change in the equalisation provisions		**(421)**	(874)
Change in the equalisation provisions	9	**(37)**	(24)
Balance on the Technical Account for General Business		**(458)**	(898)

Current year discontinued and acquired operations do not form a material part of the figures above.

The Accounting Policies on pages 8 to 11 and the notes on pages 25 to 48 form part of these financial statements.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – LONG TERM BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 £m	2003 £m
Gross premiums written		**874**	1,579
Outward reinsurance premiums		**(35)**	(106)
Earned premiums, net of reinsurance		**839**	1,473
Investment income	11	**1,690**	1,715
Unrealised gains on investments		**–**	521
Total technical income		**2,529**	3,709
Claims paid			
Gross amount		**(2,201)**	(3,244)
Reinsurers' share		**6**	48
		(2,195)	(3,196)
Change in the provision for claims			
Gross amount		**7**	(4)
Reinsurers' share		**–**	1
		7	(3)
Claims incurred, net of reinsurance		**(2,188)**	(3,199)
Change in long term business provision			
Gross amount		**311**	1,975
Reinsurers' share		**(8)**	(705)
		303	1,270
Change in technical provisions for linked liabilities, net of reinsurance		**32**	(301)
Change in other technical provisions, net of reinsurance		**335**	969
Acquisition costs		**(32)**	(87)
Change in deferred acquisition costs		**(6)**	(26)
Administrative expenses		**(113)**	(220)
Net operating expenses	3	**(151)**	(333)
Investment expenses and charges	11	**(56)**	(65)
Unrealised losses on investments		**(346)**	–
Tax attributable to the long term business	13	**(109)**	(193)
Other technical charges – amortisation and write off of acquired value of in-force business	2, 17	**–**	(66)
Total technical charges		**(2,515)**	(2,887)
Technical income less charges		**14**	822
Transfers from/(to) the fund for future appropriations		**59**	(432)
Balance on the Technical Account for Long Term Business		**73**	390

The Technical Account – Long Term Business represents discontinued operations (see note 1).

The Accounting Policies on pages 8 to 11 and the notes on pages 25 to 48 form part of these financial statements.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 £m	2003 £m
Balance on the General Business Technical Account		**(458)**	(898)
Balance on the Long Term Business Technical Account		**73**	390
Tax credit attributable to balance on the Long Term Business Technical Account		**22**	169
Balance on the Long Term Business Technical Account gross of tax		**95**	559
Investment income	11	**747**	1,209
Unrealised gains on investments		**39**	–
Investment expenses and charges	11	**(53)**	(46)
Unrealised losses on investments		**–**	(396)
Income from other activities		**6**	21
Charges from other activities	2, 3	**–**	(38)
Amortisation of goodwill	15	**(19)**	(22)
Total Group operating profit		**343**	359
Share of results of associated undertakings		**14**	30
Profit on ordinary activities before exceptional items and tax		**357**	389
Loss on disposal of subsidiary undertakings	22	**(106)**	(67)
Profit on ordinary activities before tax		**251**	322
Tax charge on profit on ordinary activities	13	**(177)**	(312)
Profit on ordinary activities after tax		**74**	10
Attributable to equity minority interests		**(40)**	(19)
Profit/(loss) for the financial year attributable to shareholders		**34**	(9)
Dividends	14	**(100)**	(240)
Transfer from retained profits		**(66)**	(249)

The Accounting Policies on pages 8 to 11 and the notes on pages 25 to 48 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 £m	2003 £m
Profit/(loss) for the financial year	**34**	(9)
Exchange:		
Group	**(94)**	12
Share of associates	**1**	11
Shareholders' consolidated recognised (loss)/profit arising in the year	**(59)**	14

MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	Share capital/ premium £m	Profit and loss account £m	2004 £m	2003 £m
Shareholders' funds at 1 January	25	3,774	660	**4,434**	3,602
Shareholders' consolidated recognised (losses)/profit		–	(59)	**(59)**	14
Issue of share capital		–	–	**–**	960
Goodwill written back	22	–	25	**25**	98
Dividends	14	–	(100)	**(100)**	(240)
Shareholders' funds at 31 December		3,774	526	**4,300**	4,434

The accounting policies on pages 8 to 11 and the notes on pages 25 to 48 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2004

ASSETS	Notes	2004 £m	2003 £m
Intangible assets	15	**184**	216
Investments			
Land and buildings	16	**732**	3,107
Interests in associated undertakings	20	**27**	121
Other financial investments			
Shares and other variable yield securities and units in unit trusts		**1,611**	4,895
Debt securities and other fixed income securities		**12,007**	30,752
Loans and deposits with credit institutions		**959**	950
	16	**14,577**	36,597
Deposits with ceding undertakings		**47**	62
Total investments		**15,383**	39,887
Assets held to cover linked liabilities	16	**–**	3,874
Reinsurers' share of technical provisions			
Provision for unearned premiums		**266**	583
Long term business provision		**–**	120
Claims outstanding		**3,887**	4,203
Technical provisions for linked liabilities		**–**	6
		4,153	4,912
Debtors			
Debtors arising out of direct insurance operations	18	**1,884**	2,379
Debtors arising out of reinsurance operations		**818**	1,125
Deferred taxation		**95**	61
Other debtors		**934**	693
		3,731	4,258
Other assets			
Tangible assets	19	**186**	133
Cash at bank and in hand		**353**	486
		539	619
Prepayments and accrued income			
Accrued interest and rent		**145**	506
Deferred acquisition costs – long term		**–**	20
Deferred acquisition costs – general		**492**	701
Other prepayments and accrued income		**110**	124
		747	1,351
Total assets		**24,737**	55,117

The accounting policies on pages 8 to 11 and the notes on pages 25 to 48 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2004

LIABILITIES	Notes	2004 £m	2003 £m
Capital and reserves			
Called up share capital	26	**1,128**	1,128
Share premium account		**2,646**	2,646
Profit and loss account		**526**	660
Shareholders' funds	25	**4,300**	4,434
Equity minority interests in subsidiary undertakings		**367**	346
Subordinated liabilities			
Subordinated loan	27	**294**	–
Total capital, reserves and subordinated loan		**4,961**	4,780
Fund for future appropriations		**–**	2,104
Technical provisions			
Provision for unearned premiums		**2,921**	3,888
Long term business provision	28	**–**	22,212
Claims outstanding		**14,131**	14,782
Equalisation provisions	9	**356**	319
		17,408	41,201
Technical provisions for linked liabilities		**–**	3,873
Provisions for other risks and charges	30	**284**	397
Deposits received from reinsurers		**291**	250
Creditors			
Creditors arising out of direct insurance operations		**305**	378
Creditors arising out of reinsurance operations		**477**	554
Debenture loans	31	**10**	12
Amounts owed to credit institutions	31	**21**	22
Other creditors including taxation and social security	32	**677**	1,084
		1,490	2,050
Accruals and deferred income		**303**	462
Total liabilities		**24,737**	55,117

Except for certain debenture loans and amounts owed to credit institutions shown in note 31, all creditors are payable within a period of five years.

The accounting policies on pages 8 to 11 and the notes on pages 25 to 48 form part of these financial statements.

PARENT COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2004

ASSETS	Notes	2004 £m	2003 £m
Intangible assets		3	3
Investments			
Land and buildings	16	403	343
Investments in Group undertakings and participating interests			
Shares in subsidiary undertakings	23	6,253	6,962
Interests in associated undertakings	20	8	8
		6,261	6,970
Other financial investments			
Shares and other variable yield securities and units in unit trusts		1,020	966
Debt securities and other fixed income securities		3,879	2,812
Loans and deposits with credit institutions		477	364
	16	5,376	4,142
Deposits with ceding undertakings		17	22
Total investments		12,057	11,477
Reinsurers' share of technical provisions			
Provision for unearned premiums		211	344
Claims outstanding		1,410	1,613
		1,621	1,957
Debtors			
Debtors arising out of direct insurance operations	18	1,108	1,397
Debtors arising out of reinsurance operations		308	817
Amounts owed by Group undertakings		2,743	961
Dividend receivable		1	1
Deferred taxation	33	95	47
Other debtors		116	135
		4,371	3,358
Other assets			
Tangible assets	19	122	49
Cash at bank and in hand		51	99
		173	148
Prepayments and accrued income			
Accrued interest and rent		40	117
Deferred acquisition costs – general		305	413
Other prepayments and accrued income		54	54
		399	584
Total assets		18,624	17,527

The accounting policies on pages 8 to 11 and the notes on pages 25 to 48 form part of these financial statements.

PARENT COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2004

LIABILITIES	Notes	2004 £m	2003 £m
Capital and reserves			
Ordinary share capital	26	**1,128**	1,128
Share premium account		**2,646**	2,646
Profit and loss account		**526**	1,161
Total capital and reserves	25	**4,300**	4,935
Subordinated liabilities			
Subordinated loan		**294**	–
Total capital, reserves and subordinated loan		**4,594**	4,935
Technical provisions			
Provision for unearned premiums		**1,663**	2,035
Claims outstanding		**6,062**	6,181
Equalisation provisions	9	**291**	254
		8,016	8,470
Provisions for other risks and charges	30	**113**	110
Deposits received from reinsurers		**74**	42
Creditors			
Creditors arising out of direct insurance operations		**136**	208
Creditors arising out of reinsurance operations		**192**	282
Amounts owed to credit institutions	31	**16**	16
Amounts owed to Group undertakings		**5,118**	2,971
Other creditors including taxation and social security		**150**	144
		5,612	3,621
Accruals and deferred income		**215**	349
Total liabilities		**18,624**	17,527

Except for certain debenture loans and amounts owed to credit institutions shown in note 31, all creditors are payable within a period of five years.

The Accounting Policies on pages 8 to 11 and the notes on pages 25 to 48 form part of these financial statements.

The financial statements on pages 17 to 24 were approved on 24 March 2005 by the Board of Directors and are signed on its behalf by:

GEORGE CULMER
Chief Financial Officer

NOTES ON THE ACCOUNTS

1. ANALYSIS OF PROFIT AND LOSS ACCOUNT ITEMS

Discontinued operations relate to the life business which, following a number of disposals, the Group no longer writes. UK life operations were disposed of on 30 September 2004 and Scandinavian life operations on 1 October 2004, which follows the disposal of the Australia and New Zealand life operations and Chilean life operations during 2003.

	2004			2003		
	Continuing £m	**Discontinued £m**	**Total £m**	Continuing £m	Discontinued £m	Total £m
Balance on the General Business Technical Account	**(458)**	**–**	**(458)**	(898)	–	(898)
Balance on the Long Term Business Technical Account	**–**	**73**	**73**	–	390	390
Tax credit attributable to balance on the Long Term Business Technical Account	**–**	**22**	**22**	–	169	169
Balance on the Long Term Business Technical Account gross of tax	**–**	**95**	**95**	–	559	559
Investment income	**736**	**11**	**747**	1,170	39	1,209
Investment expenses and charges	**(53)**	**–**	**(53)**	(39)	(7)	(46)
Unrealised gains/(losses) on investments	**46**	**(7)**	**39**	(370)	(26)	(396)
Income from other activities	**4**	**2**	**6**	16	5	21
Charges from other activities	**–**	**–**	**–**	(32)	(6)	(38)
Amortisation of goodwill	**(19)**	**–**	**(19)**	(19)	(3)	(22)
Profit/(loss) on ordinary activities before exceptional items and tax	**256**	**101**	**357**	(172)	561	389
Deduct share of results of associated undertakings	**(14)**	**–**	**(14)**	(30)	–	(30)
Total Group operating profit/(loss)	**242**	**101**	**343**	(202)	561	359

2. REORGANISATION COSTS AND OTHER ITEMS

Other items within the Non-Technical Account include:

	General Business		Long Term Business	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Reorganisation costs	**104**	171	**–**	–
Amortisation and write off of the present value of acquired in-force business	**–**	–	**–**	66

Reorganisation costs comprise employee redundancy costs, vacant lease accruals and other restructuring expenses mainly in the UK and US.

3. NET OPERATING EXPENSES AND OTHER CHARGES

	General Business		Long Term Business	
	2004 £m	2003 £m	**2004 £m**	2003 £m
a. Net operating expenses in the technical accounts include:				
Depreciation	**39**	49	**1**	21
Operating lease rentals – premises	**72**	87	**3**	2
Operating lease rentals – other assets	**11**	14	**–**	–

b. Charges from other activities in the Non-Technical Account include operating lease rentals – premises of **£nil** (2003 £4m).

4. EXCHANGE RATES

In respect of the major overseas currencies the rates of exchange used in these financial statements are US Dollar **1.92** (2003 1.79), Canadian Dollar **2.30** (2003 2.31), and Danish Kroner **10.51** (2003 10.57).

5. LONG TERM INSURANCE BUSINESS

	Net	
	2004 £m	2003 £m
New business premiums written during the year were as follows:		
Annual premiums	**54**	100
Single premiums	**265**	519
	319	619

Gross new business premiums are not materially different to the above.

Total reversionary and terminal bonuses included within the Long Term Business Technical Account are **£243m** (2003 £356m).

During 2003, the attribution of accumulated surpluses in the non participating element of one of the Group's UK insurance companies, Phoenix Assurance plc, was determined. As a result the surplus attributable to shareholders was transferred to shareholders' funds in accordance with the Group's Accounting Policies. This resulted in the recognition of an exceptional profit before taxation on UK long term insurance business during 2003 of £444m. This profit is recognised in the Balance on the Long Term Business Technical Account gross of tax within the Consolidated Profit and Loss Account Non-Technical Account. After the deduction of the attributable taxation on this profit, the increase in shareholders' funds arising from this exceptional profit amounted to £310m. No exceptional profit arose in 2004.

6. EMPLOYEE INFORMATION

	2004 £m	2003 £m
Staff costs for all employees comprise:		
Wages and salaries	**648**	822
Social security costs	**50**	58
Pension costs	**85**	99
	783	979

	2004 Number	2003 Number
The average number of employees of the Group during the year was as follows:		
UK	**11,423**	14,655
Scandinavia	**7,298**	7,857
US	**2,822**	5,226
International	**6,365**	7,018
Australia and New Zealand	**–**	2,039
	27,908	36,795

7. RETIREMENT BENEFITS

a. Pension costs

The Group operates both funded defined benefit and funded defined contribution pension schemes. The funded defined contribution schemes are in the UK, Denmark and Sweden. Overseas schemes are administered in accordance with local law and practice. The major pension schemes in the UK, US, Denmark and Sweden together cover the majority of scheme members throughout the Group and the assets of these schemes are mainly held in separate trustee administered funds. Each of the major defined benefit schemes is subject to regular valuation using the projected unit or other appropriate method which is the basis of the pension cost in the Consolidated Profit and Loss Account, the cost being spread over employees' working lives. In April 2002, the UK schemes were effectively closed to new entrants following the introduction of a new defined contribution scheme. In 2004 members of the UK defined benefit schemes had the option to pay contributions, initially at the rate of 2.5% (and increasing to 5% from April 2005) of pensionable salaries, to maintain future benefit accrual on the current basis, or to pay no contributions and have a reduced rate of future benefit accrual.

The total cost of pensions to the Group, excluding past service costs, was **£102m** (2003: £122m) of which the SSAP 24 charge was **£85m** (2003: £99m). Of this £85m, **£34m** (2003: £40m) related to defined benefit schemes in the UK and **£7m** (2003: £12m) related to schemes in the US. Contributions of **£4m** (2003: £3m) were made to the defined contribution schemes in the UK and **£27m** (2003: £28m) were made to the defined contribution scheme in Denmark and Sweden.

Independent qualified actuaries carry out valuations of the major schemes. At the most recent formal actuarial valuations of the major defined benefit schemes (the two main UK schemes 31 March 2002 and 30 June 2002 respectively, and the US scheme 1 January 2004), for the purpose of assessing pension costs, the market value of the assets of these schemes was **£3,795m** (2003: £3,793m). Of this amount, **£3,568m** related to the two UK schemes and on their valuation dates were sufficient to cover **110%** and **101%** respectively of the benefits accrued to members of each of those schemes, after allowing for projected increases in earnings and pensions. The valuations for the two major UK schemes were based on assumptions that salaries increase by **4.3%** and **4.0%** plus allowances for promotional salary increases, pensions increase by **2.9%** and **2.5%** and investment returns are **7.1%** pa pre retirement and **5.6%** post retirement for one scheme and **6.5%** for the other.

For the two main UK schemes, the level of contributions in 2004 were **23%** and **20%** of salaries respectively. Additionally, contributions totalling **£43m** were made in respect of the UK schemes in accordance with the plan to correct the FRS 17 deficits. Valuations of the two main UK schemes have been undertaken during 2004. The trustees of the schemes and the sponsoring companies are currently in the course of discussion of the results in order to agree the future levels of contributions into each scheme. The amounts charged to the Profit and Loss Account were the equivalent of **13.9%** and **20%** respectively of relevant UK earnings. This charge reflected a regular cost of **£43m** (2003: £57m) and a credit of **£8m** (2003: £11m), of which an amount was recharged to Royal & Sun Alliance Insurance Group plc in respect of the pensions costs of the Corporate Centre. The credit arises from the amortisation of the actuarial surpluses in the funds (after taking account of interest on balances between the Group and the funds). For one scheme an actuarial surplus from the valuation is being applied to reduce pension costs by a level percentage of payroll over the estimated working lives of members of the respective schemes.

Included in prepayments is an amount of **£9m** (2003: provision of £6m) in the US and **£16m** (2003: £nil) in overseas schemes, resulting from the difference between the amounts charged to revenue and the amounts contributed to schemes and in provisions an amount of **£2m** (2003: £2m) in respect of overseas schemes.

b. Other post-retirement benefits

The Group provides post retirement healthcare benefits to certain current and retired US and Canadian employees. The estimated discounted present values of the unprovided accumulated obligations are calculated in accordance with the advice of independent qualified actuaries.

At 31 December 2004 the unprovided accumulated obligation in the US is estimated at **£nil** (2003: £4m). The assumptions used for the charge to the Profit and Loss Account assume a pre 65 premium inflation for medical care initially of **9%** reducing over eight years to **5%** (2003: 10% reducing over eight years to 5%) and a post 65 premium inflation of **11%** reducing over ten years to **5%** (2003: 12% reducing over ten years to 5%) and a discount rate of **5.8%** (2003: 6%). The unprovided accumulated obligation in Canada is estimated at **£7m** (2003: £5m) assuming a premium inflation for drugs of **8%** (2003: 8%) reducing over ten years to **5%** (2003: 5%), 4% for hospital and 3% for medical care for one scheme, and 10% (2003: 10%) decreasing by **0.5%** per year to **5%** (2003: 0.5% per year to 5%) for the other scheme. For dental care, premium inflation of **4%** and **5%** is assumed for the respective schemes (2003: 4% and 5%) and a discount rate of **6.5%** for both schemes (2003: 6.5% for both schemes).

7. RETIREMENT BENEFITS (CONTINUED)

The benefits are accounted for on a systematic basis over the remaining service lives of current employees, the cost in the year being **£5m** (2003: £9m). In Canada the costs of meeting the liability for these benefits are expected to attract taxation relief when paid. The total provision included is **£44m** (2003: £43m).

c. Alternative accounting treatment (Financial Reporting Standard 17)

The Accounting Standards Board issued Financial Reporting Standard 17 (FRS 17) "Retirement Benefits" in November 2000.

The components of the defined benefit pension cost that would be included within operating profit if FRS 17 had been fully adopted in the financial statements is as follows:

	UK schemes £m	US schemes £m	Other schemes £m	**Total 2004 £m**	Total 2003 £m
Current service cost	67	6	6	**79**	102
Past Service cost	19	2	1	**22**	54
Curtailment gains	–	(8)	(1)	**(9)**	(40)
Settlement gains	–	–	–	–	(6)
Total charge to be included in Group operating result	86	–	6	**92**	110
Expected return on assets	(214)	(16)	(11)	**(241)**	(211)
Interest cost	214	22	12	**248**	234
Total financing charge to be included in Group operating result	–	6	1	**7**	23

Amounts to be recognised within Statement of Total Recognised Gains and Losses:

	UK Schemes £m	US Schemes £m	Other Schemes £m	**Total 2004 £m**	Total 2003 £m	Total 2002 £m
Actual return on assets in excess of expected	138	5	5	**148**	256	(712)
Experience gains/(losses) on liabilities	90	–	(9)	**81**	(52)	113
Change in actuarial assumptions	(279)	(8)	(13)	**(300)**	(250)	62
Movement in irrecoverable surplus	–	–	–	–	–	2
Actuarial loss	(51)	(3)	(17)	**(71)**	(46)	(535)

The UK Schemes are effectively closed to new entrants. The current service cost, under the projected unit method, measured as a percentage of active members' salaries, is likely to rise as the members' age profile increases.

	UK Schemes %	US schemes %	Other schemes %	**Total 2004 %**	Total 2003 %	Total 2002 %
Difference between expected and actual return as a percentage of scheme assets	3.6	2.2	3.1	3.5	6.5	(19.6)
Experience gains/(losses) as a percentage of scheme liabilities	2.1	0.1	(4.6)	1.7	(1.1)	2.6
Other as a percentage of scheme liabilities	(6.5)	(2.1)	(6.8)	(6.1)	(5.4)	1.4
Total actuarial gain to be recognised in Statement of Total Recognised Gains and Losses as a percentage of scheme liabilities	(1.2)	(0.7)	(8.8)	(1.4)	(1.0)	(12.3)

Movement in net deficit during the year	2004 £m	2003 £m
Deficit at 1 January	**(675)**	(724)
Exchange	**12**	18
Total operating charge	**(92)**	(110)
Employer contribution	**150**	201
Total financing charge	**(7)**	(23)
Actuarial loss	**(71)**	(46)
Disposal of subsidiaries	**–**	9
Deficit at 31 December	**(683)**	(675)

The value of the defined benefit liability that would be included at 31 December if FRS 17 had been fully adopted in the financial statements is as follows:

	UK schemes £m	US schemes £m	Other schemes £m	Total 2004 £m	Total 2003 £m	Total 2002 £m
Equities	1,840	137	100	**2,077**	1,958	1,707
Bonds	1,681	95	58	**1,834**	1,676	1,594
Other	302	10	7	**319**	286	334
Fair value of assets held by pension schemes	3,823	242	165	**4,230**	3,920	3,635
Present value of pension and post-retirement schemes liabilities	(4,322)	(393)	(198)	**(4,913)**	(4,595)	(4,359)
Net deficit	(499)	(151)	(33)	**(683)**	(675)	(724)
Unrecognised past service costs	–	–	(1)	**(1)**	1	–
Related deferred tax asset	150	–	12	**162**	149	230
Net pension and post retirement liability	(349)	(151)	(22)	**(522)**	(525)	(494)
Analysed						
Pension asset	–	–	–	**–**	–	3
Pension and post-retirement liability	(349)	(151)	(22)	**(522)**	(525)	(497)
Net pension and post-retirement liability	(349)	(151)	(22)	**(522)**	(525)	(494)

The last full valuation dates for the main UK schemes were 31 March 2002 and 30 June 2002 respectively and the US schemes were 1 January 2004. Full valuations for the main UK schemes at 31 March 2004 are being finalised. The FRS 17 liabilities have been derived from the 2004 valuations adjusted for changes in financial conditions and membership changes at 31 December 2004. Valuations have been updated at 31 December 2004 to take account of changes in the fair value of assets and financial assumptions. The main assumptions are as follows:

	UK Schemes			US Schemes			Other Schemes		
	2004 %	2003 %	2002 %	**2004 %**	2003 %	2002 %	**2004 %**	2003 %	2002 %
Assumptions									
Annual rate of general inflation	**2.5**	2.5	2.3	**2.5**	2.5	3.0	**2.0**	2.0	2.2
Annual rate of increase in salaries	**4.0**	4.0	3.8	**4.8**	4.8	4.5	**4.1**	4.0	4.2
Annual rate of increase for pensions in payment and deferred pensions	**2.5**	2.5	2.3	**–**	–	–	**2.0**	2.0	1.8
Interest rate used to discount liabilities	**5.2**	5.4	5.5	**5.8**	6.0	6.5	**6.0**	6.5	6.2
Expected rate of return to be assumed for each class									
Equities	**7.3**	7.3	7.0	**9.0**	9.0	9.0	**8.0**	9.5	8.6
Bonds	**4.5**	4.8	4.6	**6.0**	6.0	6.0	**5.5**	6.0	5.7
Other	**6.1**	6.3	6.0	**2.0**	2.0	2.0	**3.5**	3.0	4.7

As at 31 December 2004, the valuation of liabilities for post retirement benefits in the US assumes a pre 65 premium inflation rate of **8%** decreasing to **5%** by 2012 (2003: 9% decreasing to 5% by 2011) and a post 65 premium inflation rate of **10%** decreasing to **5%** by 2014 (2003: 11% decreasing to 5% by 2013). The valuation of liabilities in Canada assumes **10%** decreasing to **5%** in ten years for drugs (2003: 8% decreasing to 5% in nine years) and **4%** (2003: 4%) for hospital and **3%** (2003: 3%) for other. The valuation of liabilities for post retirement benefits at 31 December 2002 assumed a premium inflation rate for medical care of 11% decreasing to 5% by 2008.

Reconciliation of proforma profit and loss account reserve on a FRS17 basis:

	Profit and loss account reserve	
	2004 £m	2003 £m
Profit and loss account reserve as reported at 31 December	**526**	660
Less pension and post-retirement FRS 17 liabilities net of tax	**(522)**	(525)
	4	135
Add pension and post-retirement (assets)/liabilities that would be reversed on the implementation of FRS 17 net of tax	**12**	45
Profit and loss account reserve on FRS 17 basis at 31 December	**16**	180

Included in the pro forma profit and loss account reserve is a pension and post retirement reserve on a FRS 17 basis at 31 December 2004 of **£(448)m** (2003: £(397)m).

8. DIRECTORS' EMOLUMENTS

	2004 £000	2003 £000
The aggregate emoluments of the directors, including amounts received from subsidiaries, were as follows:		
Salaries and bonuses	**3,119**	3,208
Allowances, benefits and other awards	**466**	590
Compensation for loss of office	**–**	179
	3,585	3,977

The criteria for making bonus awards is based on targeted levels of business sector profit and specific business objectives. Details of directors interests in Royal & Sun Alliance Insurance Group plc, including share options granted to directors under the executive and save as you earn employee share option schemes, are included in the directors' report on pages 3 to 5.

	2004 £000	2003 £000
The emoluments of the highest paid director (A K Haste) were:		
Salary, bonus, allowances, benefits and other awards	**1,591**	1,379

At 31 December 2004, the highest paid director had accrued annual pension of **£2,976**. This figure is based on the amount of annual pension which would be payable on his attaining normal pension age if he had left the Company's service on 31 December 2004. Retirement benefits accrued under defined benefit schemes for all directors who served during the year, with the exception of M G Culmer. Contributions of **£38,000** (2003 £nil) were made to a defined contribution scheme in respect of one director.

9. EQUALISATION PROVISIONS

Equalisation provisions are established in accordance with the Financial Services Authority's rules for insurers in the UK and with similar legislation in overseas countries. These provisions, notwithstanding that they do not represent liabilities at the balance sheet date as they are over and above the anticipated ultimate cost of outstanding claims, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet and any change in the provisions during the year is required to be shown in the General Business Technical Account.

The effect of including the provisions is as follows:

	Consolidated		Parent Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Provisions at 1 January	**319**	293	**254**	255
Exchange movement on non-UK provisions	–	2	–	–
Charged/(credited) to the General Business Technical Account and in the profit on ordinary activities before tax	**37**	24	**37**	(1)
Provisions at 31 December	**356**	319	**291**	254

The cumulative impact of equalisation provisions on shareholders' funds at 31 December 2004 is **£347m** (2003 £308m).

10. QUOTA SHARE REINSURANCE TREATY

During 2004, the Group entered into a **8%** (2003: 15%) quota share reinsurance programme which covers the majority of the Group's general business written in the UK, Denmark, Ireland and Canada. The total amount of premiums ceded in 2004 was **£328m** (2003: £678m). Earned premiums reflect **£159m** (2003: £343m) in respect of an opening portfolio adjustment which has been paid, and **£154m** (2003: £291m) of closing portfolio adjustment receivable at 31 December 2004, which is included in debtors arising out of reinsurance operations. As from 1 January 2005 the Group did not renew the quota share reinsurance programme.

11. INVESTMENT INCOME, EXPENSES AND CHARGES

	Technical Account Long Term Business		Non-Technical Account	
	2004 £m	2003 £m	2004 £m	2003 £m
Investment Income				
Income from associated undertakings				
Profit before gains on the realisation of investments	–	–	**10**	25
Gains on the realisation of investments	–	–	**1**	2
	–	–	**11**	27
Other investment income				
Income from land and buildings	**112**	190	**32**	22
Income from other investments	**967**	1,311	**675**	686
Gains on the realisation of investments	**611**	214	**29**	474
	1,690	1,715	**736**	1,182
	1,690	1,715	**747**	1,209
Investment expenses and charges				
Interest on borrowings	**(16)**	(25)	**(24)**	(24)
Investment management expenses	**(40)**	(40)	**(29)**	(22)
	(56)	(65)	**(53)**	(46)
Net investment income	**1,634**	1,650	**694**	1,163

12. AUDITORS' REMUNERATION

	2004 £000	2003 £000
Audit of Group accounts		
PricewaterhouseCoopers LLP	**2,494**	2,670
Other	**308**	348
	2,802	3,018
Other statutory audit		
PricewaterhouseCoopers LLP	**1,035**	1,222
Other	**47**	37
	1,082	1,259
	3,884	4,277

Remuneration for audit includes **£595,000** (2003 £595,000) in respect of the Parent Company.

Non-audit fees of **£1,706,636** (2003 £3,020,000) in the UK during the year were payable to PricewaterhouseCoopers LLP. Of these **£853,606** (2003 £1,057,000) were for assurance services, **£455,519** (2003 £1,084,000) were for tax advisory services and **£397,511** (2003 £879,000) were for other non audit services.

13. TAXATION

The taxation on profit on ordinary activities charged in the profit and loss account is as follows:

	Technical Account Long Term Business		Non-Technical Account	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Current tax				
UK Corporation tax	**49**	62	**101**	77
Double taxation relief	**(1)**	(1)	**(21)**	(13)
Overseas taxation	**50**	12	**83**	29
Taxation surplus (release)/addition	**–**	–	**(20)**	(20)
Prior year items	**–**	(3)	**57**	(8)
Total current tax	**98**	70	**200**	65
Tax attributable to the long term business	**–**	–	**21**	169
Deferred tax				
Timing differences – origination and reversal	**10**	144	**(45)**	77
Movement in discount	**1**	(21)	**1**	1
Tax charge	**109**	193	**177**	312
Analysed				
Parent and subsidiaries	**109**	193	**173**	297
Associated undertakings	**–**	–	**4**	15

UK corporation tax for the current year in the Non-Technical Account is based on a rate of **30%** (2003 30%). Further details of current and deferred tax are given in notes 30, 32 and 33.

The tax charge for UK corporation tax in the Long Term Technical Account is provided at rates between **20%** and **30%** (2003 between 20% and 30%) computed in accordance with the rules applicable to UK life insurance companies.

Factors affecting the current tax charge – Non-Technical Account

The current tax charge for the years 2004 and 2003 is more than 30% due to the items set out in the reconciliation below:

	2004 £m	2003 £m
Profit on ordinary activities before tax	**251**	322
Tax at 30%	**75**	97
Factors affecting charge		
Disallowed expenditure	**68**	73
Goodwill	**9**	54
Tax exempt income and investment gains	**(74)**	(90)
Tax losses not recognised	**130**	135
Non-deductible movement in US claims discounting	**–**	105
Adjustment for non-UK tax rates	**(14)**	(31)
Adjustment to prior year provisions	**37**	(29)
Other timing differences other than on long term business	**(10)**	(80)
Current tax charge for the period	**221**	234

14. DIVIDENDS

	2004 £m	2003 £m
Ordinary		
First interim paid 2.2p (2003 4.2p)	**100**	50
Second interim paid nil (2003 7.5p)	**–**	190
	100	240

15. INTANGIBLE ASSETS

	Goodwill in acquired claims provisions £m	Goodwill arising on acquisition £m	Total £m
Cost			
At 1 January 2004	213	799	1,012
Exchange	(8)	(38)	(46)
Additions	–	8	8
Disposals	–	(12)	(12)
At 31 December 2004	**205**	**757**	**962**
Amortisation			
At 1 January 2004	(139)	(657)	(796)
Exchange	6	39	45
Charge for the year	(14)	(19)	(33)
Disposals	–	6	6
At 31 December 2004	**(147)**	**(631)**	**(778)**
Net book value			
At 31 December 2004	**58**	**126**	**184**
At 31 December 2003	74	142	216

16. INVESTMENTS

	Consolidated 2004 £m	Consolidated 2003 £m	Parent Company 2004 £m	Parent Company 2003 £m
Land and buildings				
Freehold	**678**	2,900	**403**	343
Long leasehold	**46**	198	**–**	–
Short leasehold	**8**	9	**–**	–
Total land and buildings	**732**	3,107	**403**	343
Of which Group occupied	**306**	433	**91**	96
Other financial investments				
Shares and other variable yield securities and units in unit trusts	**1,596**	4,880	**1,020**	966
Debt securities and other fixed income securities:				
British government securities	**1,927**	7,692	**1,436**	1,231
Other government securities	**4,241**	8,541	**681**	614
Local authority securities	**208**	224	**–**	6
Corporate bonds	**5,414**	14,046	**1,757**	946
Preference shares	**217**	249	**5**	15
Loans secured by mortgages	**45**	82	**–**	–
Other loans (see below)	**37**	60	**1**	6
Deposits with credit institutions	**877**	808	**476**	358
Total other financial investments	**14,562**	36,582	**5,376**	4,142
Listed investments				
Included in total investments are the following:				
Interests in associated undertakings	**3**	94	**–**	–
Shares and other variable yield securities and units in unit trusts	**1,240**	4,316	**849**	805
Debt securities and other fixed income securities	**6,542**	24,796	**2,795**	2,048
	7,785	29,206	**3,644**	2,853

In addition to the shares and other variable yield securities and units in unit trusts above are ordinary shares in Royal & Sun Alliance Insurance Group plc, the Company's ultimate parent, held by the Royal & Sun Alliance ESOP Trust and Royal & Sun Alliance ESOP Trust No. 2, which have a carrying value of **£15m** (2003 £15m).

This comprises a total of **15.4m** (2003 15.4m) shares in Royal & Sun Alliance Insurance Group plc which may subsequently be transferred to employees of the Group (other than executive directors of Royal & Sun Alliance Insurance Group plc in the case of Royal & Sun Alliance ESOP Trust). The Trustee of each Trust has waived its rights to dividends in excess of 0.01p on shares held by the Trusts.

In addition, within the consolidated balance sheet, debt securities held in North America amounting to **£3,602m** (2003 £4,161m) at market value are freely traded in an approved securities market but are not listed within the meaning of the Companies Act.

Other financial investments in the consolidated balance sheet include securities valued on an amortised cost basis of **£nil** (2003 £1m) with a historical cost of **£nil** (2003 £1m), a market value of **£nil** (2003 £1m) and a redemption value of **£nil** (2003 £1m).

Other loans shown above for the consolidated balance sheet include amounts of **£nil** (2003 £10m) relating to policyholder loans.

The historical cost of total investments (excluding value of long term business) included in the consolidated balance sheet is **£14,890m** (2003 £37,645m). The historical cost of assets held to cover linked liabilities is **£nil** (2003 £3,531m).

The property valuations have been prepared on the basis of open market value at the balance sheet date in accordance with The Royal Institute of Chartered Surveyors' Appraisal and Valuation Manual, by external qualified valuation surveyors.

17. ACQUIRED VALUE OF LONG TERM BUSINESS

Amortisation charged to the Long Term Business Technical Account amounted to **£nil** (2003 £5m).

18. DEBTORS

Debtors arising out of direct insurance operations are analysed as follows:

	Consolidated		Parent Company	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Due from policyholders	**854**	1,224	**431**	737
Due from intermediaries	**1,030**	1,155	**677**	660
	1,884	2,379	**1,108**	1,397

19. TANGIBLE ASSETS

	Consolidated £m	Parent Company £m
Cost		
At 1 January 2004	527	179
Exchange	(3)	–
Additions	114	90
Disposals	(45)	(19)
Disposals of subsidiary undertakings	(47)	–
At 31 December 2004	**546**	**250**
Depreciation		
At 1 January 2004	(394)	(130)
Exchange	–	–
Charge for the year	(40)	(14)
Disposals	35	16
Disposals of subsidiary undertakings	39	–
At 31 December 2004	**(360)**	**(128)**
Net book value		
At 31 December 2004	**186**	**122**
At 31 December 2003	133	49

Tangible assets principally comprise short leasehold improvements, fixtures, fittings and equipment.

20. INTERESTS IN ASSOCIATED UNDERTAKINGS

The companies shown in the list of Principal Associated Undertakings and Other Significant Shareholdings are those, not being subsidiaries, in which Royal & Sun Alliance Insurance plc and its subsidiaries held at 31 December 2004 a participating interest and which are associated undertakings as defined in the Companies Act 1985. All holdings are of equity shares.

Interests in associated undertakings comprise:

	Consolidated		Parent Company	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Shares at cost				
At 1 January	**173**	249	**10**	56
Exchange	**–**	4	**–**	(1)
Acquisitions	**–**	–	**–**	–
Disposals/transfers	**(145)**	(80)	**–**	(45)
At 31 December	**28**	173	**10**	10
Adjustment to valuation	**(1)**	(52)	**(2)**	(2)
Net book value	**27**	121	**8**	8

Balances due from associated undertakings at 31 December 2004 amounted to **£4m** (2003 £5m).

21. ACQUISITIONS OF BUSINESSES AND SUBSIDIARY UNDERTAKINGS

During the year, acquisitions of businesses and subsidiary undertakings, principally comprising books of business, which had a book value of **£nil** on acquisition were made for a total cash consideration of **£4m**. Goodwill of **£4m** arising on those acquisitions has been capitalised and is being amortised. In addition purchase price adjustments arising on past acquisitions resulted in goodwill of **£3m** which is being amortised. The amortisation period for Group acquisitions is 10 years, being the period over which the value of the businesses acquired are expected to exceed the value of their underlying assets.

The Group has used the acquisition method to account for all acquisitions.

22. DISPOSAL OF SUBSIDIARY UNDERTAKINGS

During the year, disposals of subsidiary undertakings were made for a total consideration of **£1,066m**.

The disposals of subsidiaries and books of business gave rise to an exceptional pre tax loss of **£81m** prior to write off of goodwill of **£25m**. Group disposals during the year comprise:

1. The Group disposed of its interest in its UK life operations on 30 September 2004. The transaction generated proceeds, net of costs, of **£811m** and generated an exceptional pre tax loss before goodwill writeback of **£59m**. The Group has agreed to share the cost of increases in misselling liabilities in the UK life operations if the costs of those liabilities exceed an agreed level. This may result in the Group making cash payments, capped at **£76m**.
2. The Group disposed of its interest in its Scandinavian life operations on 1 October 2004. The transaction generated proceeds, net of costs, of **£254m** and generated an exceptional pre tax loss of **£4m**.
3. A number of other disposals were made during the year for net sales proceeds of **£1m** which generated in aggregate an exceptional pre tax loss of **£18m**.
4. Goodwill of **£25m** relating to disposals that had previously been written off directly to reserves has been written back through the profit and loss account.

Whilst all of the above disposals had completed at 31 December 2004, the directors' estimates of actual profits/(losses) on disposal are subject to subsequent adjustment in relation to the specific terms, conditions and warranties contained within the related disposal agreements. The amount of profit or loss recognised during the year relating to businesses disposed of during the year is disclosed in the segmental information.

23. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The Group's principal subsidiaries at 31 December 2004 are set out on page 47. The companies are principally all engaged in the transaction of insurance or related business. The countries shown are those of incorporation and principal operation. The figure for shares in subsidiaries in the Parent Company Balance Sheet comprises:

	2004 £m	2003 £m
Shares at cost		
At 1 January	**7,218**	7,193
Acquisitions	**33**	25
Disposals	**(25)**	–
At 31 December	**7,226**	7,218
Adjustment to net asset value	**(973)**	(256)
	6,253	6,962

24. CAPITAL COMMITMENTS

The estimated amount of capital commitments contracted but not provided for in these financial statements is **£4m** (2003 £48m).

The Parent Company has no unprovided capital commitments.

25. SHAREHOLDERS' FUNDS

Group

The movements in the Group's capital and reserves are detailed in the Statement of Movements in Shareholders' Funds.

The amount of goodwill written off directly to the profit and loss account reserve prior to 1 January 1998 and remaining written off is **£158m** (2003 £183m).

Parent

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

	Share capital/ premium £m	Revaluation reserve £m	Profit and loss account £m	**2004 £m**	2003 £m
Shareholders' funds at 1 January	3,774	–	1,161	**4,935**	4,414
Shareholders' recognised (losses) and gains	–	(717)	182	**(535)**	(199)
Transfer	–	717	(717)	–	–
Issue of share capital	–	–	–	–	960
Dividends	–	–	(100)	**(100)**	(240)
Shareholders' funds at 31 December	3,774	–	526	**4,300**	4,935

Investments in subsidiaries are included in the Parent Company Balance Sheet at the directors' valuation which is based on net asset value together with the directors assessment of the value of the shareholders' investments in the long term business of the subsidiary life companies.

26. SHARE CAPITAL

	2004 £m	2003 £m
Authorised		
4,750,000,000 (2003 4,750,000,000) ordinary class A shares of 25p each	**1,188**	1,188
10 (2003 10) ordinary class B shares of US$1 each	–	–
Issued and fully paid		
4,511,091,326 (2003 4,511,091,326) ordinary class A shares of 25p each	**1,128**	1,128
1 (2003 1) ordinary class B share of US$1	–	–

27. SUBORDINATED LOAN

	Consolidated		Parent Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Subordinated loan	**294**	–	**294**	–

On 1 December 2004, the Company obtained a subordinated loan from Royal & Sun Alliance Insurance Group plc, its ultimate Parent Company, of £294m, derived from the issue of £450m of subordinated guaranteed perpetual notes on 23 July 2004. The notes have an annual coupon of 8.50%. The claims of the ultimate Parent Company on the loan are subordinated to the same extent as the claims of the holders of the notes. The loan has no specified maturity and is only repayable in line with the repayment of the notes.

28. LONG TERM PROVISION

The UK life operations were disposed of in September 2004. In 2003, the principal assumptions used to calculate the UK long term business provision for the main classes of business were:

Interest rates		
Life	with profit	2.75% to 3.60%
Pensions	with profit	4.15% to 5.00%
Annuities	in payment	5.00% to 5.50%
Mortality rates		
Life	with profit	AM80, AF80 with adjustments
Pensions	with profit	AM80, AF80 with adjustments
Annuities	in payment	PMA92/PFA92 (c=2020) with adjustments

The valuation was carried out principally using a gross premium method.

Generally accepted actuarial tables are used as appropriate in overseas long term business operations.

29. CLAIMS PROVISIONS

Claims outstanding include claims less reinsurance recoveries on certain classes of business which have been discounted. The total value of outstanding claims provisions less related reinsurance recoveries before discounting amounted to **£10,996m** (2003 £11,241m).

Claims are discounted, as follows:

	Category	Discount rate		Average period to settlement	
		2004 %	2003 %	**2004**	2003
UK	Asbestos & Environmental	**5.00**	5.00	**14 years**	7 years
Scandinavia	Disability	**3.14**	2.92	**11 years**	12 years
US	Asbestos & Environmental	**5.00**	5.00	**9 years**	11 years
	Disability	**5.00**	5.00	**15 years**	15 years
Canada	Asbestos & Environmental	**5.00**	5.00	**6 years**	6 years

In determining the average period to ultimate claims settlement, estimates have been made based on the underlying claims settlement patterns.

Claims incurred in the General Business Technical Account include amounts in respect of accident years prior to 2004 of **£163m** (2003 £653m). This amount comprises changes to reported claims from prior accident years as well as increases in provisions for claims incurred in prior accident years but not reported at the balance sheet date. The majority was incurred in respect of workers compensation claims and other liability business in the US.

30. PROVISIONS FOR OTHER RISKS AND CHARGES

	Reorganisation provisions £m	Deferred taxation £m	Pensions and post retirement benefits £m	Other provisions £m	**Total £m**
Consolidated					
At 1 January 2004	130	115	51	101	**397**
Exchange adjustments	(4)	–	(2)	(1)	**(7)**
Charged/(credited)	126	(33)	12	106	**211**
Utilised	(152)	–	(15)	(75)	**(242)**
Transfer to other debtors	–	35	–	–	**35**
Disposal of subsidiary undertakings	(26)	(77)	–	(7)	**(110)**
At 31 December 2004	74	40	46	124	**284**
Parent Company					
At 1 January 2004	35	–	–	75	**110**
Charged/transferred	38	–	–	63	**101**
Utilised	(59)	–	–	(39)	**(98)**
At 31 December 2004	14	–	–	99	**113**

Reorganisation provisions comprise costs relating to reorganisations mainly within the US and UK general businesses. This provision primarily comprises severance and property costs and is part of a programme to achieve business improvement and expense savings to be substantially achieved by year end 2006.

Other provisions include litigation provisions of **£4m**, the payment of which are dependent upon legal processes. In addition, there are provisions of **£66m** held relating to vacant property leases, dilapidations and refurbishments, the costs relating to which will be borne across the period over which the leases expire, which is up to 20 years.

Other provisions in the Parent Company balance sheet include **£61m** relating to vacant property leases, the costs relating to which will be borne across the period over which the leases expire, which is up to 20 years.

31. BORROWINGS

	Consolidated		Parent Company	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Secured debenture loans (note 3 below)	**10**	12	–	–
Amounts owed to credit institutions – unsecured	**21**	22	**16**	16
Total borrowings	**31**	34	**16**	16
Repayable as follows:				
One year or less	**20**	19	**16**	16
Between one and two years	**2**	1	–	–
Between two and five years	**4**	1	–	–
After five years	**5**	13	–	–
	31	34	**16**	16

Notes:

1. Interest payable on amounts repayable within five years was **£4m** (£2003 £4m) and after five years **£1m** (2003 £1m).
2. At 31 December 2004 total committed credit facilities available to the Group were **£317m** (2003 £400m) of which **£83m** (2003 £83m) expire within one year, **£234m** (2003 £83m) expire within one to two years and **£nil** (2003 £234m) expire within two to five years. Additional borrowings are subject to covenants in respect of the Group's shareholder funds.
3. The secured debenture loans, being 5% (2003 5%) mortgage loans, are secured on certain properties of the Group.

32. OTHER CREDITORS

Other creditors including taxation and social security in the consolidated balance sheet includes a liability of **£96m** (2003 £134m) in respect of corporation tax payable.

Other creditors including taxation and social security in the Parent Company balance sheet includes **£nil** (2003 £1m) in respect of corporation tax payable.

33. DEFERRED TAXATION

	2004 £m	2003 £m
Consolidated		
Unrealised investment gains	**(99)**	(164)
Other timing differences other than on long term business	**140**	67
	41	(97)
Discount	**5**	26
	46	(71)
Pension costs	**9**	17
Deferred tax asset/(provision)	**55**	(54)
Parent Company		
Unrealised losses arising from investments other than long term business	**(43)**	(52)
Other timing differences other than on long term business	**146**	103
	103	51
Discount	**(8)**	(4)
	95	47
Pension costs	**–**	–
Deferred tax asset	**95**	47

Deferred tax assets that cannot be recovered against deferred tax liabilities have been recognised only to the extent that the directors believe that there will be suitable taxable profits to absorb them in the foreseeable future. Net deferred tax assets are principally attributable to discounting of claims reserves and unclaimed capital allowances in the UK.

No credit has been taken in the deferred tax provision for UK tax losses with an estimated tax value of **£135m** (2003: £135m). This amount comprises capital losses that arose prior to the merger of the Royal Insurance and SunAlliance groups, the use of which is severely restricted by UK tax law. The recoverability of any associated deferred tax asset is therefore considered unlikely.

A deferred tax asset has not been recognised in respect of UK capital losses with an estimated value of **£45m** (2003: £43m), or for non UK tax losses and other tax assets with a value of **£347m** (including **£344m** in respect of the US (2003: £226m including £212m in respect of the US)), as it is not considered likely that suitable profits will arise to absorb these losses in the near future.

Deferred tax assets and liabilities are discounted at rates reflecting post tax yields to maturity that can be obtained at the balance sheet date on government bonds with maturity dates and in currencies similar to those of the deferred tax assets and liabilities. The discount rates used are within the range of 1% to 5%.

34. OPERATING LEASES

	Land & buildings		Other	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Consolidated				
Annual commitments under non cancellable operating leases which expire:				
One year or less	**7**	7	**1**	2
Between two and five years	**20**	24	**3**	6
After five years	**33**	50	**–**	–
	60	81	**4**	8
Parent Company				
One year or less	**1**	1	**–**	–
Between two and five years	**6**	5	**–**	–
After five years	**23**	27	**–**	–
	30	33	**–**	–

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

35. MANAGED FUNDS

The Group administered the funds of a number of group pension funds in its own name but on behalf of others. The assets, as shown below, and corresponding liabilities of these funds were included within the Consolidated Balance Sheet.

	2004 £m	2003 £m
Land and buildings	**–**	66
Shares and other variable yield securities and units in unit trusts	**–**	260
Debt securities and other fixed income securities	**–**	107
Cash at bank and in hand	**–**	9
	–	442
Debtors	**–**	2
Creditors	**–**	(1)
Net assets	**–**	443

36. TRANSACTIONS WITH RELATED PARTIES

A number of the directors, other key managers, their close families and entities under their control have general and/or long term insurance policies with former subsidiary companies of the Group. Such policies are on normal commercial terms except that executive directors and key managers are entitled to special rates which are also available to other members of staff. The financial effect of such insurance policies and other transactions with Group companies are not material to the Group or the individuals concerned and, if disclosed, would not influence decisions made by users of these financial statements.

There are no transactions with other directors or key managers that are material to their own financial affairs.

37. SHAREHOLDERS' INTEREST IN LONG TERM BUSINESS

The total shareholders' interest in long term business represented those assets which the directors assessed to be the amount maintained in support of the long term business and comprised:

	2004 £m	2003 £m
Shareholders' accrued interest	–	321
Shareholders' funds	–	713
	–	1,034
Less attributed to general business	–	(300)
	–	734

38. CASHFLOW

The Company is a wholly owned subsidiary of Royal & Sun Alliance Insurance Group plc and the cash flows of the Company are included in the consolidated cash flow statement of Royal & Sun Alliance Insurance Group plc. The Company has taken advantage of the exemption permitted by FRS 1 (Revised) and has elected not to prepare its own cash flow statement.

39. CONTINGENT LIABILITIES

Royal & Sun Alliance Insurance plc has guaranteed on behalf of Royal & Sun Alliance Insurance Group plc the following:

- the issue of €500m subordinated guaranteed Euro bonds due 15 October 2019;
- the US $500m 8.95% subordinated guaranteed bonds due 15 October 2029 and associated swaps;
- the issue of £450m 8.50% subordinated guaranteed perpetual notes. There is an option to call the notes on 8 December 2014 and every five years thereafter;
- a £317m syndicated loan facility, of which **£317m** has been drawn.

40. ULTIMATE PARENT COMPANY

The Company's ultimate Parent Company is Royal & Sun Alliance Insurance Group plc, registered in England and Wales, which prepares consolidated accounts which include Royal & Sun Alliance Insurance plc. The Company's immediate Parent Company is Royal Insurance Holdings plc. Copies of the consolidated accounts of Royal & Sun Alliance Insurance Group plc can be obtained from the registered office at 9th Floor, One Plantation Place, 30 Fenchurch Street, London EC3M 3BD.

SEGMENTAL INFORMATION

	Total		General Business		Personal		Commercial		Long Term Business	
	2004 £m	2003 £m	**2004 £m**	2003 £m	**2004 £m**	2003 £m	**2004 £m**	2003 £m	**2004 £m**	2003 £m
Net premiums written (note 2)										
UK (note 6, 8)	**3,159**	3,730	**2,597**	2,822	**783**	1,152	**1,814**	1,670	**562**	908
Scandinavia (note 9)	**1,516**	1,513	**1,287**	1,167	**688**	618	**599**	549	**229**	346
US (note 11)	**105**	1,090	**105**	1,090	**210**	460	**(105)**	630	**–**	–
International (note 1, 4)	**1,265**	1,415	**1,217**	1,268	**738**	744	**479**	524	**48**	147
Australia and New Zealand	**–**	355	**–**	283	**–**	197	**–**	86	**–**	72
	6,045	8,103	**5,206**	6,630	**2,419**	3,171	**2,787**	3,459	**839**	1,473
Underwriting result/balance on the technical account for long term business (note 3)										
UK (note 7, 8)	**131**	479	**59**	(76)	**8**	(69)	**51**	(7)	**72**	555
Scandinavia (note 10)	**66**	29	**44**	(11)	**(23)**	(38)	**67**	27	**22**	40
US (note 12)	**(490)**	(748)	**(490)**	(748)	**9**	21	**(499)**	(769)	**–**	–
International (note 1, 5)	**39**	(13)	**38**	12	**30**	15	**8**	(3)	**1**	(25)
Australia and New Zealand	**–**	1	**–**	12	**–**	6	**–**	6	**–**	(11)
	(254)	(252)	**(349)**	(811)	**24**	(65)	**(373)**	(746)	**95**	559

Unwind of discount in respect of claims outstanding	**(72)**	(63)
Change in the equalisation provision	**(37)**	(24)
Gains on the realisation of investments	**29**	474
Investment income net of expenses	**665**	689
Unrealised gains/(losses) on investments	**39**	(396)
Other income and charges	**6**	(17)
Amortisation and impairment of goodwill	**(19)**	(22)
Loss on disposal of subsidiaries less provisions for losses on subsidiaries sold	**(106)**	(67)
Profit on ordinary activities before tax	**251**	322

Notes:

1. The International reporting segment has been changed from the prior year to include the Group's operations in Canada. This reflects the new geographic and managerial focus of the International region. Results for Canada were previously disclosed separately. The comparatives for 2003 shown above have been reanalysed to reflect the inclusion of Canada within the International segment. The change had no effect on the net premiums written or the underwriting result.
2. Net premiums written by destination do not differ materially from net premiums written by source.
3. The balance on the Long Term Business Technical Account is gross of tax.
4. Included within International in general business is net premiums written of **£nil** (2003 £11m) relating to the disposed Royal & Sun Alliance Insurance Company of Puerto Rico business. Included in long term business is net premiums written of **£nil** (2003 £95m) relating to the disposed Compañia de Seguros de Vida La Construcción and Royal & Sun Alliance Eurolife Ltd businesses.
5. Included within International in general business is an underwriting loss of **£nil** (2003 £2m) relating to the disposed Royal & Sun Alliance Insurance Company of Puerto Rico business. Included in long term business is a loss of **£nil** (2003 £24m) relating to the disposed Compañia de Seguros de Vida La Construcción and Royal & Sun Alliance Eurolife Ltd businesses.

6. Included within UK in long term business is net premiums written of **£562m** (2003 £908m) relating to the disposed UK life operations.
7. Included within UK in long term business is a profit of **£71m** (2003 £555m) relating to the disposed UK life operations.
8. Included within UK in general business is net premiums written of **£nil** (2003 £(102)m) after the transfer of unearned premium reserves through a reinsurance agreement and an underwriting profit of **£nil** (2003 £5m), all relating to the disposal of UK Healthcare & Assistance in 2003.
9. Included within Scandinavia in long term business is net premiums written of **£229m** (2003 £346m) relating to the disposed Scandinavian life operations.
10. Included within Scandinavia in long term business is a profit of **£22m** (2003 £36m) relating to the disposed Scandinavian life operations.
11. Included within US in general business is net premiums written of **£nil** (2003 £52m), after the transfer of unearned premium reserves through a reinsurance agreement relating to the Royal Specialty Underwriting Inc and Landmark American Insurance Company businesses disposed of during 2003.
12. Included within US in general business is an underwriting profit of **£nil** (2003 £52m) relating to the Royal Specialty Underwriting Inc and Landmark American Insurance Company businesses disposed of during 2003.

	Total		General Business		Long Term Business	
	2004 £m	2003 £m	**2004 £m**	2003 £m	**2004 £m**	2003 £m
Total net assets						
UK	**2,546**	2,349	**2,546**	1,656	–	693
Scandinavia	**981**	873	**981**	557	–	316
US	**605**	583	**605**	583	–	–
International (note 1)	**853**	841	**853**	816	–	25
	4,985	4,646	**4,985**	3,612	–	1,034
Associated undertakings	**27**	121				
Other businesses (note 13)	**(51)**	13				
Total net assets (note 14)	**4,961**	4,780				

Notes:

13. The capital and reserves attributed to other businesses include those of non insurance businesses and Group borrowings.
14. The directors consider that in relation to reporting of profit and loss account information the reportable segments of the general business are personal and commercial. Such a segmentation is not considered appropriate in relation to the Group's total net assets where risk based capital modelling is used to allocate capital to regions and operations. There are differences between actual regional total capital and those considered to be required on a risk based capital basis due to regulatory requirements at the individual operation level.

PRINCIPAL SUBSIDIARY COMPANIES

AS AT 31 DECEMBER 2004

		Principal activity
United Kingdom	British Aviation Insurance Company Ltd (57.1%)	General insurance
	The Globe Insurance Company Ltd	General insurance
	The London Assurance	General insurance
	The Marine Insurance Company Ltd*	General insurance
	Royal International Insurance Holdings Ltd*	General insurance
	Royal & Sun Alliance Reinsurance Ltd*	General insurance
	Sun Alliance and London Insurance plc*	General insurance
	Sun Insurance Office Ltd	General insurance
Argentina	Royal & Sun Alliance Seguros (Argentina) SA	General insurance
Brazil	Royal & Sun Alliance Seguros (Brasil) SA	General insurance
Canada	Roins Financial Services Ltd	Holding company
	Compagnie d'Assurance du Quebec (99.8%)	General insurance
	The Johnson Corporation	General insurance
	Royal & Sun Alliance Insurance Company of Canada	General insurance
	Western Assurance Company	General insurance
Chile	Royal & Sun Alliance Seguros (Chile) SA (97.5%)	General insurance
Colombia	Royal & Sun Alliance Seguros (Colombia) SA (86.3%)	General insurance
Denmark	Codan A/S (71.7%)	Holding company
	Codan Forsikring A/S (71.7%)	General insurance
Guernsey	Insurance Corporation of Channel Islands Ltd	General insurance
Hong Kong	Royal & Sun Alliance Insurance (Hong Kong) Ltd	General insurance
Isle of Man	Tower Insurance Company Ltd	General insurance
Mexico	Royal & SunAlliance Seguros (Mexico) SA	General insurance
Netherlands Antilles	Royal & Sun Alliance Insurance (Antilles) NV (51.0%)	General insurance
Saudi Arabia	Royal & Sun Alliance Insurance (Middle East) Limited E.C. (50.01%)	General insurance
Singapore	Royal & Sun Alliance Insurance (Singapore) Ltd	General insurance
Sweden	Trygg-Hansa Försäkrings AB, Publikt (71.7%)	General insurance
United States of America	Royal & Sun Alliance USA, Inc	Holding company
	Royal Indemnity Company	General insurance
	Guaranty National Insurance Company	General insurance
	Viking Insurance Company of Wisconsin	General insurance
Uruguay	Royal & Sun Alliance Seguros (Uruguay) SA	General insurance
Venezuela	Royal & Sun Alliance Seguros (Venezuela) SA (99.0%)	General insurance

Notes:

1. All UK companies are incorporated in Great Britain and are registered in England.
2. *100% direct subsidiaries of Royal & Sun Alliance Insurance plc.
3. Except where indicated all holdings are of equity shares and represent 100% of the nominal issued capital.
4. Some subsidiaries have been omitted from this statement to avoid providing particulars of excessive length but none materially affects the results or assets of the Group.

PRINCIPAL ASSOCIATED UNDERTAKINGS AND OTHER SIGNIFICANT SHAREHOLDINGS

AS AT 31 DECEMBER 2004

	Country	Holding
Principal associated undertakings (see notes below)		
Royal & Sun Alliance Insurance (Malaysia) Bhd	Malaysia	45.0%
Royal Sundaram Alliance Insurance Ltd	India	26.0%
Syn Mun Kong Insurance Public Company Ltd (30 September 2004)	Thailand	20.0%
Other significant shareholdings (see notes below)		
Rothschilds Continuation Holdings AG (merchant banking group)	Switzerland	21.5%

Notes:

1. Associated undertakings: where the figures included in the accounts are not for the year ended 31 December 2004, the relevant accounting date is shown in brackets.
2. The countries shown are those of incorporation and principal operation.
3. Unless otherwise stated, all companies are engaged in the transaction of insurance or related business. All are owned by subsidiaries of the Group.
4. The Group's participating interest in Rothschilds Continuation Holdings AG, is accounted for as an investment in view of the disposition of the other shareholdings. The aggregate amount of the capital and reserves at 31 March 2004, the company's year end, was **£521m**. The loss for the year ended 31 March 2004 was **£21m**.