Company Number 93792

ROYAL & SUN ALLIANCE INSURANCE PLC

DIRECTORS' REPORT AND ACCOUNTS
For the year ended 31 December 2003

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DIRECTORS

Directors

Mr J C Hance

Mr A K Haste

Mr R O Hudson

Mr I D Hutchinson

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 2003.

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 **£389m** compared to a loss of £1,016m in 2002. The improvement in the underlying underwriting result was after total year prior year items of **£665m** (2002 £595m).

DIVIDENDS

There was a loss attributable to the shareholders, after taxation, for the year of **£9m** (2002 loss of £991m).

The directors approved payment of a first interim dividend of **£50m** to shareholders on the register of members at the close of business on 27 August 2003 and a second interim dividend of **£190m** to shareholders on the register of members at the close of business on 30 November 2003. The directors recommend the payment of a final dividend of **£nil** (2002 £nil). After dividends, the transfer from retained profits was **£249m** (2002 £991m).

DIRECTORS AND THEIR INTERESTS

The names of the current directors are listed on page 2. A K Haste and I D Hutchinson were appointed directors of the Company on 30 April 2003 and 27 May 2003 respectively. R J Gunn and S D Pennington both resigned as directors on 2 April 2003. 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 J C Hance 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 R O Hudson and I D Hutchinson are as follows:

	Ordinary shares held at 1 January 2003 (note 1)	Ordinary shares acquired	Ordinary shares disposed	Ordinary shares held at 31 December 2003 (note 1)
R O Hudson	33,910	31,859	–	65,769
I D Hutchinson	9,806	–	–	9,806

Notes:

1. Ordinary shares of 27.5p each.

In addition to the interests shown above, R O Hudson and I D Hutchinson had a beneficial interest, as at 31 December 2003, in **12,371,801** (2002 11,541,409) 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 2003, in **3,038,984** (2002 697,200) 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 R O Hudson and I D Hutchinson are as follows:

	Held at 1 January 2003	Granted	Lapsed	Rights Issue Adjustment	Held at 31 December 2003
R O Hudson	203,294	91,917	(1,604)	55,399	349,006
I D Hutchinson	156,639	61,377	(1,572)	41,318	257,762

No options were exercised during the year. During the year, Royal & Sun Alliance Insurance Group plc completed a one for one rights issue, following which adjustments were made to the number of its shares under option and to exercise prices, in accordance with the rules of the relevant share option schemes. Further details are available 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 2003 amounted to **£4,390,000** corresponding to five 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

Julian Hance
Director

London, 29 March 2004

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 2003, and the effect of the movement in those reserves during the year on the General Business Technical Account and loss 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 2003 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, xx March 2004

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 December 1998. 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.

CHANGES IN ACCOUNTING POLICY

During the year the directors considered the accounting policy on the recognition of the value of long term insurance business. The revised SORP was issued by the Association of British Insurers in November 2003 for application by insurance companies to financial statements for accounting periods beginning on or after 1 January 2004. The revised SORP recommends that the internally generated value of long term insurance business should not be recognised. The existing version of the SORP makes no recommendation on the recognition of the internally generated value of long term insurance business.

During 2003 the International Accounting Standards Board issued an exposure draft, ED5 - Insurance Contracts. ED5 proposed that the continuation of an existing accounting policy that recognises the internally generated value of long term insurance business should be permitted but placed constraints on adopting a new accounting policy that recognises such value.

The directors reviewed the Group's existing policy in the light of the requirement to change the accounting policy in 2004 and the likelihood that the new policy would continue on adoption of International Accounting Standards in 2005. The directors concluded that it would be more appropriate to make the change in the 2003 financial statements and to derecognise the internally generated value of long term insurance business. The financial impact of this accounting policy change is considered in note 1 and the comparatives have been restated.

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

Future contracts, written and purchased options are included within the category to which the contract relates and are valued at market rate. Interest rate swaps are treated as hedges. The interest payable or receivable on interest rate swaps is included in interest paid.

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 the directors' valuation. This is based on net asset value together with the directors' assessment of the value of the shareholders' investment in the long term business of the subsidiary life companies. 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. The long term business provision covers similar liabilities as the above in respect of long term business.

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, 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
- 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 adjuster's 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 annual independent review by external advisors. 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.

Long term business technical provisions are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each long term contract. The computations are made by suitably qualified personnel (who are usually employed by the Group) on the basis of recognised actuarial methods, with due regard to the actuarial principles laid down in European law and by actuarial best practice in the individual territory. The methodology takes into account the risks and uncertainties of the particular classes of long term business written and the results are certified by the professionals undertaking the valuations.

The value of long term business includes the shareholders' share of the net of tax future cash flows arising from the in-force long term business policies and has been calculated in accordance with industry practice. This has been calculated using a projection technique that is sensitive to the assumed investment returns and discount rate. The principal assumptions for the UK long term business are set out in note 36.

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 amount of insured loss suffered by a policyholder as a result of the event occurring
- 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 (e.g. term assurance) the value of the settlement of a claim may be specified under the policy terms while for other classes (e.g. 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, judicial trends, 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.

CONTINGENT LIABILITY

As announced with the six months results, the Group commissioned an independent review of its general business claims provisions from Tillinghast the consulting actuaries, during the year. This review confirmed that the existing Group claims provisions were in a reasonable range, however the Tillinghast estimate was some £800m higher. Following the review, more work was undertaken by internal and external actuaries in validating the claims position. This work continued through the nine months up to these financial statements.

At 31 December 2003, the Group has increased its general business claims provisions as a result of this work. In addition a contingent liability of £200m has been identified in respect of potential adverse claims development. This reflects the inherent uncertainty in determining some aspects of general business claims provisions, in particular very long tail business and claims dependant on court judgements.

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. A significant issue is the long delay in reporting losses 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. There may also be complex technical issues that give rise to delays in notification arising from unresolved legal issues on policy coverage and the identity of the insureds. As a consequence, 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.

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. During 2002 a reinsurance arrangement was entered into, for which a premium of £124m was ceded, which has reduced the Group's exposure in relation to these products in the UK. Further information on financial enhancement products in the USA 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 during 2003 amounted to £50m. Claims provisions of £69m after payments of £13m in 2003 have been established at 31 December 2003 in addition to £58m of unearned premium provision on these products. The ultimate loss estimate over the life of the CDO products is £165m 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 and arbitration in the normal course of its business. The directors do not believe that any current mediation, arbitration and pending or threatened litigation or dispute 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 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.

POTENTIAL MISSELLING OF LIFE PRODUCTS

The Group and its UK insurance subsidiaries continue to be in discussion with the Financial Services Authority ('FSA') in relation to the sale and accounting treatment of regulated life products. These products include the sale of mortgage backed endowments, the treatment of life guaranteed annuity options and the potential effect on holders of policies not subject to such options. These discussions have not been concluded and could result in significant financial consequences for the Group including the provision of further financial support for subsidiaries, changes in the calculation of policyholder liabilities and the possible imposition of penalties by the FSA. In March 2003 the FSA levied a fine of £950,000 on the Group in respect of mortgage endowment sales practices. Based on the information currently available, the directors consider they have made appropriate provisions for such costs and they do not believe that any further costs will have a material adverse effect on the Group's financial position.

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 during 2002 and 2003 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 regulatory environment is subject to significant change over the next few years, in particular in respect of solvency requirements. This is in part attributable to the implementation of EU Directives but is also the natural response of the Regulators to the challenging market conditions that have prevailed over the last few years. The Group continues to have discussions with the FSA on the regulatory capital position of its UK insurance subsidiaries, the progress of the actions announced on 7 November 2002 and 4 September 2003 to improve that position, the implementation of the EU Financial Conglomerates Directive and its interrelationship with the overall capital of the Group. In December 2003 the FSA granted a waiver in respect of the claims discounting provisions within Solvency 1. All waivers are for a limited period. The directors currently expect to apply for a renewal when the waiver expires. There is however a risk that the waiver may not be renewed in which event other options would need to be considered to ameliorate the adverse solvency impact.

The changes that can be expected in the solvency requirements in the UK are generally anticipated to arise in 2004 through 2006, although it is possible that the FSA will bring forward some developments. Inevitably, until the requirements are specified, there will be uncertainty as to the implications for Group solvency and the impact of such developments could materially increase our solvency requirements. The directors believe that, following the actions announced, including the rights issue, the Group are better positioned to comply with these potential regulatory developments. However, there remains considerable uncertainties regarding these developments and potential outcomes.

UK LIFE

The regulatory solvency of the UK Life funds is sensitive to change in investment and other conditions. The reduction in equity exposures of the funds and other actions taken over the last two years to mitigate our risks in these funds, together with the introduction of the new regulatory solvency requirements, have reduced the volatility of capital requirements to investment market fluctuations. However the Life funds remain exposed to fluctuations in equity values, interest rates and property values and to adverse movements in euro/sterling rates.

In 2003 the directors commissioned an external review of the capital requirements of the main UK with-profits Life funds. Taking into account the conclusions of the review, the directors believe that, although the funds retain some exposures to these fluctuations and to certain insurance and operational risks, the funds' existing capital, together with an amount of up to £200m under the contingent loan arrangements discussed below, should be sufficient to meet the funds' solvency requirements in a range of adverse scenarios relating to these matters.

The funds are also exposed to regulatory uncertainty that could increase the capital requirements significantly above this level, dependent on the outcome of discussions with the FSA in relation to the management of the Group's with-profit business, in particular relating to potential non Guaranteed Annuity Rate ('GAR') misselling and the target percentage of asset shares in the calculation of bonuses. The directors estimate that this additional capital requirement could be up to £300m, in the event that an adverse conclusion by the FSA is coincidental with a combination of a number of other factors having an adverse impact on the funds.

The aggregate amount of £500m of potential requirement includes the buffers and margins currently notified to us as being required by the FSA.

Based on the foregoing a Group company has agreed, in certain circumstances, to make loans of up to £650m to the Life funds in order to support their solvency position, should the need arise. £320m of this facility has been drawn at 31 December 2003. The companies are required to maintain capital sufficient to meet the lower of the statutory solvency or estimated realistic position introduced by the FSA early in 2003. On this basis, £146m (31 December 2002 £25m) was required by the Life Funds to meet their requirements. The loans are expected to be repaid.

During the year the Group received permission to adopt, for two of its with-profits life funds, Tiner waivers which resulted in a decreased capital requirement under statutory solvency reserving. This approach improves the capital position of these funds and has enabled Sun Alliance and London Assurance Company to terminate its reinsurance that was previously providing solvency relief.

The FSA proposes to apply to life insurers a framework for individual capital adequacy standards, which will entail the individual self-assessment by firms of their capital needs and the giving of individual capital guidance by the FSA. Individual capital guidance will apply to with-profits and non-profit business and may result in guidance that a life insurer should hold more capital than either the 'realistic' requirement or the minimum requirement calculated pursuant to the EU Life Directive, which are prescribed by the rules. The FSA currently proposes to implement the new rules in the second half of 2004.

UK Life capital requirements are dependant on the outcome of the FSA discussions and the implementation of the capital adequacy standards.

US REGULATORY CAPITAL

The consolidated US regulatory capital and surplus position as at 31 December 2003 is $1,433m. Declines in regulatory capital could trigger action by the insurance regulators. There can be no certainty as to whether, in the light of the other uncertainties affecting the US based operations, or for other reasons, the regulatory position may deteriorate and, if this occurs, what action the US regulators might take.

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 £279m net of reinsurance. This was an unprecedented event, which still has many 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. Most major exposures have now been reserved at policy limits. The estimate of quantum continues to be based on the assumption that the industry position, that the destruction of the World Trade Center towers represents one occurrence rather than two, is correct. However, this is subject to litigation in the US and, as a consequence, there is uncertainty as to the eventual decision. The final cost may be different from the current estimate due to the uncertainties outlined above and it is not possible to reliably estimate the quantum. 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 2003, 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 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. On 30 September 2003, the Court granted summary judgement to MBIA and Wells Fargo. The Court then entered a Judgement on 10 October 2003 which was superseded by a corrected Judgement entered on 27 October 2003. Royal Indemnity filed its Notice of Appeal from the Judgement on 29 October 2003. The summary judgement motions by PNC Bank and Wilmington Trust were still pending at 31 December 2003. It is possible that the Court will decide the Wilmington Trust Motion before 31 March 2004, and the PNC Bank Motion before 30 September 2004, to avoid having to report the Motions as "pending for more than a year". In the event that the Court grants summary judgement to PNC Bank and/or Wilmington Trust, Royal Indemnity plans to appeal from those rulings as well.

The Court's corrected judgement filed on 27 October 2003 awarded MBIA and Wells Fargo approximately $360m. This amount consists of approximately $270m in original claims, $67m in claims accruing from the date the suit was filed to 27 October 2003, and $23m in prejudgment interest accruing to 27 October 2003. If the Court were to grant summary judgement to PNC Bank and Wilmington Trust on the same basis as MBIA/Wells Fargo, the awards would be approximately $121m to PNC Bank and $14m to Wilmington Trust.

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.

STRATEGIC AND OPERATIONAL REVIEW

The programme of strategic and operational improvements is complex and involves a restructuring of, and the implementation of substantial changes to, a significant portion of the Group's operations. In addition, the programme contemplates actions being taken in a number of businesses and jurisdictions simultaneously. Implementation of the planned improvements and realisation of the forecast benefits will be challenging within the timeframe contemplated by the Group. In addition, successful implementation of this programme will require a significant amount of management time and, thus, may affect or impair management's ability to run the business effectively during the period of implementation. This is particularly so in relation to our US operation where a new management team has recently been appointed.

The restructuring plans in the US are complex and are subject to particular risks. 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 plan in the US will be subject to the approval of insurance regulators in many jurisdictions applying differing insurance regulations. The outcome of such proceedings and approvals may lead to conflicting pronouncements and amendments to our restructuring plan 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, or the implementation of alternative transactions, to meet legal or regulatory obligations.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £m	2002 £m
Gross premiums written		**9,929**	11,959
Outward reinsurance premiums		**(3,299)**	(3,324)
Premiums written, net of reinsurance		**6,630**	8,635
Change in the gross provision for unearned premiums		**658**	(368)
Change in the provision for unearned premiums, reinsurers' share		**13**	140
Earned premiums, net of reinsurance		**7,301**	8,407
Claims paid			
Gross amount		**(6,841)**	(8,382)
Reinsurers' share		**1,570**	1,886
		(5,271)	(6,496)
Change in the provision for claims			
Gross amount		**(602)**	(601)
Reinsurers' share		**130**	342
		(472)	(259)
Unwind of discount in respect of claims outstanding		***(63)***	*(53)*
Claims incurred, net of reinsurance		**(5,806)**	(6,808)
Acquisition costs		**(1,928)**	(2,382)
Change in deferred acquisition costs		**(167)**	83
Administrative expenses		**(655)**	(810)
Reinsurance commissions and profit participation		**400**	566
Net operating expenses	3	**(2,350)**	(2,543)
Amortisation of goodwill in acquired claims provisions	15	**(19)**	(25)
Underwriting result		**(811)**	(916)
Unwind of discount in respect of claims outstanding		***(63)***	*(53)*
Balance on the technical account before change in the equalisation provisions		**(874)**	(969)
Change in the equalisation provisions	9	**(24)**	1
Balance on the Technical Account for General Business		**(898)**	(968)

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 26 to 50 form part of these financial statements.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – LONG TERM BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £m	2002 £m
Gross premiums written		**1,579**	2,289
Outward reinsurance premiums		**(106)**	(407)
Earned premiums, net of reinsurance		**1,473**	1,882
Investment income	11	**1,715**	1,460
Unrealised gains on investments		**521**	–
Total technical income		**3,709**	3,342
Claims paid			
Gross amount		**(3,244)**	(3,822)
Reinsurers' share		**48**	76
		(3,196)	(3,746)
Change in the provision for claims			
Gross amount		**(4)**	3
Reinsurers' share		**1**	9
		(3)	12
Claims incurred, net of reinsurance		**(3,199)**	(3,734)
Change in long term business provision			
Gross amount		**1,975**	118
Reinsurers' share		**(705)**	486
		1,270	604
Change in technical provisions for linked liabilities, net of reinsurance		**(301)**	1,331
Change in other technical provisions, net of reinsurance		**969**	1,935
Acquisition costs		**(87)**	(219)
Change in deferred acquisition costs		**(26)**	(58)
Administrative expenses		**(220)**	(207)
Net operating expenses	3	**(333)**	(484)
Investment expenses and charges	11	**(65)**	(68)
Unrealised losses on investments		**–**	*(1,851)*
Tax attributable to the long term business	13	**(193)**	(4)
Other technical charges – amortisation of acquired value of in-force business	17	**(66)**	(13)
Total technical charges		**(2,887)**	(4,219)
Technical income less charges		**822**	(877)
Transfers (to)/from the fund for future appropriations		**(432)**	999
Balance on the Technical Account for Long Term Business		**390**	122

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 26 to 50 form part of these financial statements.

CONSOLIDATED PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £m	2002 £m
Balance on the General Business Technical Account		**(898)**	(968)
Balance on the Long Term Business Technical Account		**390**	122
Tax credit attributable to balance on the Long Term Business Technical Account		**169**	65
Balance on the Long Term Business Technical Account gross of tax		**559**	187
Investment income	11	**1,209**	1,173
Investment expenses and charges	11	***(46)***	(53)
Unrealised losses on investments		**(396)**	(633)
Income from other activities		**21**	63
Charges from other activities	2,3	**(38)**	(72)
Amortisation and impairment of goodwill	15	**(22)**	(713)
Total Group operating profit/(loss)		**359**	(1,012)
Share of results of associated undertakings		**30**	(4)
Profit/(loss) on ordinary activities before exceptional items and tax		**389**	(1,016)
Loss on disposal of subsidiary undertakings	22	**(67)**	(17)
Profit/(loss) on ordinary activities before tax		**322**	(1,033)
Tax (charge)/credit on loss on ordinary activities	13	**(312)**	51
Profit/(loss) on ordinary activities after tax		**10**	(982)
Attributable to equity minority interests		**(19)**	(9)
Loss for the financial year attributable to shareholders		**(9)**	(991)
Dividends	14	**(240)**	–
Transfer from retained profits		**(249)**	(991)

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 26 to 50 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 £m	Restated 2002 £m
Loss for the financial year	**(9)**	(922)
Exchange:		
Group	**12**	(232)
Share of associates	**11**	(8)
Shareholders' consolidated recognised profit/(losses) arising in the year	**14**	(1,162)
Prior year adjustment	**(812)**	
Shareholders' consolidated recognised losses since 31 December 2002	**(798)**	

MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	Share capital/ premium £m	Other reserves £m	Profit and loss account £m	2003 £m	Restated 2002 £m
Shareholders' funds at 1 January (as reported)	25	2,814	881	719	**4,414**	5,995
Prior year adjustment		–	(881)	69	**(812)**	(1,232)
Shareholders' funds at 1 January (as restated)		2,814	–	788	**3,602**	4,763
Shareholders' consolidated recognised profit/(losses)		-	–	14	**14**	(1,162)
Issue of share capital		960	–	–	**960**	–
Goodwill written back	22	-	–	98	**98**	1
Dividends	14	–	–	(240)	**(240)**	–
Shareholders' funds at 31 December		3,774	–	660	**4,434**	3,602

The accounting policies on pages 8 to 11 and the notes on pages 26 to 50 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2003

ASSETS	Notes	2003 £m	Restated 2002 £m
Intangible assets	15	**216**	304
Investments			
Land and buildings	16	**3,107**	2,957
Interests in associated undertakings	20	**121**	165
Other financial investments			
Shares and other variable yield securities and units in unit trusts		**4,895**	5,900
Debt securities and other fixed income securities		**30,752**	29,878
Loans and deposits with credit institutions		**950**	1,593
	16	**36,597**	37,371
Value of long term business	17	**-**	86
Deposits with ceding undertakings		**62**	179
Total investments		**39,887**	40,758
Assets held to cover linked liabilities	16	**3,874**	4,169
Reinsurers' share of technical provisions			
Provision for unearned premiums		**583**	654
Long term business provision		**120**	820
Claims outstanding		**4,203**	4,493
Technical provisions for linked liabilities		**6**	6
		4,912	5,973
Debtors			
Debtors arising out of direct insurance operations	18	**2,379**	2,980
Debtors arising out of reinsurance operations		**1,125**	1,090
Deferred taxation		**61**	203
Other debtors		**693**	451
		4,258	4,724
Other assets			
Tangible assets	19	**133**	198
Cash at bank and in hand		**486**	950
		619	1,148
Prepayments and accrued income			
Accrued interest and rent		**506**	515
Deferred acquisition costs – long term		**20**	254
Deferred acquisition costs – general		**701**	972
Other prepayments and accrued income		**124**	91
		1,351	1,832
Total assets		**55,117**	58,908

The accounting policies on pages 8 to 11 and the notes on pages 26 to 50 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2003

LIABILITIES	Notes	2003 £m	Restated 2002 £m
Capital and reserves			
Called up share capital	26	**1,128**	168
Share premium account		**2,646**	2,646
Profit and loss account		**660**	788
Shareholders' funds	25	**4,434**	3,602
Equity minority interests in subsidiary undertakings		**346**	405
Total capital and reserves		**4,780**	4,007
Fund for future appropriations		**2,104**	1,669
Technical provisions			
Provision for unearned premiums		**3,888**	5,155
Long term business provision	27	**22,212**	24,661
Claims outstanding		**14,782**	15,371
Equalisation provisions	9	**319**	293
		41,201	45,480
Technical provisions for linked liabilities		**3,873**	4,168
Provisions for other risks and charges	29	**397**	303
Deposits received from reinsurers		**250**	137
Creditors			
Creditors arising out of direct insurance operations		**378**	463
Creditors arising out of reinsurance operations		**554**	834
Debenture loans	30	**12**	15
Amounts owed to credit institutions	30	**22**	30
Other creditors including taxation and social security	31	**1,084**	1,364
		2,050	2,706
Accruals and deferred income		**462**	438
Total liabilities		**55,117**	58,908

Except for certain debenture loans and amounts owed to credit institutions shown in note 30, all creditors are payable within a period of five years.

The accounting policies on pages 8 to 11 and the notes on pages 26 to 50 form part of these financial statements.

PARENT COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2003

ASSETS	Notes	2003 £m	2002 £m
Intangible assets		**3**	5
Investments			
Land and buildings	16	**343**	221
Investments in Group undertakings and participating interests			
Shares in subsidiary undertakings	23	**6,962**	7,562
Interests in associated undertakings	20	**8**	45
		6,970	7,607
Other financial investments			
Shares and other variable yield securities and units in unit trusts		**966**	749
Debt securities and other fixed income securities		**2,812**	1,782
Loans and deposits with credit institutions		**364**	369
	16	**4,142**	2,900
Deposits with ceding undertakings		**22**	101
Total investments		**11,477**	10,829
Reinsurers' share of technical provisions			
Provision for unearned premiums		**344**	309
Claims outstanding		**1,613**	1,665
		1,957	1,974
Debtors			
Debtors arising out of direct insurance operations	18	**1,397**	1,356
Debtors arising out of reinsurance operations		**817**	377
Amounts owed by Group undertakings		**961**	1,210
Dividend receivable		**1**	–
Deferred taxation		**47**	79
Other debtors		**135**	111
		3,358	3,133
Other assets			
Tangible assets	19	**49**	51
Cash at bank and in hand		**99**	150
		148	201
Prepayments and accrued income			
Accrued interest and rent		**117**	101
Deferred acquisition costs – general		**413**	464
Other prepayments and accrued income		**54**	2
		584	567
Total assets		**17,527**	16,709

The accounting policies on pages 8 to 11 and the notes on pages 26 to 50 form part of these financial statements.

PARENT COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2003

LIABILITIES	Notes	2003 £m	2002 £m
Capital and reserves			
Ordinary share capital	26	**1,128**	168
Share premium account		**2,646**	2,646
Revaluation reserve		**–**	(30)
Profit and loss account		**1,161**	1,630
Total capital and reserves	25	**4,935**	4,414
Technical provisions			
Provision for unearned premiums		**2,035**	2,203
Claims outstanding		**6,161**	5,988
Equalisation provisions	9	**254**	255
		8,470	8,446
Provisions for other risks and charges	29	**110**	62
Deposits received from reinsurers		**42**	12
Creditors			
Creditors arising out of direct insurance operations		**208**	244
Creditors arising out of reinsurance operations		**282**	340
Amounts owed to credit institutions	30	**16**	33
Amounts owed to Group undertakings		**2,971**	2,721
Other creditors including taxation and social security		**144**	171
		3,621	3,509
Accruals and deferred income		**349**	266
Total liabilities		**17,527**	16,709

Except for certain debenture loans and amounts owed to credit institutions shown in note 30, all creditors are payable within a period of five years.

The Accounting Policies on pages 8 to 11 and the notes on pages 26 to 50 form part of these financial statements.

The financial statements on pages 8 to 25 were approved on 29 March 2004 by the Board of Directors and are signed on its behalf by:

JULIAN HANCE
Group Finance Director

NOTES ON THE ACCOUNTS

1. **IMPACT OF CHANGES ARISING FROM ACCOUNTING POLICY CHANGES**

There is no impact (2002 Profit £69m) on the loss on ordinary activities arising from the change in accounting policy to no longer recognise the internally generated value of the long term insurance business. The impact on the Statement of Total Recognised Gains and Losses is to decrease the consolidated shareholders' funds by **£812m** being the effect of not recognising the value of the internally generated long term insurance business at 31 December 2002.

2. **REORGANISATION COSTS AND OTHER ITEMS**

Other items within the Non-Technical Account include:

	General Business		Long Term Business		Other Activities	
	2003 £m	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Reorganisation costs	**171**	71	**–**	5	**–**	3
Amortisation and write off of the present value of acquired in-force business	**–**	–	**66**	13	**–**	–

Reorganisation costs comprise employee redundancy costs and vacant lease accruals mainly in the UK and US.

3. **NET OPERATING EXPENSES AND OTHER CHARGES**

	General business		Long term business	
	2003 £m	2002 £m	**2003 £m**	2002 £m
a. Net operating expenses in the technical accounts include:				
Depreciation	**49**	65	**21**	10
Operating lease rentals – premises	**87**	93	**2**	6
Operating lease rentals – other assets	**14**	18	**–**	–

b. Charges from other activities in the Non-Technical Account include depreciation of **£nil** (2002 £1m), operating lease rentals – premises of **£4m** (2002 £5m) and operating lease rentals – other assets of **£nil** (2002 £1m).

c. During the year a fine of **£950,000** was levied by the Financial Services Authority in respect of mortgage endowment sales practices.

4. **EXCHANGE RATES**

In respect of the major overseas currencies the rates of exchange used in these financial statements are US Dollar **1.79** (2002 1.61), Canadian Dollar **2.31** (2002 2.54), and Danish Kroner **10.57** (2002 11.40).

5. **LONG TERM INSURANCE BUSINESS**

	Gross		Net	
	2003 £m	2002 £m	**2003 £m**	2002 £m
New business premiums written during the year were as follows:				
Annual premiums	**102**	135	**100**	129
Single premiums	**550**	960	**519**	613
	652	1,095	**619**	742

Total reversionary and terminal bonuses included within the Long Term Business Technical Account are **£356m** (2002 £536m).

During 2003, the attribution of accumulated surpluses in the non-participating element of one of the Group's UK insurance companies, Phoenix Assurance plc ('Phoenix'), was determined. As a result the surplus attributable to shareholders was transferred to shareholders' funds in accordance with the Group's Accounting Policies.

This has resulted in the recognition of the exceptional profit before taxation on UK long term insurance business during 2003 of **£444m** (2002 £nil). 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** (2002 £nil).

6. EMPLOYEE INFORMATION

	2003 £m	2002 £m
Staff costs for all employees comprise:		
Wages and salaries	**822**	1,054
Social security costs	**58**	72
Pension costs	**99**	94
	979	1,220

	As at 31 December		Average for year	
	2003 Number	2002 Number	2003 Number	2002 Number
The number of employees of the Group during the year was as follows:				
UK	**12,834**	17,648	**14,655**	18,530
Scandinavia	**7,671**	7,994	**7,857**	7,947
US	**3,898**	6,424	**5,226**	6,727
Canada	**2,668**	2,736	**2,568**	2,782
International	**4,698**	5,031	**4,450**	5,614
Australia and New Zealand	–	6,045	**2,039**	5,835
	31,769	45,878	**36,795**	47,435

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, USA, 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 are 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 have the option of paying contributions, initially at the rate of 2.5% of pensionable salaries, to maintain future benefit accrual on the current basis, or pay no contributions and have a reduced rate of future benefit accrual.

The total pension cost for the Group in 2003 was **£99m** (2002 £89m) of which **£40m** (2002 £38m) related to defined benefit schemes in the UK and **£12m** (2002 £9m) related to schemes in the USA. Contributions of **£3m** were made to defined contribution schemes in the UK and **£28m** (2002 £20m) 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 USA scheme 1 January 2003), for the purpose of assessing pension costs, the market value of the assets of these schemes was **£3,793m** (2002 £3,858m). 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.

7. **RETIREMENT BENEFITS (CONTINUED)**

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%** p.a. 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 2003 were **23%** and **20%** of salaries respectively with arrears of contributions at these rates back to the respective valuation dates plus an amount of **£20m** in respect of one of the schemes where there was a deficit on the valuation funding basis. In 2004, contributions will continue at the rates of 23% and 20% respectively plus an amount of **£43m** will be paid. Further valuations are due in 2004 when the position will be reviewed. 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 **£57m** (2002 £73m) and a credit of **£11m** (2002 £34m). 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.

There are no significant contributions outstanding or prepaid as at 31 December 2003 resulting from the difference between the amounts charged to revenue and the amounts contributed to schemes in the UK and in provisions an amount of **£8m** (2002 £8m) in respect of overseas schemes.

b. Other post-retirement benefits

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

At 31 December 2003 the unprovided accumulated obligation in the United States is estimated at **£4m** (2002 £15m). The assumptions used for the charge to the profit and loss account assume a pre-65 premium inflation for medical care initially of **10%** reducing over eight years to **5%** and a post-65 premium inflation of **12%** reducing over ten years to 5% (2002 13% reducing over eleven years to 4.25%) and a discount rate of **6%** (2002 6.5%). The unprovided accumulated obligation in Canada is estimated at **£5m** (2002 £5m) assuming a premium inflation for medical *care of* **8%** *(2002 8%) reducing over ten years to* **5%** *(2002 4%) for one scheme and* **10%** *(2002 10%) decreasing by* **0.5%** per year to **5%** per year (2002 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 (2002 4% and 5%) and a discount rate of **6.5%** for both schemes (2002 6.75% for both schemes).

The benefits are accounted for on a systematic basis over the remaining service lives of current employees, the cost in the year being **£9m** (2002 £6m). In Canada the costs of meeting the liability for these benefits are expected to attract taxation relief when paid. The total provision included *in the Consolidated Balance Sheet is* **£43m** *(2002 £42m).*

7. RETIREMENT BENEFITS (CONTINUED)

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 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 2003 £m**	Total 2002 £m
Current service cost	85	11	6	**102**	112
Past Service cost	49	4	1	**54**	16
Curtailment gains	(20)	(20)	–	**(40)**	(10)
Settlement gains	(6)	–	–	**(6)**	–
Total Charge/(credit) to be included in Group operating result	108	(5)	7	**110**	118
Expected return on assets	(184)	(16)	(11)	**(211)**	(288)
Interest cost	198	25	11	**234**	256
Total financing charge/(income) to be included in Group operating result	14	9	–	**23**	(32)
Amounts to be recognised within Statement of Total Recognised Gains and Losses:					
Actual return/(deficit) on assets in excess of expected	229	18	9	**256**	(712)
Experience gains/(losses) on liabilities	(60)	9	(1)	**(52)**	113
Change in actual assumptions	(221)	(33)	4	**(250)**	62
Movement in irrecoverable surplus	–	–	–	–	2
Actuarial gain/(loss)	(52)	(6)	12	**(46)**	(535)

	UK schemes %	US schemes %	Other schemes %	**Total 2003 %**	Total 2002 %
Difference between expected and actual return as a percentage of on scheme assets	6.5	7.3	6.3	**6.5**	(19.6)
Experience gains/(losses) as a percentage of scheme liabilities	(1.5)	2.1	(0.6)	**(1.1)**	2.6
Other as a percentage of scheme liabilities	(5.5)	(7.8)	2.5	**(5.4)**	(1.4)
Total actuarial gain/(loss) to be recognised in Statement of Total Recognised Gains and Losses as a percentage of scheme liabilities	(1.3)	(1.4)	7.6	**(1.0)**	(12.3)

Movement in net deficit during the year	**2003 £m**	2002 £m
Deficit at 1 January	**(724)**	(195)
Exchange	**18**	19
Total operating charge	**(110)**	(118)
Employer contribution	**201**	56
Total financing (charge)/income	**(23)**	32
Actuarial loss	**(46)**	(535)
Disposal of subsidiaries	**9**	17
Deficit at 31 December	**(675)**	(724)

7. RETIREMENT BENEFITS (CONTINUED)

The value of the liability that would be included in the Consolidated Balance Sheet at 31 December 2003 if FRS17 had been fully adopted in the financial statements is as follows:

	UK schemes £m	US schemes £m	Other schemes £m	**Total 2003 £m**	Total 2002 £m	Total 2001 £m
Equities	1,742	136	80	**1,958**	1,707	2,994
Bonds	1,516	102	58	**1,676**	1,594	838
Other	275	7	4	**286**	334	388
Fair value of assets held by pension schemes	3,533	245	142	**3,920**	3,635	4,220
Present value of pension and post-retirement schemes liabilities	(4,014)	(423)	(158)	**(4,595)**	(4,359)	(4,415)
Net deficit	(481)	(178)	(16)	**(675)**	(724)	(195)
Unrecognised past service costs	–	–	1	**1**	–	–
Surplus not recoverable	–	–	–	–	–	(2)
Related deferred tax asset	144	–	5	**149**	230	69
Net pension and post retirement liability	(337)	(178)	(10)	**(525)**	(494)	(128)
Analysed						
Pension asset	–	–	–	–	3	28
Pension and post-retirement liability	(337)	(178)	(10)	**(525)**	(497)	(156)
Net pension and post-retirement liability	(337)	(178)	(10)	**(525)**	(494)	(128)

The full valuation dates for the main UK schemes were 31 March 2002 and 30 June 2002 respectively and the US schemes were 1 January 2003. These valuations have been updated at 31 December 2003 to take account of changes in the fair value of the assets and financial assumptions. The main assumptions are as follows:

	UK Schemes			US Schemes			Other Schemes		
	2003 %	2002 %	2001 %	**2003 %**	2002 %	2001 %	**2003 %**	2002 %	2001 %
Assumptions									
Annual rate of general inflation	**2.5**	2.3	2.5	**2.5**	3.0	3.0	**2.0**	2.2	2.1
Annual rate of increase in salaries	**4.0**	3.8	4.0	**4.8**	4.5	4.5	**4.0**	4.2	4.0
Annual rate of increase for pensions in payment and deferred pensions	**2.5**	2.3	2.5	–	–	–	**2.0**	1.8	1.9
Interest rate used to discount liabilities	**5.4**	5.5	5.7	**6.0**	6.5	7.0	**6.5**	6.2	5.9
Expected rate of return to be assumed for each class									
Equities	**7.3**	7.0	7.5	**9.0**	9.0	9.0	**9.5**	8.6	8.8
Bonds	**4.8**	4.6	5.0	**6.0**	6.0	6.0	**6.0**	5.7	5.7
Other	**6.3**	6.0	6.3	**2.0**	2.0	2.0	**3.0**	4.7	4.0

As at 31 December 2003 the valuation of liabilities for post-retirement benefits in the US assumes a pre-65 premium inflation rate of **9%** decreasing to **5%** by 2011 and a post-65 premium inflation rate of **11%** decreasing to **5%** by 2013. The valuation of liabilities in Canada assumes **8%** decreasing to **5%** in ten years for medical care and **4%** p.a. for dental. 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 (2001 12% decreasing to 5% by 2008).

7. RETIREMENT BENEFITS (CONTINUED)

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

	Profit and loss account reserve	
	Restated 2003 £m	Restated 2002 £m
Profit and loss account reserve as reported at 31 December	**660**	788
Less pension and post-retirement FRS 17 liabilities net of tax	**(525)**	(494)
	135	294
Add pension and post-retirement liabilities that would be reversed on the implementation of FRS 17 net of tax	**45**	31
Profit and loss account reserve on FRS 17 basis at 31 December	**180**	325

Included in the proforma profit and loss account reserve is a pension and post-retirement reserve on a FRS 17 basis at 31 December 2003 of **£(397)m** (2002 £(342)m).

8. DIRECTORS' EMOLUMENTS

	2003 £000	2002 £000
The aggregate emoluments of the directors, including amounts received from subsidiaries, were as follows:		
Salaries and bonuses	**3,208**	2,764
Allowances, benefits and other awards	**590**	739
Compensation for loss of office	**179**	2,049
	3,977	5,552

Included within salaries and bonuses is £300,000, relating to R J Gunn's employment with the Group up to his resignation from the Board on 2 April 2003.

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.

The compensation for loss of office amount comprises a payment in lieu of notice in accordance with the contract of employment for S. Pennington.

	2003 £000	2002 £000
The emoluments of the highest paid director (A K Haste (2002 R V Mendelsohn)) were:		
Salaries, benefits and compensation for loss of office	**1,379**	2,457

At 31 December 2003, the highest paid director had accrued annual pension of **£1,239**. 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 2003. Retirement benefits accrued under defined benefit schemes for all six directors who served during the year. Contributions of **£nil** (2002 £30,650) were made to a money purchase pension 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	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Provisions at 1 January	**293**	331	**255**	251
Exchange movement on non-UK provisions	**2**	5	**–**	–
(Credited)/charged to the General Business Technical Account and in the profit on ordinary activities before tax	**24**	(1)	**(1)**	4
Disposal of subsidiaries	**–**	(42)	**–**	–
Provisions at 31 December	**319**	293	**254**	255

The cumulative impact of equalisation provisions on shareholders' funds at 31 December 2003 is **£308m** (2002 £287m).

10. QUOTA SHARE REINSURANCE TREATY

During 2003, the Group entered into a 15% quota share reinsurance programme which covers the majority of the Group's general business written in the UK, Denmark, Ireland, US and Canada. The total amount of premiums ceded in 2003 was **£678m** (2002 £698m). Earned premiums reflect **£343m** (2002 £312m) in respect of an opening portfolio adjustment which has been paid, and **£291m** (2002 £327m) of closing portfolio adjustment receivable at 31 December 2003, which is included in debtors arising out of reinsurance operations.

As from 1 January 2004, the Group entered into a 8% quota share reinsurance programme covering the majority of the general business written in the UK, Denmark, Ireland and Canada.

11. INVESTMENT INCOME, EXPENSES AND CHARGES

	Technical Account Long Term Business		Non-Technical Account	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Investment Income				
Income from associated undertakings				
Profit before gains on the realisation of investments	–	–	**25**	10
Gains on the realisation of investments	–	–	**2**	9
	–	–	**27**	19
Other investment income				
Income from land and buildings	**190**	182	**22**	17
Income from other investments	**1311**	1,383	**686**	776
(Losses)/gains on the realisation of investments	**214**	(105)	**474**	361
	1,715	1,460	**1,182**	1,154
	1,715	1,460	**1,209**	1,173
Investment expenses and charges				
Interest on borrowings	**(25)**	(20)	**(24)**	(26)
Investment management expenses	**(40)**	(48)	**(22)**	(27)
	(65)	(68)	**(46)**	(53)
Net investment income	**1,650**	1,392	**1,163**	1,120

12. AUDITORS' REMUNERATION	2003 £000	2002 £000
Audit of Group accounts		
PricewaterhouseCoopers LLP	**2,670**	3,348
Other	**348**	287
	3,018	3,635
Other statutory audit		
PricewaterhouseCoopers LLP	**1,222**	1,191
Other	**37**	34
	1,259	1,225
	4,277	4,860

Remuneration for audit includes **£595,000** (2002 £595,000) in respect of the Parent Company.

Non-audit fees of **£3,020,000** (2002 £6,427,000) in the UK during the year were payable to PricewaterhouseCoopers LLP. Of these **£1,057,000** (2002 £394,000) were for assurance services, **£1,084,000** (2002 £1,751,000) were for tax advisory services and **£879,000** (2002 £4,282,000) were for other non audit services. In 2002 this included £2,002,000 payable to PwC Consulting which in 2003 is no longer owned by PricewaterhouseCoopers LLP.

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	
	2003 £m	Restated 2002 £m	2003 £m	Restated 2002 £m
Current tax				
UK Corporation tax	**62**	118	**77**	51
Double taxation relief	**(1)**	(1)	**(13)**	(8)
Overseas taxation	**12**	111	**29**	(51)
Taxation surplus (release)/addition	**–**	–	**(20)**	14
Prior year items	**(3)**	(5)	**(8)**	28
Total current tax	**70**	223	**65**	34
Tax attributable to the long term business	**–**	–	**169**	65
Deferred tax				
Timing differences – origination and reversal	**144**	(271)	**77**	(180)
Movement in discount	**(21)**	52	**1**	30
Tax charge/(credit)	**193**	4	**312**	(51)
Analysed				
Parent and subsidiaries	**193**	4	**297**	(54)
Associated undertakings	**–**	–	**15**	3

UK corporation tax for the current year in the Non-Technical Account is based on a rate of **30%** (2002 30%). Further details of current and deferred tax are given in notes 29, 31 and, 32

The tax charge for UK corporation tax in the Long Term Technical Account is provided at rates between **20%** and **30%** (2002 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 2003 and 2002 is more than 30% due to the items set out in the reconciliation below:

	2003 £m	Restated 2002 £m
Profit/(Loss) on ordinary activities before tax	**322**	(964)
Tax at 30%	**97**	(289)
Factors affecting charge		
Disallowed expenditure	**73**	66
Goodwill	**54**	208
Tax exempt income and investment gains	**(90)**	(70)
Tax losses not recognised	**135**	–
Non-deductible movement in US claims discounting	**105**	–
Adjustment for non-UK tax rates	**(31)**	(37)
Adjustment to prior year provisions	**(29)**	41
Other timing differences other than on long term business	**(80)**	180
Current tax charge for the period	**234**	99

14. DIVIDENDS

	2003 £m	2002 £m
Ordinary		
First interim paid 4.2p (2002 £nil)	**50**	–
Second interim paid 7.5p (2002 £nil)	**190**	–
	240	–

15. INTANGIBLE ASSETS

	Goodwill in acquired claims provisions £m	Goodwill arising on acquisition £m	Total £m
Cost			
At 1 January 2003	219	1,043	1,262
Exchange	(6)	(29)	(35)
Additions	–	1	1
Disposals	–	(216)	(216)
At 31 December 2003	**213**	**799**	**1,012**
Amortisation			
At 1 January 2003	(126)	(832)	(958)
Exchange	6	45	51
Charge for the year	(19)	(22)	(41)
Disposals	–	152	152
At 31 December 2003	**(139)**	**(657)**	**(796)**
Net book value			
At 31 December 2003	**74**	**142**	**216**
At 31 December 2002	93	211	304

16. INVESTMENTS

	Consolidated		Parent Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Land and buildings				
Freehold	**2,900**	2,738	**343**	221
Long leasehold	**198**	207	**–**	–
Short leasehold	**9**	12	**–**	–
Total land and buildings	**3,107**	2,957	**343**	221
Of which Group occupied	**433**	369	**96**	133
Other financial investments				
Shares and other variable yield securities and units in unit trusts	**4,880**	5,885	**966**	749
Debt securities and other fixed income securities:				
British government securities	**7,692**	6,906	**1,231**	976
Other government securities	**8,541**	7,062	**614**	467
Local authority securities	**224**	652	**6**	6
Corporate bonds	**14,046**	15,032	**946**	316
Preference shares	**249**	226	**15**	17
Loans secured by mortgages	**82**	272	**–**	–
Other loans (see below)	**60**	66	**6**	1
Deposits with credit institutions	**808**	1,255	**358**	368
Total other financial investments	**36,582**	37,356	**4,142**	2,900
Listed investments				
Included in total investments are the following:				
Interests in associated undertakings	**94**	71	**–**	–
Shares and other variable yield securities and units in unit trusts	**4,316**	5,465	**805**	640
Debt securities and other fixed income securities	**24,796**	24,168	**2,048**	1,706
	29,206	29,704	**2,853**	2,346

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** (2002 £15m).

This comprises a total of **15.4m** (2002 12.2m) 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 **£4,161m** (2002 £4,814m) 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 **£1m** (2002 £368m) with a historical cost of **£1m** (2002 £340m), a market value of **£1m** (2002 £384m) and a redemption value of **£1m** (2002 £378m).

Other loans shown above for the consolidated balance sheet include amounts of **£10m** (2002 £19m) relating to policyholder loans.

The historical cost of total investments (excluding value of long term business) included in the consolidated balance sheet is **£37,645m** (2002 £37,768m). The historical cost of assets held to cover linked liabilities is **£3,531m** (2002 £4,324m).

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 **£5m** (2002 £13m). The cumulative unamortised acquired value of long term business at 31 December 2003 amounted to **£nil** (2002 £86m), after write off of **£61m** (2002 £nil).

	2003 £m
Cost	
At 1 January 2003	**123**
Exchange	**10**
Disposal of subsidiary undertakings	**(35)**
At 31 December 2003	**98**
Amortisation	
At 1 January 2003	**(37)**
Exchange	**(4)**
Charge for the year	**(66)**
Disposal of subsidiary undertakings	**9**
At 31 December 2003	**(98)**
Net book value	
At 31 December 2003	**–**
At 31 December 2002	86

18. DEBTORS

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

	Consolidated		*Parent Company*	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Due from policyholders	**1,224**	1,211	**737**	611
Due from intermediaries	**1,155**	1,769	**660**	745
	2,379	2,980	**1,397**	1,356

19. TANGIBLE ASSETS

	Consolidated £m	Parent Company £m
Cost		
At 1 January 2003	658	179
Exchange	3	(1)
Additions	47	21
Disposals	(88)	(20)
Disposals of subsidiary undertakings	(93)	–
At 31 December 2003	**527**	**179**
Depreciation		
At 1 January 2003	460	128
Exchange	1	(1)
Charge for the year	70	15
Disposals	(74)	(12)
Disposals of subsidiary undertakings	(63)	–
At 31 December 2003	***394***	***130***
Net book value		
At 31 December 2003	**133**	**49**
At 31 December 2002	198	51

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 2003 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	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Shares at cost				
At 1 January	**249**	308	**45**	51
Exchange	**4**	(1)	**(1)**	–
Acquisitions	–	1	–	–
Disposals/transfers	**(80)**	(59)	**(45)**	(1)
At 31 December	**173**	249	**(1)**	50
Adjustment to valuation	**(52)**	(84)	**9**	(5)
Net book value	**121**	165	**8**	45

Balances due from associated undertakings at 31 December 2003 amounted to **£5m** (2002 £5m).

During the year the Group disposed of its interest in RACI Pty Ltd and Global Aerospace Underwriting Managers Ltd.

21. ACQUISITIONS OF SUBSIDIARY UNDERTAKINGS

During the year, acquisitions of subsidiary undertakings which had a book value of **£nil** on acquisition were made for a total cash consideration of **£1m**. Goodwill of **£1m** arising on those acquisitions has been capitalised and is being amortised. The Group has used the acquisition method to account for all acquisitions. The amortisation period for Group acquisitions and the minority purchases made during the year is 10 years, being the period over which the value of the businesses acquired are expected to exceed the value of their underlying assets.

During the year, the Group acquired for **£9m** further minority interests in existing subsidiaries.

22. DISPOSAL OF SUBSIDIARY UNDERTAKINGS

During the year, disposals of subsidiary undertakings were made for a total consideration of **£809m**.

The disposals of subsidiaries and books of business gave rise to an exceptional pre tax profit of **£31m** prior to write off of goodwill of **£98m**. Group disposals during the year comprise:

1. The UK Healthcare & Assistance business which was sold on 4 April 2003. The transaction generated proceeds, net of costs, of **£121m** and generated an exceptional pre tax profit of **£114m.**

2. The Group disposed of its Australian & New Zealand general and life businesses on 11 May 2003 through an Initial Public Offering. The transaction generated proceeds, net of costs, of **£507m** and generated an exceptional pre tax loss of **£123m.**

3. The Group disposed of its interests in Royal Specialty Underwriting Inc on 9 June 2003 and Landmark American Insurance Company on 30 September 2003 and on 31 August 2003 sold certain renewal rights to the Travelers Group. These transactions generated proceeds, net of costs of **£92m** and generated an exceptional pre tax profit of **£71m.**

4. Royal & Sun Alliance Insurance (Company of Puerto Rico) Inc was sold on 8 October 2003. The transaction generated proceeds, net of costs, of **£36m** and generated an exceptional pre tax profit of **£7m.**

5. The group disposed of its 51% interest in Compania de Seguros de Vida La Construccion on 3 December 2003.The transaction generated *proceeds, net of costs, of* ***£40m*** *and generated an exceptional pre tax loss of* ***£24m.***

6. A number of other disposals were made during the year for net sales proceeds of **£13m** which generated in aggregate, an exceptional pre tax loss of **£14m.**

7. Goodwill of **£98m** 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 2003, 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 2003 are set out on pages 48 and 49. 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:

	2003 £m	2002 £m
Shares at cost		
At 1 January	**7,193**	7,029
Acquisitions	**25**	164
At 31 December	**7,218**	7,193
Adjustment to net asset value	**(256)**	369
	6,962	7,562

24. CAPITAL COMMITMENTS

The estimated amount of capital commitments contracted but not provided for in these financial statements is **£48m** (2002 £210m). 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 **£183m** (2002 £281m).

Parent

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

	Share capital/ premium £m	Revaluation reserve £m	Profit and loss account £m	**2003 £m**	2002 £m
Shareholders' funds at 1 January (as reported)	2,814	(30)	1,630	**4,414**	5,995
Shareholders' recognised (losses) and gains	–	(600)	401	**(199)**	(1,581)
Transfer	–	630	(630)	–	–
Issue of share capital	960	–	–	**960**	–
Dividends	–	–	(240)	**(240)**	–
Shareholders' funds at 31 December	3,774	–	1,161	**4,935**	4,414

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. This represents a change in accounting policy as previously investments in subsidiaries were included in the Parent Company Balance Sheet at net asset value. However there is no effect in the accounts as in previous years the net asset value of the subsidiary life companies included the value of the shareholders' investment in the long term business.

26. SHARE CAPITAL

	2003 £m	2002 £m
Authorised		
4,750,000,000 (2002 750,000,000) ordinary class A shares of 25p each	**1,188**	188
10 (2002 10) ordinary class B shares of US$1 each	–	–
Issued and fully paid		
4,511,091,326 (2002 671,091,325) ordinary class A shares of 25p each	**1,128**	168
1 (2002 1) ordinary class B share of US$1	–	–

During the year 3,840,000,001 ordinary shares of 25p were issued for a total cash consideration of £960m. The total nominal value of ordinary shares issued during the year was £960m.

27. LONG TERM PROVISION

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

		2003	2002
Interest rates			
Life	– with profit	2.75% to 3.60%	3.15% to 3.60%
Pensions	– with profit	4.15% to 5.00%	4.00% to 4.75%
Annuities	– in payment	5.00% to 5.50%	5.20% to 5.50%
Mortality rates			
Life	– with profit	AM80, AF80 with adjustments	AM80, AF80 with adjustments
Pensions	– with profit	AM80, AF80 with adjustments	AM80, AF80 with adjustments
Annuities	– in payment	PMA92/PFA92(c=2020) with adjustments	PMA92/PFA92 (c=2020) with adjustments

The valuation has been carried out principally using a gross premium method.

During the year the FSA has granted the two principal with-profits companies waivers from certain aspects of the liability valuation rules, which, inter alia, enable them to use the gross premium method and has reduced their liabilities on the statutory solvency basis, with a corresponding increase in the Fund for Future Appropriations.

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

On 11 February 2003, the Group entered into an agreement with Unisys for the provision of administration services and support related functions to all of its UK Life subsidiaries. This agreement was effective from 1 May 2003. Accordingly, the costs set out in this agreement, together with the costs associated with non outsourced functions within the UK Life Operation, form the basis of the expense assumptions within the long term business provision in each of the UK Life subsidiaries.

28. 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 **£11,241m** (2002 £11,529m).

Claims are discounted, as follows:

	Category	Discount rate		Average period to settlement	
		2003 %	2002 %	**2003**	2002
UK	Asbestos & Environmental	**5.00**	5.00	**7 years**	8 years
Scandinavia	Disability	**2.92**	3.10	**12 years**	12 years
US	Asbestos & Environmental	**5.00**	5.00	**11 years**	11 years
	Disability	**5.00**	5.00	**15 years**	15 years
Canada	Asbestos & Environmental	**5.00**	6.00	**6 years**	6 years
Australia & New Zealand	Asbestos & Environmental	–	6.15	–	16 years

The total value of claims discount amounted to **£662m** (2002 £651m) of which **£505m** (2002 £187m) related to the UK insurance entities.

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 2003 of **£653m** (2002 £625m). 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 liability business, including bodily injury claims on motor portfolios, in Canada, Scandinavia and Ireland, speciality general liability including asbestos in the US, asbestos claims in the UK, workers compensation claims in the US and Denmark and the discontinued inwards reinsurance book in the UK.

29. 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 2003	101	82	50	70	**303**
Exchange adjustments	(1)	6	(2)	–	**3**
Charged/(credited)	202	200	58	131	**591**
Utilised	(172)	–	(50)	(94)	**(316)**
Transfer to other debtors	–	(120)	–	–	**(120)**
Disposal of subsidiary undertakings	–	(53)	(5)	(6)	**(64)**
At 31 December 2003	130	115	51	101	**397**
Parent Company					
At 1 January 2003	27	–	1	34	**62**
Charged/transferred	79	–	–	41	**120**
Utilised	(71)	–	(1)	–	**(72)**
At 31 December 2003	35	–	–	75	**110**

Reorganisation provisions comprise costs relating to reorganisations mainly within the US general business and UK life and general business. 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 **£6m**, the payment of which are dependent upon legal processes. In addition, there are provisions of **£53m** held relating to vacant property leases, dilapidations an 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 **£52m** 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.

30. BORROWINGS

		Consolidated		Parent Company	
		2003 £m	2002 £m	**2003 £m**	2002 £m
Debenture loans					
Secured (note 3 below)	5% (2002 10.47%) mortgage loans	**12**	15	–	–
Unsecured	Commercial paper	–	–	–	–
Total debenture loans		**12**	15	–	–
Amounts owed to credit institutions – unsecured		**22**	30	**16**	33
Total borrowings		**34**	45	**16**	33
Repayable as follows:					
1 year or less		**19**	26	**16**	33
Between 1 and 2 years		**1**	1	–	–
Between 2 and 5 years		**1**	2	–	–
After 5 years		**13**	16	–	–
		34	45	**16**	33

Notes:

1. Interest payable on amounts repayable within five years was **£4m** (£2002 £17m) and after five years **£1m** (2002 £2m).

2. There were no loans at 31 December 2003 (2002 £nil) from credit institutions under committed credit facilities. At 31 December 2003 total committed credit facilities available to the Group were **£400m** (2002 £800m) of which **£83m** (2002 £800m) expire within one year, **£83m** (2002 £nil) expire within one to two years and **£234m** (2002 £nil) 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 are secured on certain properties of the Group.

31. OTHER CREDITORS

Other creditors including taxation and social security in the consolidated balance sheet includes a liability of **£134m** (2002 £170m) in respect of corporation tax payable.

Other creditors including taxation and social security in the Parent Company balance sheet includes **£1m** (2002 £8m) in respect of corporation tax payable.

32. DEFERRED TAXATION

	Combined consolidated	
	2003 £m	2002 £m
Consolidated		
Unrealised investment gains	**(164)**	(260)
Other timing differences other than on long term business	**67**	332
	(97)	72
Discount	**26**	7
	(71)	79
Pension costs	**17**	42
Deferred tax (provision)/asset	**(54)**	121
Parent Company		
Unrealised losses arising from investments other than long term business	**(52)**	(24)
Other timing differences other than on long term business	**103**	83
	51	59
Discount	**(4)**	(4)
	47	55
Pension costs	**–**	24
Deferred tax asset	**47**	79

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.** 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 **£43m,** or for non UK tax losses and other tax assets with a value of **£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%.

33. OPERATING LEASES

	Land & buildings		Other	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Consolidated				
Annual commitments under non cancellable operating leases which expire:				
1 year or less	**7**	10	**2**	4
Between 2 and 5 years	**24**	38	**6**	11
After 5 years	**50**	53	**–**	–
	81	101	**8**	15
Parent Company				
1 year or less	**1**	1	**–**	–
Between 2 and 5 years	**5**	3	**–**	1
After 5 years	**27**	31	**–**	–
	33	35	**–**	1

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

34. MANAGED FUNDS

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

	2003 £m	2002 £m
Land and buildings	**66**	65
Shares and other variable yield securities and units in unit trusts	**260**	302
Debt securities and other fixed income securities	**107**	85
Cash at bank and in hand	**9**	14
	442	466
Debtors	**2**	2
Creditors	**(1)**	(2)
Net assets	**443**	466

35. 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 subsidiary companies of the Group. Such policies are on normal commercial terms except that executive directors and key managers are entitled to special rates which are also available to other members of staff. The Board has considered the financial effect of such insurance policies and other transactions with Group companies and has concluded that they are not material to the Group or the individuals concerned and, if disclosed, would not influence decisions made by users of these financial statements.

The Board has also concluded that there are no transactions with other directors or key managers that are material to their own financial affairs.

The Company entered into an arrangement on 30 September 2003 with Royal Indemnity Company, a wholly owned US subsidiary, for the purchase of certain premium receivables and reinsurance recoverables. The amount included within debtors on at 31 December 2003 was **£37.9m.**

36. SHAREHOLDERS' INTEREST IN LONG TERM BUSINESS

The total shareholders' interest in long term business represents those assets which the directors assess to be the amount maintained in support of the long term business and comprises:

	UK £m	Scandinavia £m	International £m	2003 £m	Restated 2002 £m
Shareholders' accrued interest	321	–	–	**321**	71
Value of long term business	–	–	–	–	86
Shareholders' funds	372	316	25	**713**	905
	693	316	25	**1,034**	1,062
Less attributed to general business				**(300)**	(100)
				734	962

As described in note 1, in 2003 the Group changed its accounting policy on the recognition of the internally generated value of long term insurance business. The value of the long term insurance business at 31 December 2003 was **£501m** (2002 £898m), excluding shareholders' accrued interest of **£321m** (2002 £71m). This represents the amount considered by the directors, based on internal actuarial advice, to be a prudent value of the shareholders' interest in the long term business funds not already recognised under the modified statutory principles of profit recognition. The principle assumptions used to calculate the value of the UK long term business are:

	2003 %	2002 %
Investment return:		
Fixed interest	**4.84**	4.50
UK Equities	**7.34**	7.00
Overseas equities	**7.34**	7.00
Expense inflation	**3.50**	3.00
Discount rate (including risk margins)	**8.40**	8.20
Risk margin included within discount rate	**5.00**	5.00

The investment returns represent the underlying long term assumptions implicit in the calculation of the value of long term business.

37. 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.

38. 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 Japanese Yen 25 billion subordinated loan due 18 February 2030 and associated swaps;
- a £400m syndicated loan facility, of which **£400m** has been drawn.

39. 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 30 Berkeley Square, London W1J 6EW.

SEGMENTAL INFORMATION

	Total		General business		Personal		Commercial		Long term business	
	2003 £m	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Net premiums written (note 6)										
UK (note 10, 11)	**3,730**	4,381	**2,822**	3,426	**1,152**	1,647	**1,670**	1,779	**908**	955
Scandinavia (note 2)	**1,513**	1,236	**1,167**	952	**618**	525	**549**	427	**346**	284
US (note 3, 12)	**1,090**	1,895	**1,090**	1,895	**460**	470	**630**	1,425	–	–
Canada (note 3)	**503**	527	**503**	527	**374**	348	**129**	179	–	–
International (note 4, 8)	**912**	1,513	**765**	1,079	**370**	530	**395**	549	**147**	434
Australia and New Zealand (note 5)	**355**	965	**283**	756	**197**	502	**86**	254	**72**	209
	8,103	10,517	**6,630**	8,635	**3,171**	4,022	**3,459**	4,613	**1,473**	1,882
Underwriting result/balance on the technical *account for long term business* (note 7)										
UK (note 11)	**479**	(67)	**(76)**	(177)	**(69)**	(181)	**(7)**	4	**555**	110
Scandinavia (note 2)	**29**	(25)	**(11)**	(94)	**(38)**	(42)	**27**	(52)	**40**	69
US (note 3, 13)	**(748)**	(454)	**(748)**	(454)	**21**	(31)	**(769)**	(423)	–	–
Canada (note 3)	**(23)**	(88)	**(23)**	(88)	**(12)**	(51)	**(11)**	(37)	–	–
International (note 4, 9)	**10**	(135)	**35**	(130)	**27**	(62)	**8**	(68)	**(25)**	(5)
Australia and New Zealand (note 5)	**1**	40	**12**	27	**6**	35	**6**	(8)	**(11)**	13
	(252)	(729)	**(811)**	(916)	**(65)**	(332)	**(746)**	(584)	**559**	187

Unwind of discount in respect of claims outstanding	**(63)**	(53)
Change in the equalisation provision	**(24)**	1
Gains on the realisation of investments	**474**	361
Investment income net of expenses	**689**	759
Unrealised losses on investments	**(396)**	(633)
Other income and charges	**(17)**	(9)
Amortisation and impairment of goodwill	**(22)**	(713)
Loss on disposal of subsidiaries less provisions for losses on subsidiaries sold	**(67)**	(17)
Profit/(loss) on ordinary activities before tax	**322**	(1,033)

Notes:

1. The segmental analysis above has been changed from previous years to reflect the new geographic focus of the Group; the key outcome of this was the creation of the International segment to include all markets outside of the UK, Scandinavia, the US and Canada.
   The comparative figures for 2002 shown above have been re-analysed to reflect the new segmental reporting. The change had no effect on net premiums written and the underwriting result.
2. *Scandinavia was reported in previous years under* EMEA.
3. The US and Canada was reported in previous years under Americas.
4. International was created on 1 May 2003 and comprises businesses in other Europe and Middle East (previously reported under EMEA), Latin America and the Caribbean (previously reported under Americas) and Asia (previously reported under Asia Pacific).
5. In May 2003 the Group disposed of its general insurance businesses and life and asset accumulation businesses in Australia and New Zealand by way of an initial public offering under the Promina brand. Australia and New Zealand were previously reported under Asia Pacific. In 2003 the results prior to disposal are shown under Australia and New Zealand.
6. Net premiums written by destination do not differ materially from net premiums written by source.

7. The balance on the Long Term Business Technical account is gross of tax.
8. Included within International in general business is net written premium of **£11m** (2002 £277m) relating to the Royal & Sun Alliance Insurance (Company of Puerto Rico) Inc business disposed during the year (2002 Securitas Bremer Algemeine Versicherungs AG, Royal & Sun Alliance Schaderverzekering NV and Italy Direct Branch and the comparative relating to the 2003 disposal). Included in long term business is net written premium of **£95m** (2002 £384m) relating to the Compañia de Seguros de Vida La Construcción and Royal & Sun Alliance Eurolife Ltd businesses disposed during the year (2002 Securitas Lebensversicherung AG, Royal & Sun Alliance Levensverzekering NV, Royal & Sun Alliance International Financial Services Ltd and the comparative relating to the 2003 disposals).
9. Included within International in general business is an underwriting loss of **£2m** (2002 £28m) relating to the Royal & Sun Alliance Insurance (Company of Puerto Rico) Inc business disposed during the year (2002 Securitas Bremer Algemeine Versicherungs AG, Royal & Sun Alliance Schaderverzekering NV and Italy Direct Branch and the comparative for the 2003 disposal). Included in long term business is a loss of **£24m** (2002 £2m) relating to the Compañia de Seguros de Vida La Construcción and Royal & Sun Alliance Eurolife Ltd businesses disposed during the year (2002 Securitas Lebensversicherung AG, Royal & Sun Alliance Levensverzekering NV, Royal & Sun Alliance International Financial Services Ltd and the comparative for the 2003 disposals).
10. Included within UK in long term business is net written premium of **£nil** (2002 £(150)m) relating to disposed Group risk business.
11. Included within UK in general business are net written premiums of **£(102)m** after the transfer of unearned premium reserves through a reinsurance agreement (2002 £245m) and an underwriting profit of **£5m** (2002 £26m), all relating to the disposal of UK Healthcare & Assistance.
12. Included within US in general business is net written premium of **£52m** after the transfer of unearned premium reserves through a reinsurance agreement (2002 £320m) relating to the Royal Specialty Underwriting Inc and Landmark American Insurance Company businesses disposed of during the year.
13. Included within US in general business is an underwriting profit of **£52m** (2002 £133m) relating to the Royal Specialty Underwriting Inc and Landmark American Insurance Company businesses disposed of during the year.
14. Refer to note 1 of the Notes on the Accounts for explanation of restatement.

	Total		General business		Long term business	
	2003 £m	Restated 2002 £m	**2003 £m**	Restated 2002 £m	**2003 £m**	Restated 2002 £m
Total net assets						
UK	**2,349**	721	**1,656**	383	**693**	338
Scandinavia (note 2)	**873**	762	**557**	437	**316**	325
US (note 3)	**583**	1,022	**583**	1,022	-	-
Canada (note 3)	**440**	376	**440**	376	-	-
International (note 4)	**401**	388	**376**	222	**25**	166
Australia and New Zealand (note 5)	-	606	-	373	-	233
	4,646	3,875	**3,612**	2,813	**1,034**	1,062
Associated undertakings	**121**	165				
Other businesses (note 15)	**13**	(33)				
Total net assets (note 16)	**4,780**	4,007				

Notes:

15. The capital and reserves attributed to other businesses include those of non insurance businesses and Group borrowings.
16. 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.
17. Prior years have been restated. Refer to note 1 of the Notes on the Accounts for an explanation of the restatement.

PRINCIPAL SUBSIDIARY COMPANIES

AS AT 31 DECEMBER 2003

		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
	Phoenix Assurance plc	Composite insurance
	Royal International Insurance Holdings Ltd*	General insurance
	Royal & Sun Alliance Reinsurance Ltd*	General insurance
	Royal & Sun Alliance Life & Pensions Ltd	Life insurance
	Royal & Sun Alliance Linked Insurances Ltd	Life insurance
	Sun Alliance and London Insurance plc*	General insurance
	Sun Alliance and London Assurance Company Ltd	Life insurance
	Royal & Sun Alliance Life Holdings Ltd*	Holding company
	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
	Royal & Sun Alliance Seguros de Vida (Columbia) SA (86.3%)	Life company
Denmark	Codan A/S (71.7%)	Holding company
	Codan Forsikring A/S (71.7%)	General insurance
	A/S Forsikringsselskabet Codan Pension (71.7%)	Life insurance
	Codan Pensionforsikrig A/S (71.7%)	Life insurance

PRINCIPAL SUBSIDIARY COMPANIES

AS AT 31 DECEMBER 2003

		Principal activity
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
	Royal Insurance Company of America	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. ** 100% of the ordinary share capital is owned by Royal & Sun Alliance Insurance plc and 100% of the issued preference share capital is owned by Royal & Sun Alliance Insurance Group plc, the ultimate parent company of Royal & Sun Alliance Insurance plc.
4. Except where indicated all holdings are of equity shares and represent 100% of the nominal issued capital.
5. 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 2003

	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 (30.9.03)	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 2003, 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 2003, the company's year end, was **£544m**. The loss for the year ended 31 March 2003 was **£55m**.
5. In January 2004 the Group announced its disposal of its 37.5% interest in Mutual & Federal Insurance Company Ltd., a South African undertaking.
6. In February 2004 the Group announced its disposal of its 14.5% interest in Rimac-Internacional Compañia de Seguros y Reaseguros, a Peruvian undertaking.