

Registered No: 2221960

ROYAL INSURANCE HOLDINGS PLC

Report and Accounts

for the year ended 31st December 2002



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Royal Insurance Holdings plc
Directors

Directors

J.C. Hance

J.V. Miller

S.D. Pennington

Secretary

J.E.Fox

Registered Office

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

Principal activity

The Company is the holding company for subsidiaries transacting the business of insurance and related financial services in the United Kingdom and overseas.

Result and dividend

The profit for the year is shown in the profit & loss account on page 7.

The directors do not recommend payment of a final dividend (2001 £40m).

Future developments

It is intended that the Company will continue to act as the parent company of subsidiaries operating within the financial services industry.

Directors

Mr R.V. Mendelsohn served as a director until he resigned on 11th September 2002.

The directors whose names appear on page 2 served throughout the year.

The interests of the directors in the ordinary shares of 27.5p each in Royal & Sun Alliance Insurance Group plc, other than Mr. Hance whose interests are disclosed in the financial statements of that company, are as follows:

	Ordinary shares held at 1st January 2002	Ordinary shares acquired	Ordinary shares disposed	Ordinary shares held at 31st December 2002
J.V. Miller	89,043	351	-	89,394
S.D. Pennington	12,899	667	-	13,566

In addition to the interests shown above, Mr. Miller and Mr. Pennington had a beneficial interest, as at 31st December 2002 in 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 the directors had a beneficial interest, as at 31st December 2002, in 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 and certain option-holders 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.

Options to subscribe for shares

	Held at 1st January 2002	Granted	Exercised	Held at 31st December 2002
J.V. Miller	147,842	26,206	-	174,048
S.D. Pennington	354,182	48,275	-	402,457

Auditors

Following the transfer by the Company's auditors PricewaterhouseCoopers of substantially all of its business to PricewaterhouseCoopers LLP, a Limited Liability Partnership, with effect from 1st January 2003, PricewaterhouseCoopers resigned on 5th February 2003 and the directors appointed PricewaterhouseCoopers LLP, as auditors of the Company. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By order of the directors

J E Fox
Secretary
28 April 2003

Royal Insurance Holdings plc
Statement of Directors' Responsibilities

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31st December 2002. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors have responsibility for ensuring that the Company keeps proper accounting records. The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Royal Insurance Holdings plc

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes which have been prepared in accordance with the accounting policies set out in the statement of 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 on page 4.

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 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 in to 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31st December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

29 April

2003

The financial statements are prepared in accordance with the Companies Act 1985 and applicable accounting standards. The Company being a wholly owned subsidiary whose parent company prepares consolidated accounts has taken advantage of section 228 of the Companies Act 1985, in not preparing consolidated accounts.

Prior year adjustment

The balance sheet valuation of shares in subsidiaries has been revised following an accounting policy change adopted by those subsidiaries in relation to the adoption of Financial Reporting Standard 19 "Deferred Tax". 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 substantially enacted by the balance sheet date. 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. The adoption of FRS19 did not give rise to any prior year adjustment in respect of the Company's own prior year reported profit.

Other than this change, there were no material changes in accounting policy.

Basis of accounting

The accounts are prepared under the historical cost convention modified by the revaluation of subsidiaries.

The balance sheet as at 31st December 2002 reports net current liabilities of £918m after taking into account a liability of £1,064m due to group companies on demand. After due and careful enquiry, the directors believe that it is not the intention of the group companies to call for payment of the liability in the foreseeable future. The directors have received no undertaking to this effect from the group companies. Were the group companies to seek repayment of the liability, the directors are satisfied that no material adjustments would be necessary in order to prepare the accounts as a non-going concern.

Taxation

Taxation in the non-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.

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

Subsidiaries

Subsidiaries are valued in the balance sheet by reference to the Company's proportion of their net assets (including investments at market value).

Revaluation reserve

In the balance sheet the revaluation reserve represents the difference between cost and the Company's proportion of the net asset value of subsidiary undertakings.

Companies Act 1985

The accounts are drawn up in compliance with Part VII, Chapter I and Schedule 4 to the Companies Act 1985.

Translation of foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at rates ruling at the year end. Differences on foreign currency borrowings used to provide a hedge against foreign equity investments are taken directly to reserves.

Royal Insurance Holdings plc

Profit & Loss Account for the year ended 31st December 2002

	Notes	2002 £m	2001 £m
Income from shares in subsidiary undertakings		-	50
Operating profit		-	50
Interest receivable on external deposits		1	-
Interest payable on loans from subsidiary undertakings		(27)	(25)
Interest payable on borrowings		(40)	(23)
Gain on disposal of subsidiaries	4	153	-
Profit on ordinary activities before taxation		87	2
Tax on profit on ordinary activities	2	21	14
Profit on ordinary activities after taxation		108	16
Dividends	3	-	(40)
Transfer to/(from) retained profits		108	(24)

All figures relate to continuing operations.

Statement of total recognised gains and losses for the year ended 31st December 2002

	Notes	Revaluation Reserve £m	Other Reserves £m	Profit & loss account £m	2002 £m	Restated 2001 £m
Profit for the financial year		-	-	108	108	16
Unrealised losses on investments		(1,563)	-	-	(1,563)	(1,124)
Exchange		-	15	(17)	(2)	-
Total recognised gains/(losses) arising in the year		(1,563)	15	91	(1,457)	(1,108)
Prior year adjustment	1	(80)	-	-	(80)	-
Shareholders' recognised losses since 31st December 2001		(1,643)	15	91	(1,537)	(1,108)

Statement of historical cost profits and losses

There is no material difference between the results for the current year and the previous year as described in the profit and loss account and the results on an historical cost basis. Accordingly a note on the historical profits and losses for the year is not given.

Movement in shareholders' funds for the year ended 31st December 2002

	Share capital/ premium £m	Revaluation reserve £m	Other reserves £m	Profit & loss account £m	2002 £m	Restated 2001 £m
Shareholders' funds at 1st January (as reported)	1,647	3,324	(15)	6	4,962	5,929
Prior year adjustment	-	(80)	-	-	(80)	(428)
Shareholders' funds at 1st January (as restated)	1,647	3,244	(15)	6	4,882	5,501
Shareholder recognised gains (losses)	-	(1,563)	15	91	(1,457)	(1,108)
Increase in share premium account	-	-	-	-	-	529
Dividends	-	-	-	-	-	(40)
Shareholders' funds at 31st December	1,647	1,681	-	97	3,425	4,882

The notes on pages 9 to 12 form part of these accounts.

Royal Insurance Holdings plc

Balance Sheet

as at 31st December 2002

	Notes	2002 £m	Restated 2001 £m
Fixed assets – investments			
Shares in subsidiaries	4	4,433	6,055
		<u>4,433</u>	<u>6,055</u>
Current assets			
Amounts owed by subsidiary undertakings	5	246	406
Other debtors	6	166	250
Prepayments	7	35	60
Taxation recoverable		<u>21</u>	<u>39</u>
		<u>468</u>	<u>755</u>
Creditors: amounts falling due within one year			
Amounts owed to Group undertakings	5	(1,064)	(866)
Other creditors including taxation and social security		(12)	(12)
External borrowings	8	(310)	(910)
Proposed dividend	3	-	(40)
		<u>(1,386)</u>	<u>(1,828)</u>
Net current liabilities		<u>(918)</u>	<u>(1,073)</u>
Total assets less current liabilities		<u>3,515</u>	<u>4,982</u>
Creditors: amounts falling due after more than one year			
Borrowings including convertible debt	8	<u>(90)</u>	<u>(100)</u>
Net assets		<u>3,425</u>	<u>4,882</u>
Representing			
Share capital and reserves			
Called up share capital	9	173	173
Share premium account		1,474	1,474
Revaluation reserve		1,681	3,244
Other reserves		-	(15)
Profit & loss account		<u>97</u>	<u>6</u>
Equity shareholders' funds		<u>3,425</u>	<u>4,882</u>

The notes on pages 9 to 12 form part of these accounts.

The accounts on pages 6 to 12 were approved today by the Board of directors and are signed on its behalf by:



Director

28 April 2003

Royal Insurance Holdings plc

Notes on the Accounts

1. Prior year restatement

The valuation of shares in subsidiaries has been revised following the introduction of FRS 19 on 23rd January 2002. Deferred tax is now recognised in respect of all timing differences which have originated but not reversed at the balance sheet date. The impact of the introduction of FRS 19 has been to reduce the value for shares in subsidiaries by £80m, with a corresponding reduction in retained profits.

2. Taxation

	2002 £m	2001 £m
The charge/(credit) for United Kingdom corporation tax comprises:		
UK corporation tax/group relief	(21)	(14)

United Kingdom Corporation tax for the current year is based on a rate of 30% (2001 30%).

The current tax charge for the year is less than 30% (2001 less than 30%) due to the items set out in the reconciliation below:

	2002 £m	Restated 2001 £m
Profit on ordinary activities before tax	87	2
Tax at 30%	25	-
<i>Factors affecting charge:</i>		
Tax exempt income and investment gains	(46)	(14)
Current tax charge for the period	(21)	(14)

3. Dividends

	2002 £m	2001 £m
Final proposed	-	40

4. Subsidiaries

The Company's principal subsidiaries at 31st December 2002 are shown below. The country shown is that of incorporation and principal operation. All holdings are of ordinary shares and represent 100% of the nominal issued capital unless otherwise stated.

Company	Country of incorporation
Blue Holdco Limited	England & Wales
R&SA Healthcare Administration Limited	England & Wales
R&SA Marketing Services plc	England & Wales
Royal & Sun Alliance Insurance plc	England & Wales
Royal & Sun Alliance Pension Trustee Limited	England & Wales
RSA Accident Repairs Limited	England & Wales
RSA CRS (US) Limited	England & Wales
RSA E-Holdings Limited	England & Wales
Sequence UK Limited	England & Wales
Sun Alliance Managed Pension Services Limited	England & Wales
Sun Alliance Pension Scheme Investment Management Limited	England & Wales
The Leasing Service Limited	England & Wales
The Westminster Fire Office Limited	England & Wales
Truscotts Estate Agency Limited	England & Wales
Usecolor.com Limited	England & Wales

The subsidiaries are involved in insurance, estate agency and related financial services.

The figure for subsidiaries in the balance sheet comprises:

	2002	Restated
Shares	£m	2001
Cost at 1st January	2,811	1,596
Acquisitions	19	1,215
Disposals	(80)	-
Cost at 31st December	2,750	2,811
Adjustment to net asset value	1,683	3,246
Net asset value at 31st December	4,433	6,057

During the year the Company acquired 100% of the ordinary share capital of Sequence UK Limited for an aggregate cost of £19m. The Company also took up additional shares in RSA CRS (US) Ltd to a value of £0.4m. During the year the Company disposed of 100% of the ordinary share capital of WAM Holdings Limited at a profit £153m.

5. Contingent loan

The Company has contingent loan agreements with Sun Alliance and London Assurance Company Limited ("SALAC") and Royal & Sun Alliance Life & Pensions Limited ("RSALP") whereby respectively loans up to £500m (2001 £500m) will be provided in the event that SALAC's or RSALP's statutory margins, as calculated in accordance with FSA regulations, falls below £50m (2001 £50m) in excess of the required minimum margin. Such loans are subsequently repayable on demand to the extent that after repayment SALAC's or RSALP's statutory solvency margin would be in excess of £50m (2001 £50m). During 2002 £80m (2001 £240m) was drawn down by SALAC and £80m (2001 Nil) was drawn down by RSALP under this agreement. SALAC utilised £25m. These loans will be recoverable only out of any future surpluses arising in the Life funds; realistic balance sheet analysis indicates that this is expected to occur.

Royal Insurance Holdings plc
Notes on the Accounts (continued)

6. Other debtors

This comprises insurance debtors at the balance sheet date which have been transferred from subsidiary companies.

7. Prepayments

This comprises prepayments at the balance sheet date which have been transferred from subsidiary companies.

8. Loans and borrowings

Included in amounts owed to group undertakings is a loan of £195.8m (2001 £208.2m) from a subsidiary upon which interest has been charged during the year based on prevailing sterling average market call deposit rates.

Included in amounts owed to group undertakings is a loan of £421.4m (2001 £216.0m) from the immediate parent company upon which interest has been charged during the year based on prevailing sterling average market call deposit rates.

	2002 £m	2001 £m
Debenture loans – unsecured		
9.625% subordinated bonds 2003	90	100
Amounts owed to credit institutions – unsecured	310	910
Total borrowings	400	1,010
Repayable as follows:		
1 year or less	400	-
Between 2 and 5 years	-	1,010
	400	1,010

Interest payable on amounts repayable within 5 years was £40m (2001 £23m).

Amounts owed to credit institutions of £310m (2001 £910m) under revolving credit facilities have been classified by reference to the earliest date on which repayment may be demanded by the lender. At 31st December 2002 total revolving credit facilities were £1,454m (2001 £1,494m); £1,454m of which expires in less than one year (2001 Nil) and Nil (2001 £1,494m) of which expires between 2 and 5 years.

9. Share capital

	2002 £m	2001 £m
Authorised: 916,000,000 (2001: 916,000,000) ordinary shares of 25p each	229	229
Issued: 690,812,148 (2001: 690,812,148) ordinary shares of 25p each	173	173

10. Auditors' remuneration

The costs of auditing the Company's accounts are borne by the parent company.

11. Cash flow

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 thus taken advantage of the exemption permitted by FRS1 (revised) and has elected not to prepare its own cash flow statement.

12. Directors' remuneration

The directors did not receive any emoluments during the year. They were employed by Royal & Sun Alliance Insurance plc and were remunerated for their services to the group as a whole. It is not possible to apportion their remuneration in respect of the Company.

Royal Insurance Holdings plc
Notes on the Accounts (continued)

13. Related party transactions

Advantage has been taken of the exemption provided in FRS8 from disclosing details of transactions with Royal & Sun Alliance Insurance Group plc and its subsidiaries and associated undertakings.

14. Parent company

The Company's ultimate parent company and controlling party is Royal & Sun Alliance Insurance Group plc which is registered in England and Wales, and is the parent undertaking of the smallest and largest group to consolidate these financial statements. A copy of that company's accounts can be obtained from 30 Berkeley Square, London W1J 6EW.