

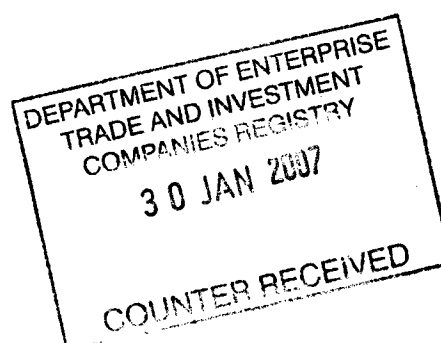
**No 93792**

LC3488

# **ROYAL & SUN ALLIANCE INSURANCE PLC**

## **REPORT & ACCOUNTS**

**for the year ended 31st December 2005**



## **Royal & Sun Alliance Insurance plc**

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**Royal & Sun Alliance Insurance plc**  
**Directors**

**Directors**

D. P. Cockrem

M. G. Culmer

M. Harris

A. K. Haste

A. P. Latham

S. P. G. Lee

H. M. Maxwell

B. F. McIntyre

**Secretary**

M. R. Chambers

**Registered office**

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

**Auditors**

PricewaterhouseCoopers LLP, Southwark Towers, 32 London Bridge Street, London SE1 9SY

# Royal & Sun Alliance Insurance plc

## Directors' Report

for the year ended 31st December 2005

### 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 Company made a profit on ordinary activities before tax of £637m (2004: £231m). The directors consider that the Company is well positioned to meet the challenges of the future.

### DIVIDENDS

There was a profit attributable to the shareholders, after taxation, for the year of £430m (2004: £184m).

The directors do not recommend payment of a final ordinary dividend (2004: £100m).

### DIRECTORS AND THEIR INTERESTS

The names of the current directors are listed on page 2. Mr M. Harris, Mrs D. P. Cockrem and Mrs H. M. Maxwell were appointed as directors of the Company on 22nd December 2005. Mr S. P. G. Lee and Mrs B. F. McIntyre were appointed as directors on 22nd March 2006 and Mr D. M. Boyle resigned as a director on 22nd March 2006. 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 27.5p each in Royal & Sun Alliance Insurance Group plc of Mr Culmer and Mr Haste, who were also directors of that company during the year are disclosed in the financial statements of that company. The interests of Mr Latham in the ordinary shares of 27.5p each in Royal & Sun Alliance Insurance Group plc are disclosed in the financial statements of Royal Insurance Holdings plc. The interests in the ordinary shares of 27.5p each in Royal & Sun Alliance Insurance Group plc of Mr Boyle, Mr Harris, Mrs Cockrem and Mrs Maxwell were as follows –

	Ordinary shares held at 1st January 2005 or on appointment	Ordinary shares acquired	Ordinary shares disposed	Ordinary shares held at 31st December 2005
D.M. Boyle	14,634	-	-	14,634
D.P. Cockrem	-	-	-	-
H.M. Maxwell	-	-	-	-
M. Harris	-	-	-	-

In addition to the interests shown above, Mr Boyle, Mr Harris, Mrs Cockrem and Mrs Maxwell had a beneficial interest, as at 31st December 2005 in 19,182,272 (2004: 12,369,290) shares of 27.5p each in Royal & Sun Alliance Insurance Group plc held in the Royal & Sun Alliance ESOP Trust and 4,938,894 (2004: 3,038,894) 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.

The interests in options to subscribe for ordinary shares of Royal & Sun Alliance Insurance Group of Mr Boyle, Mrs Cockrem and Mrs Maxwell and Mr Harris were as follows:

	Held at 1st January 2005 or on appointment	Options to subscribe for shares			Held at 31st December 2005
		Granted	During year Exercised	Lapsed	
D.M. Boyle	713,885	117,031	-	7,473	823,443
D.P. Cockrem	208,716	-	-	-	208,716
H.M. Maxwell	386,084	-	-	-	386,084
M. Harris	251,466	-	-	-	251,466

## Royal & Sun Alliance Insurance plc

### Directors' Report (continued) for the year ended 31st December 2005

#### DIRECTORS AND THEIR INTERESTS cont.

Long-term incentive scheme interests held during 2005 in respect of the ordinary shares of Royal & Sun Alliance Insurance Group plc as a result of Share Matching Plan awards were as follows:

		Share awards held at 1st January 2005 or on appointment	Granted	During year Exercised	Lapsed	Share awards held at 31st December 2005
D. M. Boyle	Deferred share awards	100,493	115,050	-	-	215,543
D. M. Boyle	Matching share awards	301,479	345,150	-	-	646,629
D. P. Cockrem	Deferred share awards	-	-	-	-	-
D. P. Cockrem	Matching share awards	-	-	-	-	-
H. M. Maxwell	Deferred share awards	6,471	-	-	-	6,471
H. M. Maxwell	Matching share awards	19,413	-	-	-	19,413
M. Harris	Deferred share awards	25,713	-	-	-	25,713
M. Harris	Matching share awards	77,139	-	-	-	77,139

#### EMPLOYMENT POLICY

The Company's employment policies reflect our belief that motivated and skilled employees are critical to our success.

We promote equal opportunities and diversity within the Company. This involves recruiting, retaining, rewarding and developing people solely on the grounds of ability to do the job, and establishing and promoting a working environment which is free from discrimination.

The Company is committed to preventing discrimination on the grounds of disability. This includes ensuring that all job applicants, including those with a disability, are considered solely on the basis of ability to do the job, and making reasonable adjustments to working environment, working arrangements and working conditions to support disabled employees. We are committed, wherever possible, to supporting the rehabilitation and return to work of employees who become disabled during their career with us.

The Company is committed to fostering a constructive dialogue with independent trade unions wherever they are recognised, ensuring a regular and constructive dialogue on business issues and early consultation on changes affecting the workforce. In the UK, Amicus is formally recognised through a partnership agreement which covers collective consultation and bargaining on behalf of non management employees. The Management Association (TMA) represents managerial employees under a separate consultative agreement. An annual employee survey is conducted to measure organisational effectiveness and the impact of employment policies.

Our policy is to encourage employee share ownership. Employees from our businesses are encouraged to participate in the International Sharesave Plan which is an Inland Revenue approved all employee sharesave scheme.

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

#### MANAGEMENT OF FINANCIAL RISK

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from the realisation of its financial assets are not sufficient to fund the obligations arising from its insurance contracts.

The Company manages its financial assets within a framework that has been developed to seek to ensure the ability to meet its obligations under insurance contracts. A key principle behind this process is to hold assets that provide a broad match against the liabilities arising from insurance contracts.

There is a potential risk within the investment portfolio arising from an inappropriate matching of cash and fixed interest assets against liabilities by duration. However the relatively short duration of a general insurance portfolio together with the Company's strategy of broadly matching assets and liability by duration provides mitigation against these risks. The Company reviews the duration of its liabilities and asset portfolios to ensure that they remain broadly matched. Investment directives limit permissible duration ranges within the individual portfolios. These directives also include objectives for liquidity, asset sector concentration and credit quality. The Company is not party to any arrangements for which hedge accounting is used.

**MANAGEMENT OF FINANCIAL RISK** (continued)

The primary sources of credit risk within the Company are investment and treasury activities and reinsurance counterparty risk. Within the investment management and treasury activities, a range of bank counterparty concentration and credit quality limits together with other controls are in place to ensure that exposure is managed. New reinsurance cover is placed with reinsurers that are authorised as Approved Reinsurance Counterparties recommended by the Group Reinsurance Credit Committee.

Market risk arises within the Company's equity portfolio. A committee oversees the Company's investment strategy and sets appropriate risk limits to ensure that no significant concentrations to individual companies or sectors arise.

Liquidity risk is considered to be a low risk category. Liquidity is managed such that the Company maintains a minimum level of cash or cash equivalents or highly liquid assets that can be liquidated within a maximum stated period of time. Contingency funding plans are prepared and monitored to ensure that these minimum levels are met even in stress conditions.

**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 31st December 2005 amounted to £5,060,000 corresponding to three days payment when averaged over the year.

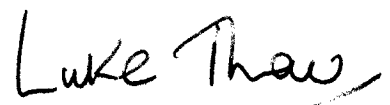
**AUDITORS**

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the directors



M R Chambers  
General Counsel and Group Company Secretary  
4 April 2006



**Royal & Sun Alliance Insurance 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 2005. 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.

## Royal & Sun Alliance Insurance plc

### Auditors' Report

#### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ROYAL & SUN ALLIANCE INSURANCE plc

We have audited the financial statements of Royal & Sun Alliance Insurance plc for the year ended 31st December 2005 which comprise the profit and loss account, the statement of total recognised gains and losses, the movement in shareholders' funds, the balance sheet and the related notes including the accounting policies and estimation techniques, uncertainties and contingencies. These financial statements have been prepared under the accounting policies set out therein.

#### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 provisions in respect of general insurance business. The nature of equalisation provisions, the amounts set aside at 31st December 2005 and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and the profit before tax, are disclosed in note 7.

#### OPINION

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31st December 2005 and of its profit 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  
London, United Kingdom  
4 April 2006



## **FINANCIAL STATEMENTS**

The financial statements are prepared in accordance with applicable UK accounting standards and in compliance with s255 of and Schedule 9A to, the Companies Act 1985, and the Statement of Recommended Practice (SORP) issued by the Association of British Insurers in December 2005. 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. The Company has taken advantage of the exemption under s228 of CA85, to allow it not to prepare consolidated financial statements.

## **CHANGES IN ACCOUNTING POLICIES**

During the year the Company adopted the following financial reporting standards and has changed its accounting policies accordingly:-

**Financial Reporting Standard (FRS) 17: Retirement Benefits.** FRS 17 sets out the accounting treatment for retirement benefits such as pensions and medical care during retirement. It replaces Statement of Standard Accounting Practice (SSAP) 24: Accounting for pension costs, and Urgent Issue Task Force Abstract 6: Accounting for post-retirement benefits other than pensions.

The main requirements of FRS 17 are:

- pension scheme assets are measured using market values;
- pension scheme liabilities are measured using a projected unit method and discounted at an AA corporate bond rate;
- the pension scheme surplus (to the extent it can be recovered) or deficit is recognised in full on the balance sheet; and
- the movement in the scheme surplus/deficit is analysed into:
  - the current service cost and any past service costs; these are recognised in operating profit;
  - the interest cost and expected return on assets; these are recognised as other finance costs; and
  - actuarial gains and losses; these are recognised in the Statement of Total Recognised Gains and Losses.

**Financial Reporting Standard (FRS) 21: Events after the Balance Sheet Date.** FRS 21 specifies the accounting treatment to be adopted (including the disclosures to be provided) by the Company for events occurring between the balance sheet date and the date when the financial statements are authorised for issue. The main impact of the adoption of FRS 21 is that dividends received from subsidiaries are now recognised in the period in which they are paid. Previously, dividends declared after the balance sheet were accrued in the period to which they relate. Similarly, dividends payable to shareholders are recognised in the period in which they are paid.

**Financial Reporting Standard (FRS) 25: Financial Instruments: Disclosure and Presentation (Presentation only).** FRS 25 requires that a financial instrument must be classified as an equity instrument when both the following conditions are satisfied:

- The instrument does not contain a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or liabilities with another entity under conditions that are potentially unfavourable to the Company; and
- If the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no contractual obligation for the Company to deliver a variable number of its own equity instruments, or a derivative that will be settled by the Company exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. For this purpose, the Company's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the Company's own equity instruments.

The Company has not adopted the disclosure requirements of FRS 25.

The Company's accounting policies have been changed to reflect the adoption of the above FRSs.

In addition, the Company's accounting policy for accounting for the translation of the results of foreign branches was changed during the year. Previously the results of foreign branches, as determined in the underlying currency of the branch, were translated into sterling using the exchange rate for spot transactions ruling at the balance sheet date. Following the change in policy, the exchange rate used to translate the results of foreign branches is the average exchange rate for the period. The change in policy is consistent with one of the options permitted under Statement of Standard Accounting Practice 20: Foreign Currency Translation, and is consistent with the requirements of Financial Reporting Standard (FRS) 23: The Effects of Changes in Foreign Exchange Rates, which the Company is not permitted to adopt in isolation from other related FRSs.

The impacts of the changes in accounting policies during the year are explained in Note 1 to the Financial Statements.

## **TRANSLATION OF FOREIGN CURRENCIES**

Assets and liabilities of businesses denominated in foreign currencies are translated into sterling at rates ruling at the year end and results of business denominated in foreign currencies are translated at the average rate for the period; the resulting exchange differences are taken to reserves. Transactions denominated in foreign currencies are translated at the prevailing rate at the date of the transaction and the resulting exchange differences are included within the Profit and Loss Account.

## **DERIVATIVES**

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

## **GENERAL BUSINESS TECHNICAL ACCOUNT**

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

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

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

## **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, 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 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.

## **INVESTMENTS**

Investments 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. 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 (continued)**

Investments in subsidiaries are included at net asset value and unrealised gains and losses are dealt with in the revaluation reserve. Any deficit arising in revaluation reserve is transferred to retained profits.

**TANGIBLE ASSETS AND DEPRECIATION**

Tangible assets, other than land and buildings 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.

**SUBORDINATED LOANS**

Subordinated loans are classified as a separate class of capital when the terms of the loan contain no obligation on the Company to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company and contain no provision to settle the loan through the issue of equity instruments of the Company.

Interest paid on subordinated loans is not recognised in the profit and loss account and is deducted from the profit and loss reserve when paid.

**TECHNICAL PROVISIONS**

The provision for unearned premiums 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.

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.

Differences between the estimated cost and subsequent settlement of claims are dealt with in the 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.

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.

**OPERATING LEASES**

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

**PENSION COSTS**

**Employee Benefits -**

**Retirement Benefits**

A defined contribution scheme is a pension scheme under which the Company pays fixed contributions into a separate entity. A defined benefit scheme is a pension scheme that defines an amount of pension benefit that an employee will receive on retirement, usually dependant on one or more factors such as age, years of service and level of salary.

**PENSION COSTS (continued)**

Contributions to defined contribution pension schemes are charged in the period in which the employment services qualifying for the benefit are provided.

The amounts charged (or credited where relevant) in the Profit and Loss Account relating to post retirement benefits in respect of defined benefit schemes are as follows:

- The current service cost;
- The past service costs for additional benefits granted in the current or earlier periods;
- The interest cost for the period;
- The impact of any curtailments or settlements during the period; and
- The expected return on scheme assets (where relevant).

The current service cost in respect of defined benefit schemes comprises the present value of the additional benefits attributable to employees' services provided during the period.

The present value of defined benefit obligations and the present values of additional benefits accruing during the period are calculated, using the Projected Unit Method.

Past service costs arise where additional benefits are granted. The cost of providing additional benefits is recognised on a straight line basis over the remaining period of service until such benefits vest. The cost of providing additional benefits that vest on their introduction are recognised immediately.

The calculation of the present value of accrued benefits includes an actuarial assumption of future interest rates, which is used to discount the expected ultimate cost of providing the benefits. The discount rate is determined at each Balance Sheet date by reference to current market yields on high quality corporate bonds identified to match the currency and estimated term of the obligations. The interest cost for the period is calculated by multiplying the discount rate determined at the start of the period by the defined benefit obligations during the period.

The change in the present value of the defined benefit obligation and the changes in the fair value of scheme assets resulting from any curtailments and settlements of scheme liabilities during the period are recognised in the Profit and Loss Account. Additionally, any previously unrecognised past service costs related to these liabilities are recognised in the gains or losses on settlement and curtailment.

The expected return on scheme assets is calculated, based upon the average rate of return (including both income and changes in fair value), net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Actuarial gains and losses arise from changes to actuarial assumptions when revaluing future benefits, and from actual experience in respect of scheme liabilities and investment performance of scheme assets being different from previous assumptions. Actuarial gains and losses are recognised in the Statement of Total Recognised Gains and Losses.

The value recognised in the Balance Sheet for each individual post retirement scheme, is calculated as follows:

- The present value of defined benefit obligation of the scheme at the balance sheet date;
- Minus any past service cost not yet recognised;
- Minus the fair value at the Balance Sheet date of the scheme assets out of which the obligations are to be settled directly; and
- Plus, or minus the deferred tax liability or asset respectively relating to the defined benefit asset or liability.

**Termination benefits**

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the Balance Sheet date are discounted to present value.

# **Royal & Sun Alliance Insurance plc**

## **Estimation Techniques, Uncertainties & 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 insurance liabilities of the company.

The insurance liabilities of an insurance company include the provision for unearned premiums and unexpired risks and the provision for outstanding claims. 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. Outstanding claims represents the company's estimate of the cost of settlement of claims that have occurred by the balance sheet date but have not yet been finally settled.

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

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

### **ESTIMATION TECHNIQUES**

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

Where possible the Company 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 Company's estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies and a number of different bases to determine these provisions. These include methods based upon the following:

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

In addition, the Company uses other methods such as the Bornhuetter-Ferguson method, which combines features of the above methods. The Company also uses bespoke methods for specialist classes of business. In selecting its best estimate, the Company considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year. The process is designed to select the most appropriate best estimate.

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

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 claims provisions are subject to close scrutiny both within the Company's business units and at Group Corporate Centre. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. As an example, the Company's exposure to asbestos and environmental pollution is examined 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.

**Estimation Techniques, Uncertainties & Contingencies (continued)**

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

The pension assets and pension and post retirement liabilities are calculated in accordance with Financial Reporting Standard 17 (FRS 17). The assets, liabilities and income statement charge, calculated in accordance with FRS17, are sensitive to the assumptions made, including inflation, interest rate, investment return and mortality.

**Uncertainties and contingencies**

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

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

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the 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 Company. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretations and court judgments that broaden policy coverage beyond the intent of the original insurance, legislative changes and claims handling procedures.

The establishment of insurance liabilities 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, particularly for long tail lines of business. The Company seeks to provide appropriate levels of claims provision and provision for unexpired risks taking the known facts and experience into account.

The Company evaluates the concentration of exposures to individual and cumulative insurance risk and establishes its reinsurance policy to reduce such exposure to levels acceptable to the Company.

**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 insurance business. As a result it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims, particularly in periods when theories of law are in flux. Consequently, traditional techniques for estimating claims provisions cannot wholly be relied upon and the Company employs specialised techniques to determine provisions using the extensive knowledge of both internal asbestos and environmental pollution experts and external legal and professional advisors.

Factors contributing to this higher degree of uncertainty include:

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

**Estimation Techniques, Uncertainties & Contingencies (continued)**

**Representations and warranties**

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

**Financial enhancement products**

The Company 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 Company no longer writes such business; however, the nature of such contracts is normally that the Company is on risk for more than one year and therefore liabilities remain for an extended period.

**Litigation, mediation and arbitration**

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

**Reinsurance**

The Company is exposed to disputes on, and defects in, contracts with its reinsurers and the possibility of default by its reinsurers. The Company is also exposed to the credit risk assumed in fronting arrangements. In selecting the reinsurers with whom we do business our strategy is to seek reinsurers with the best combination of credit rating, price and capacity. We publish internally a list of authorised reinsurers who pass our selection process and which our operations may use for new transactions.

The Company 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 Company 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 Company in full.

**Investment risk**

The Company is exposed to credit risk on its invested assets. Credit risk includes the non performance of contractual payment obligations on invested assets and adverse changes in the credit worthiness of invested assets including exposures to issuers or counterparties for bonds, equities, deposits and derivatives. Our insurance investment portfolios are concentrated in listed securities. We use derivative financial instruments to reduce our exposure to adverse fluctuations in interest rates, foreign exchange rates and equity markets. We have strict controls over the use of derivative instruments.

**Royal & Sun Alliance Insurance plc**

**Profit & Loss Account**

**Technical Account**

for the year ended 31st December 2005

	Notes	2005 £m	2004 £m
Gross premiums written	32	3,483	3,634
Outward reinsurance premiums		(727)	(976)
Premiums written, net of reinsurance		2,756	2,658
Change in the gross provision for unearned premiums		6	351
Change in the provision for unearned premiums, reinsurers' share		-	(113)
<b>Earned premiums, net of reinsurance</b>		<b>2,762</b>	<b>2,896</b>
<b>Claims paid</b>			
Gross amount		(2,235)	(2,407)
Reinsurers' share		564	558
		(1,671)	(1,849)
<b>Change in the provision for claims</b>			
Gross amount		(4)	168
Reinsurers' share		(110)	(307)
		(114)	(139)
<b>Claims incurred, net of reinsurance</b>		<b>(1,785)</b>	<b>(1,988)</b>
<b>Net operating expenses</b>	3	<b>(811)</b>	<b>(1,026)</b>
Change in the equalisation provision	7	(37)	(37)
<b>Balance on the Technical Account for General Business</b>		<b>129</b>	<b>(155)</b>

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 19 to 32 form part of these financial statements.



# Royal & Sun Alliance Insurance plc

## Profit & Loss Account Non-Technical Account for the year ended 31st December 2005

### Non-technical account

	Notes	2005 £m	Restated 2004 £m
<b>Balance on the General Business Technical Account</b>		<b>129</b>	<b>(155)</b>
Investment income	9	417	414
Realised gains on realisation of investments	9	12	-
Profit on disposal of significant shareholdings	9	61	-
		<b>490</b>	<b>414</b>
Unrealised gains on trading investments / investment property		97	97
Investment expenses and charges	9	(101)	(109)
<b>Profit on ordinary activities before tax</b>		<b>615</b>	<b>247</b>
Profit/(loss) on disposal of subsidiary undertakings and branches		22	(16)
<b>Profit on ordinary activities before tax</b>		<b>637</b>	<b>231</b>
Tax charge on profit on ordinary activities	11	(207)	(47)
<b>Profit for the financial year attributable to shareholders</b>		<b>430</b>	<b>184</b>
Dividends	12	-	(100)
<b>Transfer to retained profits</b>		<b>430</b>	<b>84</b>

### Statement of total recognised gains and losses

	Notes	Revaluation Reserve £m	Profit and loss account £m	2005 £m	Restated 2004 £m
Profit for the financial year		-	430	430	184
Foreign exchange losses		-	(4)	(4)	(1)
Movement in valuation of subsidiaries		173	-	173	(752)
Pension fund actuarial losses	5	-	(68)	(68)	(36)
<b>Total recognised gains/(losses) arising in the year</b>		173	358	531	(605)
Prior year adjustment	1	-	(559)	(559)	-
<b>Shareholders' recognised gains / (losses) since 31 December 2004</b>		173	(201)	(28)	-

### Movement in shareholders' funds

	Notes	Share Capital/ Premium £m	Revaluation Reserve £m	Profit and loss account £m	2005 £m	Restated 2004 £m
<b>Shareholders' funds at 1 January (as reported)</b>	1	3,774	-	526	4,300	4,935
Prior year adjustment		-	-	(559)	(559)	(488)
<b>Shareholders' funds at 1 January (as restated)</b>		3,774	-	(33)	3,741	4,447
Shareholders' recognised gains/(losses)		-	173	358	531	(605)
Transfer		-	(173)	173	-	-
Interest on subordinated debt net of tax	21	-	-	(17)	(17)	(1)
Dividends	12	-	-	-	-	(100)
<b>Shareholders' funds at 31 December</b>		3,774	-	481	4,255	3,741

The accounting policies on pages 8 to 11 and the notes on pages 19 to 32 form part of these financial statements.

**Royal & Sun Alliance Insurance plc**

**Balance Sheet**  
as at 31st December 2005

<b>ASSETS</b>	Notes	2005 £m	Restated 2004 £m
<b>Intangible assets</b>	15	2	3
<b>Investments</b>			
Land and buildings	13	438	403
<b>Investments in Group undertakings and participating interests</b>			
Shares in subsidiary undertakings	18	6,259	6,089
Interests in associated undertakings	17	8	8
		6,267	6,097
<b>Other financial investments</b>			
Shares and other variable yield securities and units in unit trusts		1,104	1,020
Debt securities and other fixed income securities		4,248	3,879
Loans and deposits with credit institutions		241	477
	13	5,593	5,376
Deposits with ceding undertakings		14	17
<b>Total investments</b>		12,312	11,893
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		212	211
Claims outstanding		1,337	1,855
		1,549	2,066
<b>Debtors</b>			
Debtors arising out of direct insurance operations	14	1,140	1,108
Debtors arising out of reinsurance operations		148	308
Amounts owed by group undertakings		2,626	2,743
Deferred taxation		-	95
Other debtors		91	116
		4,005	4,370
<b>Other assets</b>			
Tangible assets	16	53	122
Cash at bank and in hand		96	90
		149	212
<b>Prepayments and accrued income</b>			
Accrued interest and rent		67	40
Deferred acquisition costs – general		285	305
Other prepayments and accrued income		74	54
		426	399
<b>Total assets</b>		18,443	18,943

The accounting policies on pages 8 to 11 and the notes on pages 19 to 32 form part of these financial statements.

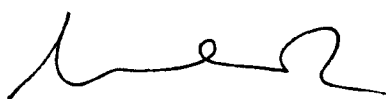
**Royal & Sun Alliance Insurance plc**

**Balance Sheet**  
as at 31st December 2005

<b>LIABILITIES</b>	Notes	2005 £m	Restated 2004 £m
<b>Capital and reserves</b>			
Called up share capital	20	1,128	1,128
Share premium account		2,646	2,646
Profit and loss account		481	(33)
<b>Shareholders' funds</b>		<b>4,255</b>	<b>3,741</b>
<b>Other capital instruments</b>			
Subordinated loan note	21	294	294
<b>Funds attributable to equity holders</b>		<b>4,549</b>	<b>4,035</b>
<b>Technical provisions</b>			
Provision for unearned premiums		1,656	1,663
Claims outstanding	22	6,192	6,507
Equalisation provisions	7	328	291
		8,176	8,461
<b>Provisions for other risks and charges</b>	23	211	113
<b>Deposits received from reinsurers</b>		82	74
<b>Creditors</b>			
Creditors arising out of direct insurance operations		70	136
Creditors arising out of reinsurance operations		133	192
Amounts owed to credit institutions	24	93	80
Amounts owed to group undertakings		4,493	5,163
Other creditors including taxation and social security	25	200	125
		4,989	5,696
<b>Accruals and deferred income</b>		227	215
		<b>18,234</b>	<b>18,594</b>
<b>Pension fund liability</b>	5	209	349
<b>Total liabilities</b>		<b>18,443</b>	<b>18,943</b>

The accounting policies on pages 8 to 11 and the notes on pages 19 to 32 form part of these financial statements.

The financial statements were approved by the Board on 4 April 2006 and were signed on its behalf by:



Director  
GEORGE CULMER 04/04/2006.



Denise

# 1. IMPACT OF CHANGES ARISING FROM ACCOUNTING POLICY CHANGES

As explained in the Accounting Policies, during the year the Company made a number of changes to its accounting policies. The impact of each accounting policy change on the results for the year are set out below:-

- The impact of changing the Company's accounting policy in respect of post retirements benefits is to increase the profit after tax during 2005 by £109m net of tax (2004:£Nil).
- The impact on profit after tax during 2005 of changing the Company's accounting policy in respect of the basis of translating the results of foreign branches is £Nil (2004:£Nil).
- The impact of changing the Company's accounting policy in respect of its subordinated debt is to increase profit after tax by £17m (2004: £1m).

# 2. REORGANISATION COSTS AND OTHER ITEMS

Other items within the Technical Account include:

	2005 £m	2004 £m
Reorganisation costs	36	38
Reorganisation costs comprise employee redundancy costs, vacant lease accruals and other restructuring expenses.		
Operating lease rentals - premises	30	30

# 3. NET OPERATING EXPENSES AND OTHER CHARGES

	2005 £m	2004 £m
Net operating expenses in the technical accounts include:		
Acquisition costs	270	258
Change in deferred acquisition costs	20	105
Administrative expenses	142	289
Reinsurance commissions and profit participations	379	374
	811	1,026

# 4. EMPLOYEE INFORMATION

	2005 £m	2004 £m
Staff costs for all employees comprise:		
Wages and salaries	308	285
Social security costs	29	30
Pension costs	(119)	42
	218	357

Pension costs in 2005 include a one off benefit of £180m due to the change in pension scheme design as described in note 5.

	2005 Number	2004 Number
The average number of employees of the Company during the year	10,781	11,870

## 5. RETIREMENT BENEFITS

The Company operates defined contribution pension schemes and funded and unfunded defined benefit pension schemes. The assets of the funded schemes are held in separate trustee administered funds.

In April 2002, the defined benefit schemes were effectively closed to new entrants following the introduction of a new, primarily defined contribution, scheme (the 2002 scheme). However, due to a small defined benefit underpin, the 2002 Scheme is still disclosed as a defined benefit scheme.

In 2005, following discussions with the Trustees and consultation with the members, the defined benefit schemes were altered from providing benefits on a final salary basis to benefits on a revalued average salary basis with effect from 1 January 2006. Under the new benefit formula, the accrued benefits of current active members are based on salaries at the date of change and will increase in line with inflation each year (limited to 5% in any year) up to their retirement date. Benefits earned in future years will be based on salaries in that year and similarly will be revalued up to retirement. As a result of the changes, the liabilities of the schemes are reduced from the date of change. The figures shown in the tables below reflect that reduction at the balance sheet date and the one-off benefit arising from the reduction is recorded as a beneficial item in the charge to the profit before tax in 2005.

In addition to these changes, the 2002 scheme (which was the scheme to which new UK employees have been admitted since the closure of the defined benefit schemes to new members) has been closed to further accrual from 1 January 2006. It has been replaced by a Stakeholder arrangement and members of the 2002 Scheme and future new employees in the UK will accrue future benefits on a defined contribution basis under the Stakeholder Plan.

For the two main schemes, the level of contributions in 2005 were 23% and 21% of salaries respectively (2004: 23% and 20% respectively). Additional contributions totalling £86m (2004: £43m) were made to the schemes, in accordance with the plan to reduce their deficits.

The major defined benefit schemes are subject to regular valuation using the projected unit method which provides the basis of the pension cost in the profit and loss account. Independent, qualified actuaries carry out valuations of the major defined benefit schemes for the purposes of assessing pension costs.

The components of the defined benefit pension cost that are included within profit before tax in the financial statements are as follows:

	2005 £m	2004 £m
Current service cost	64	67
Past Service cost	4	19
Curtailement gains	(181)	-
Settlement gains	-	-
<b>Total charge to be included in Profit before tax</b>	<b>(113)</b>	<b>86</b>
Expected return on assets	(226)	(214)
Interest cost	219	214
<b>Total financing charge to be included in Profit before tax</b>	<b>(7)</b>	<b>-</b>

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

**Royal & Sun Alliance Insurance plc**

**Notes on the Accounts (continued)**

**5. RETIREMENT BENEFITS (continued)**

Amounts recognised within the Statement of Total Recognised Gains and Losses:

	2005 £m	2004 £m	2003 £m	2002 £m
Actual return on assets in excess of expected return on assets	425	138	229	(649)
Experience gains/(losses) on liabilities	(66)	90	(60)	115
Change in actuarial assumptions	(456)	(279)	(221)	81
Movement in irrecoverable surplus	-	-	-	-
Actuarial loss	(97)	(51)	(52)	(453)
Deferred taxation	29	15	16	136
Recognised in the Statement of total recognised gains and losses	(68)	(36)	(36)	(317)

	2005 %	2004 %	2003 %	2002 %
Difference between expected and actual return as a percentage of scheme assets	9.5	3.6	6.5	(20.3)
Experience gains/(losses) as a percentage of scheme liabilities	(1.4)	2.1	(1.5)	3.1
Change in assumptions as a percentage of scheme liabilities	(9.5)	(6.5)	(5.5)	2.2
Total actuarial gain to be recognised in Statement of Total Recognised Gains and Losses as a percentage of scheme liabilities	(2.0)	(1.2)	(1.3)	(12.3)

Movement in deficit during the year	2005 £m	2004 £m
Deficit at 1 January	(499)	(481)
Total operating charge	113	(86)
Employer contribution	177	119
Total financing charge	7	-
Actuarial loss	(97)	(51)
Deficit at 31 December	(299)	(499)

The value of the defined benefit liability that is included at 31 December in the financial statements is as follows:

	2005 £m	2004 £m	2003 £m
Equities	2,142	1,840	1,742
Bonds	1,922	1,681	1,516
Other	412	302	275
Fair value of assets held by pension schemes	4,476	3,823	3,533
Present value of pension liabilities	(4,775)	(4,322)	(4,014)
Net deficit	(299)	(499)	(481)
Related deferred tax asset	90	150	144
Net pension liability	(209)	(349)	(337)

# Royal & Sun Alliance Insurance plc

## Notes on the Accounts (continued)

### 5. RETIREMENT BENEFITS (continued)

The last full valuation dates for the main schemes were 31 March 2004. The FRS 17 liabilities have been derived from the 2004 valuations adjusted for changes in financial conditions and membership changes at 31 December 2005. Valuations have been updated at 31 December 2005 by independent actuaries to take account of changes in the fair value of assets and financial assumptions.

Included in the profit and loss account reserve is a pension and post retirement reserve on a FRS 17 basis at 31 December 2005 of £(429)m (2004: £(361)m).

The main assumptions at 31 December in each year are as follows:

	2005 %	2004 %	2003 %
Assumptions			
Annual rate of general inflation	2.5	2.5	2.5
Annual rate of increase for pensions in payment and deferred pensions	2.5	2.5	2.5
Interest rate used to discount liabilities	4.7	5.2	5.4
<b>Expected rate of return to be assumed for each class</b>			
Equities	7.5	7.3	7.3
Bonds	4.1	4.5	4.8
Other	5.9	6.1	6.3

The mortality assumptions are set following investigations of the main schemes' recent experience by the scheme actuaries for their funding valuations. The last such valuations were carried out in 2004 and the next ones are due in 2006. Following the last investigations, the mortality assumptions adopted used the PMA92 and PFA92 mortality tables for males and females respectively, with age ratings to reflect the schemes' recent experience compared with that expected under these tables.

Reductions in future mortality rates were allowed for using the 'medium cohort' projection and using the projected mortality rates applicable to calendar year 2012 for current pensioners and 2030 for future pensioners. The weighted average assumptions imply that a current pensioner aged 60 has an expected future lifetime of 24.7 years (males) and 26.8 years (females) and a future pensioner aged 60 has a future lifetime of 26.1 years (males) and 28.1 years (females).

### 6 DIRECTORS' EMOLUMENTS

	2005 £000	2004 £000
The aggregate emoluments of the directors, including amounts received from subsidiaries, were as follows:		
Salaries and bonuses	3,327	3,119
Allowances, benefits and other awards	378	466
	<b>3,705</b>	<b>3,585</b>

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.

	2005 £000	2004 £000
The emoluments of the highest paid director (A K Haste) were:		
Salary, bonus, allowances, benefits and other awards	1,754	1,591

**6 DIRECTORS' EMOLUMENTS (continued)**

At 31 December 2005 the highest paid director had accrued annual pension of £4,840. 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 2005.

Retirement benefits accrued under defined benefit schemes for A.K.Haste and A.P.Latham who served during the year. Contributions of £61,500 (2004: £38,000) were made to a defined contribution scheme in respect of M.G.Culmer. The other directors who served during the year are members of a defined contribution scheme. They were appointed on 22nd December 2005 and no contributions were made in respect of the period.

**7. EQUALISATION PROVISIONS**

Equalisation provisions are established in accordance with the Financial Services Authority's rules for insurers in the UK. 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:

	2005 £m	2004 £m
Provisions at 1 January	291	254
Charged to the General Business Technical Account and in the profit on ordinary activities before tax	37	37
Provisions at 31 December	328	291

**8. QUOTA SHARE REINSURANCE TREATY**

During 2004 the Company participated in an 8% quota share reinsurance programme which covered the majority of the Company's business written in the UK and Ireland. The total amount of premiums ceded in 2004 was £245m. As from 1 January 2005 the quota share reinsurance programme was not renewed.

**9. INVESTMENT INCOME, EXPENSES AND CHARGES**

	2005 £m	2004 £m
<b>Investment income</b>		
Investment income	417	414
Realised gains on realisation of investments	12	-
Profit on disposal of significant shareholdings	61	-
	490	414
<b>Investment expenses and charges</b>		
Interest on bank loans and overdrafts	(3)	(3)
Interest on other loans	(85)	(69)
Investment management expenses	(13)	(11)
Realised losses on realisation of investments	-	(26)
	(101)	(109)
<b>Net investment return</b>	389	305

**10. AUDITORS' REMUNERATION**

The remuneration of the auditors was £40,000 (2004: £35,000).

Non audit fees of £721,000 (2004: £787,000) in the UK during the year were payable to PricewaterhouseCoopers LLP. Of these £701,000 (2004: £459,000) were for assurance services, £17,000 (2004: £Nil) were for tax advisory services and £3,000 (2004: £328,000) were for other non audit services.



# Royal & Sun Alliance Insurance plc

## Notes on the Accounts (continued)

### 11. TAXATION

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

	Non-Technical Account	
	2005 £m	2004 £m
<b>Current tax</b>		
UK Corporation tax	52	37
Double taxation relief	(8)	(1)
Overseas taxation	17	8
Taxation surplus (release)/addition	(98)	52
<b>Total current tax</b>	<b>(37)</b>	<b>96</b>
<b>Deferred tax</b>		
Timing differences – origination and reversal	252	(52)
Movement in discount	(8)	3
<b>Total deferred tax</b>	<b>244</b>	<b>(49)</b>
<b>Tax charge</b>	<b>207</b>	<b>47</b>

UK corporation tax for the current year is based on a rate of 30% (2004: 30%).

Factors affecting the current tax charge.

The current tax charge for the year is less than (2004: more than) 30% due to the items set out in the reconciliation below:

	2005 £m	2004 £m
Profit on ordinary activities before tax	637	231
<b>Tax at 30%</b>	<b>191</b>	<b>69</b>
Factors affecting charge		
Disallowed expenditure	4	15
Tax exempt income and investment gains	(18)	(21)
Fiscal adjustments	(19)	(26)
Group relief	17	-
Unrelieved foreign tax credits	6	7
Adjustment to prior year provisions	(99)	52
Other timing differences	(119)	-
<b>Current tax charge for the period</b>	<b>(37)</b>	<b>96</b>

### 12. DIVIDENDS

	2005 £m	2004 £m
Ordinary: interim dividend Nil (2004: 2.2p)	-	100

# Royal & Sun Alliance Insurance plc

## Notes on the Accounts (continued)

### 13. INVESTMENTS

	2005 £m	2004 £m
<b>Land and buildings</b>		
Freehold	392	403
Long leasehold	40	-
Short leasehold	6	-
<b>Total land and buildings</b>	<b>438</b>	<b>403</b>
<b>Of which Group occupied</b>	<b>83</b>	<b>91</b>
<b>Other financial investments</b>		
Shares and other variable yield securities and units in unit trusts	1,104	1,020
Debt securities and other fixed income securities:		
British government securities	1,285	1,436
Other government securities	716	682
Corporate bonds	2,146	1,756
Preference shares	101	5
Other loans	1	1
Deposits with credit institutions	240	476
<b>Total other financial investments</b>	<b>5,593</b>	<b>5,376</b>
<b>Listed investments</b>		
Included in total investments are the following:		
Shares and other variable yield securities and units in unit trusts	980	849
Debt securities and other fixed income securities	2,996	2,795
	<b>3,976</b>	<b>3,644</b>

Included within 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 £30m (2004: £15m).

Non-listed investments of £1,587m (2004: £1,717m) are carried at directors valuation as at 31st December 2005.

The historical cost of total investments is £5,952m (2004: £5,799m).

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.

### 14. DEBTORS

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

	2005 £m	2004 £m
Due from policyholders	329	431
Due from intermediaries	811	677
	<b>1,140</b>	<b>1,108</b>

# Royal & Sun Alliance Insurance plc

## Notes on the Accounts (continued)

### 15. INTANGIBLE ASSETS

	2005 £m
<b>Cost</b>	
At 1 January 2005	7
Additions	-
Disposals	-
<b>At 31 December 2005</b>	<b>7</b>
<b>Depreciation</b>	
At 1 January 2005	(4)
Charge for the year	(1)
Disposals	-
<b>At 31 December 2005</b>	<b>(5)</b>
<b>Net book value</b>	
<b>At 31 December 2005</b>	<b>2</b>
At 31 December 2004	3

Intangible assets comprise goodwill arising on acquisitions.

### 16. TANGIBLE ASSETS

	2005 £m
<b>Cost</b>	
At 1 January 2005	250
Additions	98
Disposals	(21)
Transfers	(142)
<b>At 31 December 2005</b>	<b>185</b>
<b>Depreciation</b>	
At 1 January 2005	(128)
Exchange	1
Charge for the year	(20)
Disposals	11
Transfers	4
<b>At 31 December 2005</b>	<b>(132)</b>
<b>Net book value</b>	
<b>At 31 December 2005</b>	<b>53</b>
At 31 December 2004	122

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

# Royal & Sun Alliance Insurance plc

## Notes on the Accounts (continued)

### 17. INTERESTS IN ASSOCIATED UNDERTAKINGS

The Company has a 26.0% holding of ordinary shares in Royal Sundaram Alliance Insurance Ltd which operates and is incorporated in India.

	2005 £m	2004 £m
Shares at cost		
At 1 January	8	8
At 31 December	8	8
Net asset value	8	8

### 18. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The Company's principal subsidiaries at 31 December 2005 are set out in note 33. 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 balance sheet comprises:

	2005 £m	Restated 2004 £m
Shares at cost		
At 1 January	7,226	7,218
Acquisitions	-	33
Disposals	(3)	(25)
At 31 December	7,223	7,226
Revaluation	(964)	(1,137)
Net asset value	6,259	6,089

The 2004 net asset value has been restated to reflect the recognition of the pension deficits of subsidiary undertakings.

### 19. CAPITAL COMMITMENTS

The estimated amount of capital commitments contracted but not provided for in these financial statements is £Nil (2004: £Nil).

### 20. SHARE CAPITAL

	2005 £m	2004 £m
Authorised		
4,750,000,000 (2004: 4,750,000,000) ordinary class A shares of 25p each	1,188	1,188
10 (2004: 10) ordinary class B shares of US\$1 each	-	-
Issued and fully paid		
4,511,091,326 (2004: 4,511,091,326) ordinary class A shares of 25p each	1,128	1,128
1 (2004: 1) ordinary class B share of US\$1	-	-

## Royal & Sun Alliance Insurance plc

### Notes on the Accounts (continued)

#### 21. SUBORDINATED LOAN NOTE

	2005 £m	Restated 2004 £m
Subordinated loan	294	294

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

In 2005 the subordinated loan note has been reclassified as an equity instrument and the 2004 comparative has been restated. In 2005 the associated interest has been charged to equity when paid and the 2004 comparative has been restated.

#### 22. 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 £5,191m (2004: £4,980m).

Claims are discounted, as follows:

		Discount rate		Average period to settlement in years	
		2005 %	2004 %	2005	2004
UK	Asbestos & Environmental	5.00	5.00	13	14

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

#### 23. PROVISIONS FOR OTHER RISKS AND CHARGES

	Deferred Tax £m	Reorganisation provision £m	Other provisions £m	2005 £m	2004 £m
At 1 January 2005	-	14	99	113	110
Charged/transferred	76	41	58	175	101
Utilised	-	(45)	(34)	(79)	(98)
Release	-	-	2	2	-
At 31 December 2005	76	10	125	211	113

The reorganisation 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.

Within Other provisions, there are provisions of £26m held relating to vacant property leases, dilapidations and refurbishments, the costs relating to which will be borne across the period over which the leases expire, which is up to 20 years.

# Royal & Sun Alliance Insurance plc

## Notes on the Accounts (continued)

### 24. BORROWINGS

	2005 £m	2004 £m
Amounts owed to credit institutions – unsecured	93	80

Borrowings comprise bank overdrafts which are repayable on demand.

### 25. OTHER CREDITORS

Other creditors including taxation and social security includes £Nil (2004: £Nil) in respect of corporation tax payable.

### 26. DEFERRED TAXATION

	2005 £m	2004 £m
Unrealised investment gains	(61)	(43)
Other timing differences	(15)	146
	(76)	103
Discount	-	(8)
	(76)	95

A deferred tax asset has not been recognised in respect of capital losses with an estimated tax value of £162m (2004: £162m) as it is not considered likely that suitable profits will arise to absorb these losses in the near future.

### 27. OPERATING LEASES

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land & buildings	
	2005 £m	2004 £m
One year or less	1	1
Between two and five years	7	6
After five years	21	23
	29	30

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

### 28. RELATED PARTIES 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.

## Royal & Sun Alliance Insurance plc

### Notes on the Accounts (continued)

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

#### 30. 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;
- the issue of £450m 8.50% subordinated guaranteed perpetual notes. There is an option to call the notes on 8 December 2014 and every five years thereafter; and
- a £233m syndicated loan facility, of which £233m has been drawn.

#### 31. ULTIMATE PARENT COMPANY

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

#### 32. SEGMENTAL INFORMATION

	Direct Accident & Health £m	Direct Motor Other £m	Direct Fire Property £m	Direct Other £m	Total £m
<b>2005</b>					
Gross premiums written	903	1,063	1,339	178	3,483
Gross premiums earned	948	992	1,382	167	3,489
Gross claims incurred	(610)	(741)	(726)	(199)	(2,276)
Gross operating expenses	(219)	(203)	(442)	(54)	(918)
Gross technical result	119	48	214	(86)	295
Reinsurance balance	(131)	4	(160)	121	(166)
Net technical result	(12)	52	54	35	129
<b>2004</b>					
Gross premiums written	850	989	1,534	261	3,634
Gross premiums earned	866	1,004	1,788	327	3,985
Gross claims incurred	(616)	(786)	(777)	(97)	(2,276)
Gross operating expenses	(210)	(233)	(640)	(114)	(1,197)
Gross technical result	40	(15)	371	116	512
Reinsurance balance	(238)	(7)	(357)	(65)	(667)
Net technical result	(198)	(22)	14	51	(155)

All the gross written premiums relate to contracts written in EC Member States. Gross operating expenses for direct business include commissions of £454m (2004: £501m).

Net premiums are disclosed by origin and there is no material difference between the origin and destination of contracts. Of the total GWP of £3,483m (2004: £3,634), £267m (2004: £287m) relates to our business in the Republic of Ireland and the remainder to our UK business.

## Royal & Sun Alliance Insurance plc

### Notes on the Accounts (continued)

#### 33. PRINCIPAL SUBSIDIARY COMPANIES

		Principal activity
United Kingdom	British Aviation Insurance Company Ltd (57.1%)	General insurance
	The Globe Insurance Company Ltd	General insurance
	The Marine Insurance Company Ltd*	General insurance
	Royal International Insurance Holdings Ltd*	General insurance
	Royal & Sun Alliance Reinsurance Ltd*	General insurance
	Sun Alliance and London Insurance plc*	General insurance
	Sun Insurance Office Ltd	General insurance
Argentina	Royal & Sun Alliance Seguros (Argentina) SA	General insurance
	La Republica Compania Argentina de Seguros Generales SA	General insurance
Bahrain	Royal & Sun Alliance Insurance (Middle East) Limited E.C. (50.01%)	General insurance
Brazil	Royal & Sun Alliance Seguros (Brasil) SA	General insurance
Canada	Roins Financial Services Ltd	Holding company
	Compagnie d'Assurance du Quebec	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
	Compania de Seguros Generales Cruz del Sur SA	General insurance
Colombia	Royal & Sun Alliance Seguros (Colombia) SA (86.3%)	General insurance
Denmark	Codan A/S (71.7%)	Holding company
	Codan Forsikring A/S (71.7%)	General insurance
Guernsey	Insurance Corporation of Channel Islands Ltd	General insurance
Hong Kong	Royal & Sun Alliance Insurance (Hong Kong) Ltd	General insurance
Isle of Man	Tower Insurance Company Ltd	General insurance
Mexico	Royal & Sun Alliance Seguros (Mexico) SA	General insurance
Netherlands Antilles	Royal & Sun Alliance Insurance (Antilles) NV (51.0%)	General insurance
Singapore	Royal & Sun Alliance Insurance (Singapore) Ltd	General insurance
Sweden	Trygg-Hansa Försäkrings AB, Publikt (71.7%)	General insurance



## Royal & Sun Alliance Insurance plc

### Notes on the Accounts (continued)

#### 33. PRINCIPAL SUBSIDIARY COMPANIES (continued)

United States of America	Royal & Sun Alliance USA, Inc	Holding company
	Guaranty National Insurance Company	General insurance
	Royal Indemnity Company	General insurance
	Royal Surplus Lines Insurance Company	General insurance
	Security Insurance Company of Hartford	General insurance
Uruguay	Royal & Sun Alliance Seguros (Uruguay) SA	General insurance
Venezuela	Royal & Sun Alliance Seguros (Venezuela) SA (99.9%)	General insurance

#### Notes:

1. UK companies are incorporated in Great Britain and are registered in England.

\*100% direct subsidiaries of Royal & Sun Alliance Insurance plc.

2. Except where indicated all holdings are of equity shares and represent 100% of the nominal issued capital.

3. Some subsidiaries have been omitted from this statement to avoid providing particulars of excessive length.