

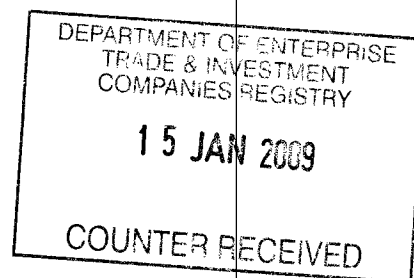


Registered Number: 93792

ROYAL & SUN ALLIANCE INSURANCE PLC

Annual Report & Accounts

for the year ended 31 December 2007



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

Directors

R J Clayton

D P Cockrem

I A Craston

M G Culmer

M Harris

A K Haste

S P G Lee

B F McIntyre

Secretary

L Thomas

Registered office

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

Auditors

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Hill House
1 Little New Street
London
EC4A 3TR

Royal & Sun Alliance Insurance plc

Directors' Report

for the year ended 31 December 2007

The directors present their report and audited financial statements for the year ended 31 December 2007.

Royal & Sun Alliance Insurance Group plc (the Group), of which the Company is an important part, is managed along divisional lines. The Company transacts the majority of the UK business, as described in the Annual Report & Accounts of the Group. The directors of the Company have considered whether the Group approach to strategy, risk management, performance review and custody of assets fully meets the needs of the Company as a separate regulated entity. They have concluded that it does.

Business review and principal activities

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. The results for the Company show a profit on ordinary activities before tax of £430m (2006: £151m) for the year and gross premiums written of £3,496m (2006: £3,313m). The shareholders' funds of the Company were £4,396m as at 31 December 2007 (31 December 2006 £4,180m).

Future outlook

The Company is focused on driving strong retention of business and in building momentum in its target markets in the UK and overseas to deliver profitable growth. The Company is committed to disciplined risk selection and underwriting and to the delivery of sustainable earnings.

Principal risks and uncertainties

The Company's principal risks and uncertainties are integrated within the principal risks of the Group and are not managed separately. The principal risks and uncertainties of the Group, which include those of the UK business, and hence the Company, are set out in the estimation techniques, uncertainties and contingencies on pages 70 to 72, and in the risk framework on pages 27 to 29 of the Annual Report & Accounts of the Group which do not form part of this report.

A discussion on the Management of Financial Risk is set out below.

Key performance indicators

The directors of the Group manage the Group's operations on a divisional basis. For this reason the Company's directors believe that analysis using key performance indicators (KPIs) for the UK business is relevant to the Company and that a separate analysis is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. Financial KPIs are detailed in the Annual Report & Accounts of the Group (which do not form part of this report) within the Group CEO review on pages 11 to 13 and the regional business reviews on pages 14 to 22. The Annual Report & Accounts of the Group also includes non-financial KPIs which are detailed in the regional business reviews on pages 14 to 22, the corporate responsibility report on pages 30 to 31 and the directors' report on pages 37 to 39.

Dividends

An interim dividend of £200m was declared on 14 December 2007. The directors do not recommend payment of a final ordinary dividend (2006: £Nil).

Directors and their interests

The names of the current directors are listed on page 2. RJ Clayton was appointed a director on 8 January 2007 and IA Craston was appointed a director on 27 March 2007. AP Latham resigned as a director on 31 December 2007. 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.

Royal & Sun Alliance Insurance plc

Directors' Report (continued) for the year ended 31 December 2007

Employment policy

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

We encourage equal opportunities and diversity within the Company. This involves recruiting, engaging, 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 the promotion of equal opportunities for all employees including those with a disability. In order to do this, we will ensure that any reasonable adjustment is made, where it is appropriate to do so, to provide equal opportunities to all in respect of recruitment, terms and conditions of employment, promotions, transfers, dismissals and vocational training. 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 recognised independent trade unions, ensuring a regular and constructive dialogue on business issues and early consultation on changes affecting the workforce. In the UK, Unite 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.

The fourth annual web based Employee Survey was run in 2007. Our aim is to consistently seek feedback on the environment we are creating as an employer and to work constructively towards our objective of becoming an employer of choice. Our intention is to continue to conduct an annual survey to ensure we have a current picture of employees' views and to track year on year movement in particular areas of priority. In this way we measure how the culture of our business is changing.

Our policy is to encourage employee share ownership. Employees are encouraged to participate in Sharesave which is an HM Revenue & Customs approved all employee sharesave scheme in respect of the ordinary shares of Royal & Sun Alliance Insurance Group plc. Employees are kept well informed of the overall performance and objectives of the Group.

The Company actively encourages employees to become involved in supporting their local communities.

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.

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.

Royal & Sun Alliance Insurance plc

Directors' Report (continued)
for the year ended 31 December 2007

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 Procurement, Leadenhall Court, 1 Leadenhall Street, London EC3V 1PP.

The Company's outstanding indebtedness to trade creditors on 31 December 2007 amounted to £22.7m, corresponding to 18 days payment when averaged over the year.

Auditors

At the Annual General Meeting of the Company held on 11 April 2007, PricewaterhouseCoopers LLP stepped down as auditors of the Company and Deloitte & Touche LLP were appointed. PricewaterhouseCoopers LLP have confirmed that there are no circumstances connected with their ceasing to hold office which should be brought to the notice of the shareholders or creditors of the Company pursuant to section 394 Companies Act 1985.

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of, and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte & Touche LLP have confirmed their willingness to continue in office as auditors of the Company and a resolution for their reappointment will be proposed at the 2008 Annual General Meeting.

By order of the Board



L Thomas
Secretary

26 February 2008

Royal & Sun Alliance Insurance plc
Statement of Directors'
Responsibilities

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 31 December 2007 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 34 including the accounting policies, estimation techniques, uncertainties and contingencies and risk management. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, 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 other 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 audit 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 judgments 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 provisions

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 31 December 2007 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 8.

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 31 December 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London, United Kingdom

26 February, 2008

Royal & Sun Alliance Insurance plc

Profit & Loss Account

Technical Account

for the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Gross premiums written	33	3,496	3,313
Outward reinsurance premiums		(539)	(536)
Premiums written, net of reinsurance		2,957	2,777
Change in the gross provision for unearned premiums		(117)	(62)
Change in the provision for unearned premiums, reinsurers' share		3	(76)
Earned premiums, net of reinsurance		2,843	2,639
Claims paid			
Gross amount		(2,627)	(2,452)
Reinsurers' share		347	605
		(2,280)	(1,847)
Change in the provision for claims			
Gross amount		598	419
Reinsurers' share		(106)	(272)
		492	147
Claims incurred, net of reinsurance		(1,788)	(1,700)
Net operating expenses	3	(1,067)	(878)
Change in the equalisation provision	8	35	(10)
Balance on the Technical Account for General Business		23	51

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

Royal & Sun Alliance Insurance plc

**Profit & Loss Account
Non-Technical Account**
for the year ended 31 December 2007

Non-technical account

	Notes	2007 £m	2006 £m
Balance on the General Business Technical Account		23	51
Investment income	9	789	366
Realised gains on realisation of investments	9	84	63
		873	429
Unrealised (losses)/gains on trading investments / investment property	9	(73)	77
Impairment of subsidiary undertakings	9	(397)	(184)
Investment expenses and charges	9	38	(219)
Operating profit		464	154
Loss on disposal of subsidiary undertakings and branches		(34)	(3)
Profit on ordinary activities before tax		430	151
Tax credit/(charge) on profit on ordinary activities	11	-	(66)
Profit for the financial year attributable to shareholders		430	85
Dividends	12	(200)	(300)
Transfer to/(from) retained profits		230	(215)

Statement of total recognised gains and losses

	Notes	Profit and loss account £m	2007 £m	2006 £m
Profit for the financial year		430	430	85
Foreign exchange gains		30	30	5
Tax on foreign exchange gains		(2)	(2)	(1)
Movement in valuation of participating interests		-	-	(2)
Pension fund actuarial (losses)/gains net of deferred tax	5	(21)	(21)	170
Total recognised gains arising in the year		437	437	257

Royal & Sun Alliance Insurance plc

Balance Sheet

as at 31 December 2007

ASSETS	Notes	2007 £m	2006 £m
Intangible assets	15	9	2
Investments			
Land and buildings	13	394	448
Investments in Group undertakings and participating interests			
Investment in subsidiary undertakings	18	6,360	6,154
Interests in associated undertakings	17	96	6
		6,456	6,160
Other financial investments			
Shares and other variable yield securities and units in unit trusts		1,028	1,168
Debt securities and other fixed income securities		3,274	3,103
Loans and deposits with credit institutions		412	579
	13	4,714	4,850
Deposits with ceding undertakings		3	-
Total investments		11,567	11,458
Reinsurers' share of technical provisions			
Provision for unearned premiums		149	135
Claims outstanding		943	1,016
		1,092	1,151
Debtors			
Debtors arising out of direct insurance operations	14	1,435	1,183
Debtors arising out of reinsurance operations		118	112
Amounts owed by group undertakings		3,272	2,901
Other debtors		169	104
		4,994	4,300
Other assets			
Tangible assets	16	28	36
Cash at bank and in hand		116	261
		144	297
Prepayments and accrued income			
Accrued interest and rent		115	51
Deferred acquisition costs – general		335	291
Other prepayments and accrued income		149	145
		599	487
		18,405	17,695
Pension fund asset	5	167	118
Total assets		18,572	17,813

Royal & Sun Alliance Insurance plc

Balance Sheet
as at 31 December 2007

LIABILITIES

	Notes	2007 £m	2006 £m
Capital and reserves			
Called up share capital	20	1,128	1,128
Share premium account		2,646	2,646
Profit and loss account	21	622	406
Shareholders' funds		4,396	4,180
Other capital instruments			
Subordinated loan note equity instrument	22	372	372
Funds attributable to equity holders		4,768	4,552
Technical provisions			
Provision for unearned premiums		1,870	1,711
Claims outstanding	23	5,109	5,606
Equalisation provision	8	303	338
		7,282	7,655
Provisions for other risks and charges	24	187	193
Deposits received from reinsurers		5	6
Creditors			
Creditors arising out of direct insurance operations		97	68
Creditors arising out of reinsurance operations		127	130
Amounts owed to credit institutions	25	340	55
Amounts owed to group undertakings		5,314	4,683
Other creditors including taxation and social security	26	205	189
		6,083	5,125
Accruals and deferred income		225	221
		18,550	17,752
Pension fund liability	5	22	61
Total liabilities		18,572	17,813

The financial statements were approved by the Board on 16 February 2008 and were signed on its behalf by:

George Culmer
Director



Royal & Sun Alliance Insurance plc

Statement of accounting policies

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) Accounting for Insurance Business issued by the Association of British Insurers in December 2005 (as amended in December 2006). As noted in the investment accounting policy the true and fair override has been adopted in respect of the valuation of the Company'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. The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain financial instruments.

CHANGES IN ACCOUNTING POLICIES

During the year the Company has adopted Financial Reporting Standard (FRS) 29 Financial Instruments: Disclosures. There is no impact on current or prior years' profit resulting from the adoption of this standard, as its provisions relate to disclosure.

A summary of the major accounting policies, which have been applied consistently throughout the year and the preceding year, is set out below.

TRANSLATION OF FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates ruling at the balance sheet date. 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.

The results of overseas operations are translated at the average rates for the period and their balance sheets at the rates ruling at the balance sheet date. The resulting exchange differences are taken to reserves.

INSURANCE CONTRACTS – PRODUCT CLASSIFICATION

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Company agrees to compensate a policyholder if a specified uncertain future event (other than a change in a financial variable) adversely affects the policyholder. Any contracts not meeting the definition of an insurance contract are classified as investment contracts or derivative contracts, as appropriate.

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

Investment income is recognised in the Non-Technical Account. Dividends on equity investments are recognised on the date at which the investment is priced 'ex dividend'. Interest income is recognised using the effective interest rate method. Realised and unrealised gains and losses on investments are dealt with in the Non-Technical Account.

Royal & Sun Alliance Insurance plc
Statement of accounting policies (continued)

TAXATION

Current tax, based on profits and income for the year, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. A deferred tax asset is recognised for relief for trading losses or other losses only to the extent that the directors anticipate that suitable profits will absorb such losses in the future.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

GOODWILL

Goodwill, being the difference between the cost of an unincorporated business acquisition and the Company's interest in the net fair value of the identifiable assets and liabilities acquired, is initially capitalised in the balance sheet at cost and is subsequently recognised at cost less accumulated amortisation and any impairment losses. The cost of the acquisition is the amount of cash paid and the fair value of other purchase consideration given together with directly related expenses. Goodwill is regarded as having a limited useful life that does not exceed twenty years and is amortised on a straight-line basis over its useful life.

Goodwill is subject to an impairment review at the end of the first full financial year following the initial recognition of the goodwill and, in other periods, if events or changes in circumstances indicate that its carrying value may not be recoverable in full. Where the review reveals that the carrying amount is more than the recoverable amount, an impairment is recognised.

ASSOCIATES

Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted as investments in participating interests and are carried in the balance sheet at a directors' valuation (based upon the Company's share of the net current assets of the associate). Changes in the valuation of associates are recognised in the Statement of Total Recognised Gains and Losses. Dividends from associates are accounted for as income in the period in which the Company becomes entitled to receive the dividend.

ESTIMATION OF THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES OTHER THAN INVESTMENTS IN SUBSIDIARIES

The methods and assumptions used by the Company in estimating the fair value of financial assets and liabilities are:

- for fixed maturity securities, fair values are generally based upon quoted market prices. Where market prices are not readily available, fair values are estimated using either values obtained from quoted market prices of comparable securities or estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment;
- for equity securities fair values are based upon quoted market prices;

Royal & Sun Alliance Insurance plc
Statement of accounting policies (continued)

ESTIMATION OF THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES OTHER THAN INVESTMENTS IN SUBSIDIARIES (continued)

- if the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models;
- for mortgage loans on real estate and collateral loans, fair values are estimated using discounted cash flow calculations based upon prevailing market rates;
- for cash, short- term investments, commercial paper, other assets, liabilities and accruals carrying amounts approximate to fair value; and
- for notes, bonds and loans payable, fair values are determined by reference to quoted market prices or estimated using discounted cash flow calculations based upon prevailing market rates. Loan capital is carried at amortised cost and when this is different from fair value this is shown in the relevant note. Fair value in this case is based on discounted future cash flows. For borrowings that carry a variable rate of interest (other than loan capital), carrying values approximate to fair values;
- For derivatives, fair values are generally based upon quoted market prices.

INVESTMENT PROPERTY

Investment properties are shown at market value and are valued annually by independent professionally qualified valuers at open market value. Unrealised gains and losses are recognised in the Non-Technical Account.

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 Company's practice to maintain properties occupied by the Company 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.

FINANCIAL ASSETS

A financial asset is initially recognised, on the date the Company commits to purchase the asset, at fair value plus transaction costs that are directly attributable to its acquisition. A financial asset is derecognised when the rights to receive cashflows from the investment have expired or have been transferred and the Company has also transferred substantially the risks and rewards of ownership of the asset.

Where the following conditions are satisfied, financial assets (other than derivatives and originated loans and receivables) are designated upon initial recognition as at fair value through profit or loss. The conditions are that the performance of the assets is evaluated on a total return basis (including the changes in fair values) in accordance with a documented investment strategy and information is provided internally to the Company's key management personnel on this basis.

On subsequent measurement, investments are measured at fair value with changes in fair value recognised in the Non-Technical Account. Originated loans and receivables are measured at amortised cost.

Royal & Sun Alliance Insurance plc
Statement of accounting policies (continued)

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are included at net asset value. Reductions in carrying value of subsidiaries below historic cost and reversals of such reductions are recognised in the Non Technical Account. Other changes in the carrying value of subsidiaries are recognised in the Statement of Total Recognised Gains and Losses, and the accumulated gains are recognised in Revaluation Reserve.

DERIVATIVES

Derivatives are recognised in the Balance Sheet on a trade date basis and are carried at fair value. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. All gains and losses arising are taken to the Non-Technical Account. The Company does not hold or issue derivative financial instruments for speculative purposes.

TANGIBLE ASSETS AND DEPRECIATION

Tangible assets, other than land and buildings comprise fixtures, fittings and equipment (including computers and motor vehicles) 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 according to their contractual terms.

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

Subordinated loans are classified as liabilities when the conditions above are not met. Interest costs on such subordinated loans are calculated using the effective interest method and are recognised in the Non-Technical Account.

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.

Royal & Sun Alliance Insurance plc
Statement of accounting policies (continued)

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 dependent on one or more factors such as age, years of service and level of salary.

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.

Royal & Sun Alliance Insurance plc
Statement of accounting policies (continued)

PENSION COSTS (continued)

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.

SHARE BASED PAYMENT

The value of the employee share options and other equity settled share based payments is calculated at fair value at the grant date using appropriate and recognised option pricing models. The value of liabilities in respect of cash settled share based payment transactions are based upon the fair value of the awards at the balance sheet date.

Vesting conditions, other than those based upon market conditions, are not taken into account when estimating the fair value of such awards but are taken into account by adjusting the number of equity instruments included in the ultimate measurement of the transaction amount. The value of the awards is recognised as an expense on a systematic basis over the period during which the employment services are provided.

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 potential longer term significance of large events, the levels of unpaid claims, legislative changes, judicial decisions and economic and political 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 Profit & Loss Account charge, calculated in accordance with FRS 17, are sensitive to the assumptions made from time to time, including inflation, interest rate, investment return and mortality. FRS 17 compares, at a given date, the current market value of a pension fund's assets with its long term liabilities, which are calculated using a discount rate in line with yields on 'AA' rated bonds of suitable duration and currency. As such, the financial position of a pension fund on this basis is highly sensitive to changes in bond rates and will also be impacted by changes in equity markets.

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 the Company's 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 has exposures to risks in each class of business within each operating segment that may develop and that could have a material impact upon the Company's financial position. The insurance risk diversity within the Company's portfolio of issued insurance policies make it not possible to predict whether material development will occur and, if it does occur, the location and the timing of such an occurrence. The estimation of insurance liabilities involves the use of judgments and assumptions that are specific to the insurance risks within each territory and the particular type of insurance risk covered. The diversity of the insurance risks results in it not being possible to identify individual judgments and assumptions that are more likely than others to have a material impact on the future development of the insurance liabilities.

The sections below identify a number of specific risks relating to asbestos and environmental claims. There may be other classes of risk which could develop in the future and that could have a material impact on the Company's financial position.

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.

Estimation Techniques, Uncertainties & Contingencies (continued)

Factors contributing to this higher degree of uncertainty include:

- the long delay in reporting claims from the date of exposure (for example, cases of mesothelioma can have a latent period of up to 40 years). This makes estimating the ultimate number of claims we will receive particularly difficult;
- issues of allocation of responsibility among potentially responsible parties and insurers;
- emerging court decisions increasing or decreasing insurer liability;
- the tendency for social trends and factors to influence court awards ;
- developments pertaining to the Company's ability to recover reinsurance for claims of this nature; and
- for US liabilities from our London market business, developments in the tactics of US plaintiff lawyers and court decisions and awards.

Acquisitions and disposals

The Company makes acquisitions and disposals of businesses as part of its normal operations. All acquisitions are made after due diligence, which will include, amongst other matters, assessment of the adequacy of claims reserves, assessment of the recoverability of reinsurance balances, inquiries with regard to outstanding litigation and inquiries of local regulators and taxation authorities. Consideration is also given to potential costs, risks and issues in relation to the integration of any proposed acquisitions with existing R&SA operations. The Company will seek to receive the benefit of appropriate contractual representations and warranties in connection with any acquisition and, where necessary, additional indemnifications in relation to specific risks although there can be no guarantee that such protection will be adequate in all circumstances. The Company may also provide relevant representations, warranties and indemnities to counterparties on any disposal. 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.

Contracts with third parties

The Company enters into joint ventures, outsourcing contracts and distribution arrangements with third parties in the normal course of its business and is reliant upon those third parties performing their obligations in accordance with the terms and conditions of the contracts.

Litigation, mediation and arbitration

The Company, in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectoral inquiries in the normal course of its business. In addition the Royal & Sun Alliance Group is subject to litigation in connection with its former ownership of its US operation. The directors do not believe that any current mediation, arbitration, regulatory, governmental 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, governmental or sectoral 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 and to potential reinsurance capacity constraints. 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 providing, in line with Group standards, having regard to companies on the Group's 'Watch List'. The 'Watch List' is the list of companies whom the Royal & Sun Alliance Group's directors believe will not be able to pay amounts due 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 with very low levels of exposure to assets without quoted market prices. We use model based analysis to verify asset values when market values are not readily available.

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.

Estimation Techniques, Uncertainties & Contingencies (continued)

Changes in foreign exchange rates may impact our results

We publish our financial statements in pounds sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly other European currencies and the US dollar, into pounds sterling will impact our reported financial condition, results of operations and cash flows from period to period. These fluctuations in exchange rates will also impact the pound sterling value of our investments and the return on our investments.

Income and expenses for each Profit & Loss Account item are translated at average exchange rates. Balance sheet assets and liabilities are translated at the closing exchange rates at the balance sheet date.

Rating agencies

The ability of the Company to write certain types of insurance business is dependent on the maintenance of the appropriate credit ratings from the rating agencies. The Royal & Sun Alliance Group has the objective of maintaining single 'A' ratings. At the present time the ratings are 'A' (stable) from S&P upgraded from 'A-' in December 2007, 'A-' (positive outlook) from AM Best and 'A3' (stable) from Moody's. Any worsening in the ratings would have an adverse impact on the ability of the Royal & Sun Alliance Group and the Company to write certain types of general insurance business.

Regulatory environment

The legal, regulatory and accounting environment is subject to significant change in many of the jurisdictions in which we operate. We continue to monitor the developments and react accordingly.

In particular the Company is continuing to monitor and respond to ongoing consultation following publication of the Solvency II Framework Directive, which is intended, in the medium term, to achieve greater harmonisation of approach across European member states to assessing capital resources and requirements. The directors are confident that the Company will continue to meet all future regulatory capital requirements.

Royal & Sun Alliance Insurance plc

Risk Management

Introduction

Royal & Sun Alliance Insurance Group plc (the Group), of which the Company is an important part, is managed along divisional lines. The Company transacts the majority of the UK business. The directors of the Company have considered whether the Group approach to strategy, risk management, performance review and custody of assets fully meets the needs of the Company as a separate regulated entity. They have concluded that it does.

The following discussion sets out the approach of the Group, and hence of the Company, to risk management.

Risk Management

As an insurance company, the Company is fundamentally concerned with the management of risk. This note summarises these risks and the way the Group, and hence the Company, manages them.

The Group's board defines the risk appetite of the organisation.

The Group employs a comprehensive risk management framework to identify, assess, manage and monitor the risks arising as a result of operating the business. The framework includes a comprehensive suite of risk policies, procedures, measurement, reporting and monitoring techniques and a series of stress tests and scenario analyses to ensure that the Group's risk exposures are managed appropriately.

The Group is exposed to financial risk through its financial assets, financial liabilities (investment contracts and borrowings), 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 and investment contracts.

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

The components of insurance, reinsurance, credit, market and liquidity risk management are addressed below:

Insurance risk

The Company's insurance activities are primarily concerned with the pricing, acceptance and management of risks from its customers. In accepting risk the Company is committing to the payment of claims and therefore these risks must be understood and controlled. Disciplined underwriting, encompassing risk assessment, risk management, pricing and exposure control is critical to the Company's success.

Property and Casualty insurance risks

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy aims to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Pricing for property and casualty products is generally based upon historical claims frequencies and claims severity averages, adjusted for inflation and trended forward to recognise anticipated changes in claims patterns. While claims remain the Company's principal cost, the Company also makes allowance in the pricing procedures for acquisition expenses, administration expenses, investment income, the cost of reinsurance and for a profit loading that adequately covers the cost of the capital the Company exposes to risk.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. In certain territories, legislation requires that the maximum loss under each employers' liability contract is never lower than a prescribed amount. All the Company employers' liability contracts offer maximum cover in compliance with such minimums.

All of the Company's underwriters have specific licences that set clear parameters for the business they can underwrite, based on the experience of the individual underwriter. Additionally the Group has a centrally managed forum looking at group underwriting issues, reviewing and agreeing underwriting direction and setting policy and directives where appropriate. The Group has a quarterly portfolio management process across all its business units, which provides a consistent assessment of each portfolio performance against a set of key performance indicators. Under the portfolio management system, key risk indicators are tracked to monitor emerging trends, opportunities and risks and on an annual basis a review forum of business and underwriting leaders undertake a detailed review of each portfolio utilising data from the quarterly review.

Reinsurance arrangements in place include excess, stop loss and catastrophe coverage. The effect of such reinsurance arrangements is that the Group should not suffer total net insurance losses of more than a specified amount in any one year.

Reserves – An Overview

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

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

The Group has a Group Reserving Committee consisting of the Chief Executive Officer, Chief Financial Officer, Group Underwriting and Claims Director and Group Chief Actuary. A similar committee has been established in each of the Group's major regions. The Group Reserving Committee monitors the decisions and judgements made by the business units as to the level of reserves recommended and makes the final decision on the reserves to be included within the financial statements ('Management Best Estimate'). In making its judgment, the Group Reserving Committee's aim is that, over the longer term, reserves should be more likely to run off favourably than adversely. However, there can be no assurance that reserves will not develop adversely and exceed the Management Best Estimate. In making its judgement of the Management Best Estimate of Reserves to include in the financial statements the Group Reserving Committee adopts the following approach:

The Company's actuaries provide an indication of ultimate losses together with an assessment of risks and possible favourable or adverse developments that may not have been fully considered in calculating these indications. At the end of 2007 these risks and developments included: the possibility of future legislative change having retrospective effect on open claims; changes in claims settlement procedures potentially leading to future claims payment patterns differing from historical experience; the possibility of new types of claim, such as disease claims, emerging from business written several years ago; general uncertainty in the claims environment; the emergence of latent exposures such as asbestos; the outcome of litigation on claims received; failure to recover reinsurance and unanticipated changes in claims inflation,

Consideration is also made of the views of internal peer reviewers of the reserves and of third parties including actuaries, legal counsel, risk directors, underwriters and claims managers,

Consideration is made of how previous actuarial indications have developed.

In forming its collective judgment, the Committee will consider this information as a whole.

Emerging and legal risks

These are risks that have been identified as potentially affecting the Group but for which the extent of risk has not yet been identified. Existing or potential future risk exposures are investigated in a structured way, using internal and external resources, and actions to mitigate, contain or remove these risks are taken.

In addition, to the extent that legal decisions in any of the jurisdictions in which the Group operates worldwide may increase court awards, and that the impact may be applied prospectively or retrospectively, claims and benefits provisions may prove insufficient to cover actual losses, loss adjustment expenses or future policy benefits. In such an event, or where it has been previously estimated that no liability would apply, the Company would add to its loss provisions and incur a charge to earnings. Such insufficiencies could have a material adverse effect on the Company's future financial condition, financial results and cash flows.

In the ordinary course of its insurance activities, the Company is routinely involved in legal or arbitration proceedings with respect to liabilities, which are the subject of policy claims.

As insurance industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues can have a negative effect on the Company's financial results by either extending coverage beyond its underwriting intent or by increasing the number and size of claims.

Reinsurance risk

The Company is exposed to multiple insured losses arising out of a single occurrence, whether a natural peril event such as a hurricane, flood or an earthquake, or man made catastrophes such as an explosion or fire at a major industrial facility. Any such catastrophic event could generate insured losses under one or more of its policies.

The ability of the business units in each territory to assess the aggregation risk of a single event impacting on thousands of policyholders is vital. The Group employs proprietary exposure measurement systems to assess these risks. In some markets, particularly in the UK, the Group has in addition developed its own expertise in catastrophe modelling that is used in conjunction with outside consultants. The accurate estimation of the potential expected maximum loss for a catastrophe is critical and is the primary factor considered in designing the Group's catastrophe reinsurance programme.

The expertise within the Group on catastrophe modelling is shared through the Worldwide Reinsurance Practice Group, which also provides an overview of the company wide catastrophe exposures and reinsurance adequacy. A reinsurance program is considered to be 'adequate' only if it covers at least 199 out of 200 possible events by loss size. This is referred to as the '1 in 200 year expected maximum loss'. Since 1999, the Group has set its total retention for a single catastrophic event based on geographic location.

The operations of the Group are responsible for buying reinsurance to protect their results against catastrophes and for determining their own retentions. The Group Corporate Centre reviews the operations' proposed catastrophe purchases to check that they at least meet the Group's '1 in 200 year' standard. Group Corporate Centre also checks to see that total Group exposures are within the limits set out above and also are consistent with the required risk based capital. As a result the Group may decide to purchase further catastrophe coverage at the Group level.

The Group reinsures a portion of the risks underwritten to control exposure to losses, to reduce volatility and protect capital. The Group's reinsurance strategy is to purchase reinsurance in the most effective manner from reinsurers who meet its security standards.

The Group uses financial analysis models to assess the risk and reward effects of different reinsurance structures and prices.

The Group remains primarily liable as the direct insurer on all risks reinsured, although the reinsurer is liable to the Group to the extent of the reinsurance ceded.

Credit risk

Credit risk is the risk of loss of value of the financial assets due to counterparties failing to meet all or part of their obligations. The Board Risk Committee (BRC) is responsible for ensuring that the Board approved Group credit risk appetite is not exceeded, through the setting and imposition of Group policies, procedures and limits. In defining its risk appetite for credit risk the Group looks at exposures at both an aggregate and business unit level distinguishing between credit risks incurred as a result of offsetting insurance risks or operating in the insurance market (e.g. reinsurance credit risks and insurance operations credit risks) and credit risks incurred for the purposes of generating a return (e.g. invested assets credit risk).

Limits are set at both a portfolio and counterparty level based on likelihood of default derived from the rating of the counterparty to ensure that the Group's overall credit profile and specific concentrations are managed and controlled within appetite. Financial assets are graded according to current credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. For invested assets, restrictions are placed on each of the Group's investment managers as to the level of exposure to not rated securities.

Royal & Sun Alliance Insurance plc
Risk Management (continued)

Credit risk (continued)

The following table provides information regarding the aggregated credit risk exposure of the Company for financial assets with external credit ratings as at 31 December 2007.

	Credit rating relating to financial assets that are neither past due nor impaired						Total of financial assets that are neither past due nor impaired
	AAA	AA	A	BBB	<BBB	Not rated	
	£m	£m	£m	£m	£m	£m	£m
Debt securities	2,017	698	430	100	18	11	3,274
Other financial assets	-	-	-	-	-	56	56
Short term investments	8	241	77	1	-	29	356
Reinsurance assets	49	464	369	135	87	62	1,166
Insurance debtors	-	-	19	17	-	1,356	1,392
Derivative assets	-	-	59	-	-	-	59
Cash at bank and in hand	-	3	87	-	-	26	116

As at 31 December 2006

	Credit rating relating to financial assets that are neither past due nor impaired						Total of financial assets that are neither past due nor impaired
	AAA	AA	A	BBB	<BBB	Not rated	
	£m	£m	£m	£m	£m	£m	£m
Debt securities	1,741	552	616	71	17	106	3,103
Other financial assets	-	-	-	-	-	60	60
Short term investments	20	355	119	16	-	8	518
Reinsurance assets	55	461	416	175	66	24	1,197
Insurance debtors	-	-	7	9	-	1,132	1,148
Derivative assets	-	-	13	-	-	4	17
Cash at bank and in hand	105	116	33	-	-	7	261

With the exception of AAA rated Government securities, the largest aggregate credit exposure does not exceed 4% of the Company's total financial assets.

The Company is exposed to concentrations of risk with individual reinsurers, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. Reinsurance counterparties are subject to a rigorous internal assessment process on an ongoing basis to ensure that their creditworthiness continues to be satisfactory and the potential impact from reinsurer default is measured regularly and managed accordingly. The Group Reinsurance Credit Committee have a strong role over this risk. Group standards are set such that reinsurers that have a Financial Strength Rating of less than 'A-' with Standard & Poor's, or a comparable rating with AM Best, are removed from the Group's authorised list unless the Group's internal review discovers exceptional circumstances in favour of the reinsurer. Collateral is taken to mitigate exposures where appropriate to acceptable levels or the size or credit quality of the exposure.

The Company's largest exposures are to Munich Re, Swiss Re and Lloyds of London. At 31 December 2007 the reinsurance asset recoverable from these groups does not exceed 7% of the Company's total financial assets. Stress tests are regularly performed on the Royal & Sun Alliance Group's reinsurance assets and the limits are set such that in a catastrophic event, the exposure to a single reinsurer is estimated not to exceed 3% of the Group's total financial assets. Certain of the Company's subsidiaries are members of government mandated pools in various parts of the world. As of 31 December 2007, the largest pool (by premium volume) was Pool Re operated by the UK Government to provide terrorism cover.

There were no material financial assets that would have been past due or impaired had the terms not been renegotiated.

Royal & Sun Alliance Insurance plc
Risk Management (continued)

Credit risk (continued)

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired as at 31 December 2007.

	Neither past due nor impaired	Financial assets that are past due but not impaired		Financial assets that have been impaired	Carrying value in the balance sheet	Impairment losses charged to the P&L
		0-3 months	3-6 months	6 months - 1 year	Greater than 1 year	
	£m	£m	£m	£m	£m	£m
Debt securities	3,274	-	-	-	-	3,274
Other financial assets	56	-	-	-	-	56
Short term investments	356	-	-	-	-	356
Reinsurance assets	1,166	1	3	2	9	1,213
Insurance debtors	1,392	25	14	-	2	1,435
Derivative assets	59	-	-	-	-	59
Cash at bank and in hand	116	-	-	-	-	116

As at 31 December 2006

	Neither past due nor impaired	Financial assets that are past due but not impaired		Financial assets that have been impaired	Carrying value in the balance sheet	Impairment losses charged to the P&L
		0-3 months	3-6 months	6 months - 1 year	Greater than 1 year	
	£m	£m	£m	£m	£m	£m
Debt securities	3,103	-	-	-	-	3,103
Other financial assets	60	-	-	-	1	61
Short term investments	518	-	-	-	-	518
Reinsurance assets	1,194	-	4	8	21	1,263
Insurance debtors	1,148	34	1	-	-	1,183
Derivative assets	17	-	-	-	-	17
Cash at bank and in hand	261	-	-	-	-	261

Regional operations are responsible for assessing and monitoring the creditworthiness of their counterparties (e.g. brokers and policyholders). Local credit committees are responsible for ensuring these exposures are within the risk appetite of the local operations within the overall financial control framework. Exposure monitoring and reporting is embedded throughout the organisation with aggregate credit positions reported and monitored at Group level. Invested assets credit risk is discussed in more detail below.

The Company's investments comprise a broad range of financial investments issued principally in the UK. The mix of investments and their carrying values which include fixed maturities and equity securities is set out below.

At the period end, the Company had pledged **£954m** (2006: £635m) of financial assets as collateral for liabilities or contingent liabilities and had accepted **£851m** (2006: £943m) collateral that could be sold or pledged. The nature of the assets pledged as collateral comprises primarily letter of credit facilities. The terms and conditions of the collateral pledged are market standard in relation to Letter of Credit facilities. The Company is permitted to sell or repledge the collateral held in the absence of default by the owner. The terms and conditions of the collateral held are market standard. The assets held as collateral are readily convertible into cash.

Certain of the Company's equities and debt securities that are held at fair value are unlisted (2007: **£903m**; 2006: £1,391m). These primarily comprise cash instruments which are highly liquid and redeemable at short notice at carrying value. The amount also includes a number of other unlisted investments which are valued either by reference to industry pricing sources or model based calculations.

Market risk

The Group is exposed to the risk of potential losses from adverse movements in market rates and prices as follows:

Interest rate risk,

Equity price risk,

Property price risk,

Foreign currency exchange risk,

Derivatives.

The investment risk policy governs the Group's exposure to market risks. Exposures are controlled by the setting of investment limits in line with the Group's risk appetite.

The Group Investment Committee (GIC), on behalf of the Group Board, is responsible for reviewing and approving the investment strategy for the Group's investment portfolios. It provides approval for all major changes of the Group's investment strategy and, in particular, approves any substantive changes to the balance of the Group's funds between the major asset classes. Importantly the GIC also approves the terms of reference of the Group's main operational investment committee, the Group Asset Management Committee (GAMC). The BRC issues GAMC with risk limits.

Interest rate risk

The fair value of the Company's portfolio of fixed income securities is inversely correlated to changes in the market interest rates. Thus if interest rates fall, the fair value of the portfolio would tend to rise and vice versa as set out in the sensitivity analysis on page 29.

Equity price risk

The Company's portfolio of equity securities is subject to equity risk arising from changes in market price. Thus if the value of equities rise so will the fair value of its portfolio and vice versa as set out in the sensitivity analysis on page 29.

The Group sets appropriate risk limits to ensure that no significant concentrations to individual companies or sectors arise. The Group takes a long term view in selecting stocks and looks to build value over a sustained period of time rather than churning the portfolio looking for short term gains from its equity holdings.

The Company makes use of derivative products as appropriate to protect the portfolio from losses outside of its risk appetite.

The Company does not have material holdings of unquoted equities.

Property price risk

The Company's portfolio of properties is subject to property price risk arising from changes in the market value of properties. Thus if the value of property falls so will the fair value of the portfolio as set out in the sensitivity analysis below.

A number of the Company's property holdings are Group occupied and therefore are reported within property and equipment. The Company's investment in investment property is recorded as such and is invested in as part of an efficient portfolio management strategy.

Foreign currency exchange risk

The Company incurs exposure to foreign currency exchange risk in two ways:

- Operational foreign currency exchange risk – by underwriting liabilities in currencies other than the currency of the primary environment in which the business units operate (non functional currencies)
- Structural foreign currency exchange risk – by investing in overseas subsidiaries and operating an international insurance group.

Operational foreign currency exchange risk is managed within the Company's individual operations by broadly matching assets and liabilities by currency. The Company's principal overseas operation is its branch in Ireland.

Structural foreign currency exchange risk is managed at a Royal & Sun Alliance Group level through forward foreign exchange contracts. Derivatives are used to manage exposures within the limits that have been set. In managing structural foreign currency exchange risk, net assets maintained by the Company's subsidiaries in local currencies are taken into account to satisfy local regulatory solvency and internal risk based capital requirements. These assets should prove adequate to support local insurance activities irrespective of foreign currency exchange rate movements.

Royal & Sun Alliance Insurance plc
Risk Management (continued)

Derivatives

The Company may use derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest rates, foreign exchange rates and equity price risk. Derivatives are generally held until their maturity date. The Company does not use derivatives to leverage its exposure to markets and does not hold or issue financial instruments for speculative purposes. Forward contracts are used to reduce the risk of adverse currency movements on certain forecast future cash transactions. The policy on use of derivatives is approved by the BRC.

	Remaining life			Fair value		Notional principal amounts	
	Less than one year £m	One to five years £m	More than five years £m	2007 £m	2006 £m	2007 £m	2006 £m
Cross currency							
Asset	27	-	-	27	-	1,073	-
Liability	29	-	2	32	-	1,247	170
Credit							
Asset	-	-	-	-	4	-	37
Liability	-	-	-	-	7	-	46
Equity/index							
Asset	32	-	-	32	12	See below	See below
Liability	31	-	-	31	21	See below	See below

At 31 December 2007 there were derivative contracts in place to protect the value of the UK equity portfolios of the Company. These provided limited protection against declines in market levels whilst also capping participation in any appreciation of the market. In total, this strategy covered an underlying equity value of approximately £800m. If UK equity markets decreased by 15%, the impact of these derivatives as of 31 December 2007, would be to decrease the impact of the decline by £47m (2006: £41m).

At 31 December 2007 the Company holds forward foreign exchange contracts to reduce structural foreign exchange risk arising from overseas subsidiaries. The external forward foreign exchange contracts have been mirrored by internal forward foreign exchange contracts in order to pass the benefit of the contracts to a subsidiary parent company of the overseas subsidiaries.

Royal & Sun Alliance Insurance plc
Risk Management (continued)

Sensitivity Analysis

The Group uses a number of sensitivity or stress test based risk management tools to understand the impact on earnings and capital in both normal and stressed conditions. These stress tests combine deterministic shocks, analysis of historical scenarios and stochastic modelling using the Individual Capital Assessment (ICA) models to inform the Group's decision making and planning process and also for identification and management of risks within the business units.

The following table provides an indication for the Company of some of the single factor changes adopted within the Group:
Changes in fair value of investments (note 1 and note 4):

	(decrease)/increase	
	2007	2006
	£m	£m
Interest rate markets (note 2):		
Impact on fixed interest securities of increase in interest rates of 100bps	(78)	(54)
Decrease of equity markets (note 3):		
Direct impact on equities of a 15% fall in equity markets	(154)	(178)
Mitigating impact arising from derivatives held	47	41
Property markets (note 3):		
Decrease of property markets of 15%	(59)	(67)

Notes

1. This analysis assumes that there is no correlation between equity price, interest rate and property market rate risks. It also assumes that all other assets and liabilities remain unchanged and that no management action is taken. This analysis does not represent management's view of future market change, but reflects management's view of key sensitivities.
2. The sensitivity of the fixed interest securities of the Company has been modelled by reference to a reasonable approximation of the average interest rate sensitivity of the investments held within each of the portfolios.
3. The effect of movements in equity and property markets is reflected as a one time decrease of worldwide equity and property markets on 1 January 2008 and 1 January 2007 which results in a 15% decline in the value of the Group's assets in these investment categories.
4. This analysis has not considered the impact of the above market changes on the valuation of the Company's insurance liabilities.

With reference to sensitivity analysis within insurance risk, the Company has exposures to risks in each class of business that may develop and that could have a material impact upon the Company's financial position. The geographical and insurance risk diversity within the Company's portfolio of issued insurance policies make it not possible to predict whether material development will occur and, if it does occur, the location and timing of such an occurrence.

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

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company has no tolerance for liquidity risk and is committed to meeting all liabilities as they fall due. The investment limits ensure the Company's portfolio is kept in highly liquid marketable securities sufficient to meet its liabilities as they come due based on actuarial assessment. At Group level we maintain a level of liquid assets consistent with the expectations of the FSA and the investment community.

The limits are monitored at a Group level as part of the Group Risk exposure monitoring and BRC reporting process.

Royal & Sun Alliance Insurance plc
Risk Management (continued)

Maturity periods or contractual repricing

The following table summarises the contractual repricing or maturity dates (whichever is earlier) for financial assets and financial liabilities, that are subject to fixed and variable interest rates. Equity instruments are not subject to interest rate risk. Insurance assets and liabilities are also represented and are analysed by remaining duration.

	Less than One year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Five to ten years £m	Over Ten years £m	Total £m
2007								
Financial assets								
Reinsurers' share of outstanding claims provisions	320	178	122	83	55	86	99	943
Reinsurers' share of provision for unearned premiums	149	-	-	-	-	-	-	149
Cash at bank and in hand	116	-	-	-	-	-	-	116
Debt securities	807	796	583	291	201	438	158	3,274
Other financial assets	14	13	14	14	-	1	-	56
Short term investments	356	-	-	-	-	-	-	356
Derivative assets	59	-	-	-	-	-	-	59
Total	1,821	987	719	388	256	525	257	4,953
Financial liabilities								
Outstanding claims provisions	1,779	964	668	447	286	511	454	5,109
Provision for unearned premium	1689	129	49	1	-	2	-	1,870
Amounts owed to credit institutions - unsecured	340	-	-	-	-	-	-	340
Derivative trading liabilities	62	-	-	-	-	-	-	62
Direct insurance creditors	97	-	-	-	-	-	-	97
Reinsurance creditors	124	3	-	-	-	-	-	127
Total	4,091	1,096	717	448	286	513	454	7,605

Royal & Sun Alliance Insurance plc
Risk Management (continued)

Maturity periods or contractual repricing (continued)

	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Five to ten years £m	Over ten years £m	Total £m
2006								
Financial assets								
Reinsurers' share of outstanding claims provisions	367	186	130	91	52	87	103	1,016
Reinsurers' share of provision for unearned premiums	135	-	-	-	-	-	-	135
Cash at bank and in hand	261	-	-	-	-	-	-	261
Debt securities	1,053	623	499	351	97	480	-	3,103
Other financial assets	10	14	12	12	12	1	-	61
Short term investments	518	-	-	-	-	-	-	518
Derivative assets	12	-	-	-	-	-	-	12
Total	2,356	823	641	454	161	568	103	5,106
Financial liabilities								
Outstanding claims provisions	2,232	947	692	475	296	521	443	5,606
Provision for unearned premium	1,548	123	40	-	-	-	-	1,711
Amounts owed to credit institutions - unsecured	55	-	-	-	-	-	-	55
Derivative trading liabilities	21	-	-	-	-	-	-	21
Direct insurance creditors	68	-	-	-	-	-	-	68
Reinsurance creditors	123	-	7	-	-	-	-	130
Total	4,047	1,070	739	475	296	521	443	7,591

The analysis above is based upon the contractual terms of the financial assets within the Company's investment portfolios. The financial assets are mainly highly liquid marketable securities which would normally be readily realisable before maturity.

Royal & Sun Alliance Insurance plc
Notes to the Accounts

1. IMPACT OF CHANGES ARISING FROM ACCOUNTING POLICY CHANGES

Changes to accounting policies had no impact on the results for the year (2006: £Nil).

2. REORGANISATION COSTS AND OTHER ITEMS

Other items within the Technical Account include:

	2007 £m	2006 £m
Reorganisation costs	20	23
Operating lease rentals – equipment	104	59

Reorganisation costs comprise employee redundancy costs, vacant lease accruals and other restructuring expenses.

3. NET OPERATING EXPENSES AND OTHER CHARGES

	2007 £m	2006 £m
Net operating expenses in the technical accounts include:		
Acquisition costs	297	271
Change in deferred acquisition costs	(38)	(8)
Administrative expenses	312	250
Reinsurance commissions and profit participations	496	365
	1,067	878

4. EMPLOYEE INFORMATION

	2007 £m	2006 £m
Staff costs for all employees comprise:		
Wages and salaries	354	304
Social security costs	34	32
Pension costs	63	65
	451	401

	2007 Number	2006 Number
The average number of employees of the Company during the year	10,136	10,960

Royal & Sun Alliance Insurance plc

Notes to the Accounts (continued)

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 each year from 1 January 2006 are based on salaries in that year and are revalued up to retirement.

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 accrue future benefits on a defined contribution basis under the stakeholder scheme. In 2007 contributions of £8m (2006:£5m) were made to defined contribution schemes in the United Kingdom.

For the two main UK defined benefit schemes, the level of contributions in 2007 were 23% and 22% of pensionable salaries (2006: 23% and 21%). Additional contributions totalling £86m (2006: £86m) were made to the schemes, in accordance with the plan to reduce their funding deficits. Expected contributions to pension and post retirement benefit schemes for the year ending 31 December 2008 are approximately £70m, including a further £37m of additional contributions.

The major defined benefit schemes are subject to regular valuation using the projected unit method which is the basis used to determine 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:

	2007 £m	2006 £m
Current service cost	45	49
Past Service cost	11	15
Curtailement gains	(1)	(4)
Total charge/(credit) to be included in Profit before tax	55	60
Expected return on assets	(280)	(255)
Interest cost	230	221
Total financing credit to be included in Profit before tax	(50)	(34)

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 to the Accounts (continued)

5. RETIREMENT BENEFITS (continued)

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

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Actual return on assets in excess/(deficit) of expected return on assets	95	(29)	425	138	229
Experience (losses)/gains on liabilities	(76)	67	(66)	90	(60)
Change in actuarial assumptions	(55)	205	(456)	(279)	(221)
Actuarial (loss)/gain	(36)	243	(97)	(51)	(52)
Deferred taxation	15	(73)	29	15	16
Recognised in the Statement of total recognised gains and losses	(21)	170	(68)	(36)	(36)

	2007	2006	2005	2004	2003
Difference between expected and actual return as an amount in £m	95	(29)	425	138	229
Difference between expected and actual return as a percentage of scheme assets	1.9	(0.6)	9.5	3.6	6.5
Experience gains/(losses) as an amount in £m	(76)	67	(66)	90	(60)
Experience gains/(losses) as a percentage of scheme liabilities	(1.6)	1.5	(1.4)	2.1	(1.5)
Change in assumptions as an amount in £m	(55)	205	(456)	(279)	(52)
Change in assumptions as a percentage of scheme liabilities	(1.1)	4.5	(9.5)	(6.5)	(5.5)
Total actuarial gain to be recognised in Statement of Total Recognised Gains and Losses as an amount in £m	(36)	243	(97)	(51)	(52)
Total actuarial gain to be recognised in Statement of Total Recognised Gains and Losses as a percentage of scheme liabilities	(0.8)	5.3	(2.0)	(1.2)	(1.3)

Movement in surplus during the year	2007 £m	2006 £m
Deficit at 1 January	82	(299)
Total operating charge	(55)	(60)
Employer contribution	160	164
Total financing charge	50	34
Actuarial (loss)/gain	(36)	243
Surplus at 31 December	201	82

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

	2007 £m	2006 £m	2005 £m
Equities	1,193	2,086	2,142
Bonds	3,411	2,170	1,922
Other	397	417	412
Fair value of assets held by pension schemes	5,001	4,673	4,476
Present value of pension liabilities	(4,800)	(4,591)	(4,775)
Net surplus/(deficit)	201	82	(299)
Related deferred tax (liability)/asset	(56)	(25)	90
Pension fund asset	167	118	-
Pension fund liability	(22)	(61)	(209)
Net pension asset/(liability)	145	57	(209)

Royal & Sun Alliance Insurance plc

Notes to the Accounts (continued)

5. RETIREMENT BENEFITS (continued)

The last full valuation dates for the main schemes were 31 March 2006. The FRS 17 liabilities have been derived from the 2006 valuations adjusted for changes in financial conditions and membership changes at 31 December 2007. Valuations have been updated at 31 December 2007 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 2007 of (£280m) (2006: (£259m)).

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

	2007 %	2006 %	2005 %
Assumptions			
Annual rate of general inflation	3.2	2.7	2.5
Annual rate of increase for pensions in payment and deferred pensions	3.2	2.7	2.5
Annual rate of increase in salaries	4.7	4.2	4.0
Interest rate used to discount liabilities	5.6	5.1	4.7
Expected rate of return to be assumed for each class			
Equities	7.5	7.5	7.5
Bonds	4.6	4.1	4.1
Other	6.1	6.0	5.9

The mortality assumptions are set following investigations of the main schemes' recent experience by the scheme actuaries for the funding valuations. 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 are allowed for using the 'medium cohort' projection and using the projected mortality rates applicable to calendar year 2014 for current pensioners and 2032 for future pensioners. The weighted average assumptions imply that a current pensioner aged 60 has an expected future lifetime of 25.8 years (males) and 27.0 years (females) and a future pensioner aged 60 has a future lifetime of 27.2 years (males) and 28.2 years (females).

Each of the UK defined benefit pension schemes has changed its rules to allow for increased commutation following 'A day' in April 2006. The commutation factors are broadly cost neutral (i.e. when valued on the FRS 17 basis, the amount of cash taken is approximately equal to the value of the pension being given up). For this reason there is no change made to previous practice whereby the accounting valuation makes no allowance for commutations.

Sensitivity analysis

The discount rate, the assumed inflation rate and the mortality assumptions all have a significant effect on the FRS 17 accounting valuation. A 0.1% increase in the discount rate would reduce the defined benefit obligations in the UK by £79m. A 0.1% increase in the inflation rate assumption would increase the defined benefit obligations in the UK by £69m. An increase of one year in life expectancy would increase the defined benefit obligations by approximately £151m.

6. SHARE BASED PAYMENT

The Royal & Sun Alliance Group (the Group) has four types of share based payment plans in which employees of the Company participate and which are settled in the form of ordinary shares: the Executive Share Option Scheme; the International Sharesave Plan; the Share Matching Plan; and the 2006 Long Term Incentive Plan.

The total employment cost recorded for all plans for directors and employees was £13m in 2007 (2006: £9m). These costs include the costs associated with plans, which are settled in the form of ordinary shares for awards that have been granted after 7 November 2002. The value of equity settled awards granted prior to this date have been excluded in accordance with the transitional provisions contained in FRS 20 'Share-based payment'.

6. SHARE BASED PAYMENT (continued)

Executive Share Option Scheme

The Group operates an Executive Share Option Scheme which provides options to purchase ordinary shares to officers and other key employees at prices not less than the fair value of the ordinary shares at the date of grant.

The performance conditions in respect of awards under the Executive Share Option Scheme are as follows:

- Options granted following the Group AGM in May 2003 are potentially exercisable if, at the end of the period of 3 business years starting with the business year in which the options were granted, the Group has achieved a Return on Capital (ROC) of at least 6% per annum (after inflation and excluding items of an exceptional nature which in the view of the Remuneration Committee (the Committee) do not reflect the underlying performance of the business) when averaged over the period. One retest is allowed at the end of the fourth business year, but if the performance criterion has not been met over the full 4 year period, the options lapse.
- Options granted between September 1998 and May 2003 are also subject to a performance condition that the Group must achieve a ROC of at least 6% (after inflation and excluding items of an exceptional nature which in the view of the Committee do not reflect the underlying performance of the business) when averaged over a consecutive three year period, but if the measure is not satisfied at the end of the third business year following the date of grant, the test can be repeated on an annual basis over the 10 year life of the option.
- Options granted between April 1997 and September 1998 were subject to a different performance condition linked to Total Shareholder Return (TSR). For options to be eligible for exercise, the Group's TSR has to be at or above the median of companies in the FTSE 100 index over a consecutive period of 3 years, between the year of grant and the completion of the 10 year life of the option. The test is conducted twice per year, at the end of March and September, by independent external specialists. None of the terms or conditions of any of the existing options over shares of the Group was varied during the year. Full details of all directors' shareholdings and options to subscribe for shares are recorded in the Group's Register of Directors' Interests which is open to inspection in accordance with the provisions of the Companies Act 1985.

The official closing middle market price for an ordinary share in the Group at its highest during the year was 172.1p per share and at its lowest was 128.3p per share; on the last dealing day of the year it was 148.2p per share. The exercise price of all options is the fair value of the ordinary shares on the date of grant. All options expire 10 years after the date of the grant.

Additional information with respect to the plans at 31 December is as follows:

	2007		2006	
	Shares	Price*	Shares	Price*
Options outstanding at 1 January	45,576,617	128.83	50,399,855	133.24
Granted	-	-	-	-
Exercised	(2,727,473)	85.70	(1,739,746)	105.52
Forfeited	(1,019,312)	91.05	(2,855,483)	204.02
Expired	(1,466,503)	265.75	(228,009)	342.46
Options outstanding at 31 December	40,363,329	127.72	45,576,617	128.83
Options exercisable at year end	22,724,633	161.23	12,340,155	236.33

*Price refers to weighted average exercise price in sterling (pence).

The following share options under the Executive Share Option Scheme are outstanding or exercisable at 31 December:

Options outstanding

Range of exercise prices	2007			2006		
	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price*	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price*
50.1 – 100.0	31,669,643	6.86	80.48	35,369,259	7.84	80.79
100.1 – 150.0	1,636,704	5.89	114.41	2,231,934	6.76	114.31
200.1 – 250.0	1,640,735	4.19	234.23	1,756,316	5.19	234.23
250.1 – 300.0	1,004,701	2.23	278.65	1,034,434	3.23	278.65
300.1 – 350.0	61,819	3.88	312.58	61,819	4.88	312.58
350.1 – 400.0	1,654,758	3.19	380.30	1,989,698	3.64	376.60
400.1 – 450.0	2,694,969	1.66	410.57	3,133,157	2.44	411.97
	40,363,329	6.09	127.72	45,576,617	7.02	128.83

*Price refers to weighted average exercise price in sterling (pence).

Royal & Sun Alliance Insurance plc
Notes to the Accounts (continued)

6. SHARE BASED PAYMENT (continued)

Options exercisable

Range of exercise prices	Number of shares	2007		2006	
		Weighted average exercise price*	Number of shares	Weighted average exercise price*	Number of shares
50.1 – 100.0	14,332,671	76.21	3,052,915	58.96	
100.1 – 150.0	1,334,980	114.05	1,930,210	114.05	
200.1 – 250.0	1,640,735	234.23	1,756,316	234.23	
250.1 – 300.0	1,004,701	278.65	1,034,434	278.65	
300.1 – 350.0	61,819	312.58	61,819	312.58	
350.1 – 400.0	1,654,758	380.30	1,711,251	380.31	
400.1 – 450.0	2,694,969	410.57	2,793,210	410.44	
	22,724,633	161.23	12,340,155	236.33	

*Price refers to weighted average exercise price in sterling (pence).

Under the schemes, there were no awards during 2006 or 2007. The value of the awards is charged in the Profit & Loss Account over the vesting period. The actual share price for an ordinary share in the Group at 31 December 2007 was **148.20p** (2006: **152.50p**).

International Sharesave Plan

Under the Group's International Sharesave Plan (savings related) eligible employees can receive options to purchase ordinary shares at a price equal to 80% of the fair value of the ordinary shares on the date of grant. All options vest either three or five years from the grant date and expire six months after vesting. The number of shares available for purchase from the plan by each participant is limited to the whole number of shares purchasable from the aggregate value of the individual's savings contract upon maturity. An individual's maximum monthly contribution to all current savings contracts is £250.

Additional information with respect to the International Sharesave Plan at 31 December is as follows:

	2007		2006	
	Shares	Price*	Shares	Price*
Options outstanding at 1 January	49,454,439	76.38	49,795,520	74.13
Granted	11,210,520	105.00	8,023,641	106.70
Exercised	(8,978,331)	63.84	(4,959,434)	72.04
Forfeited	(3,358,656)	70.60	(2,541,593)	76.47
Expired	(745,415)	222.15	(863,695)	252.91
Options outstanding at 31 December	47,582,557	82.98	49,454,439	76.38
Options exercisable at year end	7,803,929	72.66	883,503	197.73

*Price refers to weighted average exercise price in sterling (pence)

Royal & Sun Alliance Insurance plc
Notes to the Accounts (continued)

6. SHARE BASED PAYMENT (continued)

The following share options under the International Sharesave Plan are outstanding or exercisable as of 31 December:

Options outstanding

Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (Years)	2007	Number of Shares	Weighted Average Remaining Contractual Life (Years)	2006
			Weighted Average Exercise Price *			Weighted Average Exercise Price *
50.1 — 100.0	29,416,949	1.40	68.95	41,062,879	2.07	67.78
100.1 — 150.0	18,165,608	3.34	105.69	7,895,195	3.73	106.71
150.1 — 200.0	-	-	-	-	-	-
200.1 — 250.0	-	-	-	34,946	0.09	250.00
250.1 — 300.0	-	-	-	-	-	-
300.1 — 350.0	-	-	-	461,419	-	310.00
350.1 — 400.0	-	-	-	-	-	-
	47,582,557	2.14	82.98	49,454,439	2.31	76.38

*Price refers to weighted average exercise price in sterling (pence).

Options exercisable

Range of exercise prices	2007		2006	
	Number of shares	Weighted average exercise price*	Number of shares	Weighted average exercise price*
50.1 – 100.0	7,803,929	72.66	422,084	75.00
200.1 – 250.0	-	-	-	-
250.1 – 300.0	-	-	-	-
300.1 – 350.0	-	-	461,419	310.00
350.1 – 400.0	-	-	-	-
	7,803,929	72.66	883,503	197.73

*Price refers to weighted average exercise price in sterling (pence).

Under the International Sharesave Plan, the weighted average estimated fair value per option granted by the Company during 2007 was **45.84p** (2006: 46.84p). The fair value of share options granted under the International Sharesave Plan during 2007 was **£5m** (2006: £4m). The value of the awards is charged in the Profit & Loss Account over the vesting period.

Fair values for the options granted under the International Sharesave Plan were estimated as of the date of grant using the Black Scholes pricing model with the following weighted average assumptions: dividend yields of **4.0%** (2006: 3.5%); expected volatilities of **30%** (2006: 35%); risk free interest rates of **5.0%** (2006: 4.8%); and expected terms equal to the vesting terms of three or five years. An estimate based on past experience is made of the number of forfeitures during the vesting period due to employees leaving the Group. The actual share price for an ordinary share in the Group at 31 December 2007 was **148.20p** (2006: 152.50p).

Share Matching Plan

The Company's Share Matching Plan for executive directors and other selected executives was adopted following approval obtained at the 2004 Group AGM. Awards were made during 2004 and 2005 and the awards granted in 2005 were the final awards under the plan.

6. SHARE BASED PAYMENT (continued)

The performance conditions in respect of awards under the Share Matching Plan are as follows:

Matching Share awards are capable of vesting in respect of a maximum of 3 times the number of Deferred Shares awarded, subject to the achievement of TSR targets over a single 2 year period. TSR performance is measured relative to other companies specified by the Remuneration Committee. For awards granted in 2004 and 2005, TSR will be measured partly relative to FTSE 100 companies and partly relative to the following financial services comparator group companies: Aegon, Legal & General Group, Allianz Group, Old Mutual, AXA, Prudential, Aviva, RAS, Generali and Zurich Financial Services Group. For 50% of the Matching Share awards, where TSR is measured against the FTSE 100, full vesting will only occur at upper decile performance, vesting will occur in the ratio of shares under Matching Share awards to shares under Deferred Share awards of 2:1 at upper quartile performance and vesting in the ratio 1:1 will occur at median performance. For the other 50% of the Matching Share awards, where TSR is measured against the financial services comparator group, full vesting will occur if TSR is highest in the comparator group, vesting in the ratio 2:1 will occur at upper quartile performance and vesting in the ratio 1:1 will occur at median performance. Matching Share awards will not vest at below median performance. For awards granted in 2004, the targets were measured over the period from 1 April 2004 to 31 March 2006. For awards granted in 2005, the targets will be measured over the period from 1 April 2005 to 31 March 2007. The relevant TSR figures will be averaged over the 3 months before the beginning and end of this performance period. Additionally, no Matching Shares will vest unless the Committee is satisfied that there has been a sustained improvement in the underlying performance of the Company over the performance period.

The performance condition attaching to the Matching Share awards granted in 2004 was met to the extent that 1.126 Matching Shares vested for each Deferred Share. The maximum number of Matching Shares has been adjusted accordingly. Under the plan, Deferred Share awards granted are held in trust for three years and are normally forfeited upon an employee leaving the Group. No further performance conditions apply.

Participants may also receive Matching Share awards up to a maximum of three times the number of Deferred Shares awarded. Matching Share awards are subject to the achievement of TSR targets over a single two year period, with performance measured by comparison against other UK listed companies. Matching Share awards vest with the Deferred Share awards on the third anniversary of the date of grant to the extent that the performance conditions have been met.

Additional information with respect to Deferred and Matching Share awards at 31 December is as follows:

	2007	2006
	Shares	Shares
Outstanding Deferred Share awards at 1 January	2,583,160	3,048,428
Granted	-	150,000
Exercised	(327,775)	(310,847)
Forfeited	(113,382)	(304,421)
Outstanding Deferred Share awards at 31 December	2,141,553	2,583,160
Potential Matching Share awards	5,294,132	6,198,330
Total potential share awards outstanding at 31 December	7,435,685	8,781,490

Under the Share Matching Plan there were no awards granted during 2007. In 2006 the fair value of each Deferred Share award granted by the Company during 2006 was 114.40p and the fair value of each potential Matching Share award was 38.10p. The total fair value of the awards granted under the plan during 2006 was £nil.

The fair value of the Deferred Share awards was calculated based upon the Group ordinary share price at grant date after deducting from it the estimated value of the dividends that will not be received during the vesting period. The fair value of the potential Matching Share awards was estimated by calculating the expected value arising from modelling the awards that would arise under different performance scenarios.

6. SHARE BASED PAYMENT (continued)

Long Term Incentive Plan

The 2006 Long Term Incentive Plan for executive directors and other selected executives was adopted following approval obtained at the Group 2006 AGM. Awards were made during 2006 following shareholder approval.

The structure of the plan allows for a number of different types of awards to be made. Voluntary Deferred Shares are purchased by participants from net bonus payable (limited to a maximum value of 33% of net bonus); in addition, for senior executives, the Remuneration Committee may defer a portion of an individual's bonus (limited to 33% of that bonus) into an award over shares referred to for the purpose of the plan as Compulsory Deferred Shares. Deferred shares are held in trust for three years and compulsory deferred shares are normally forfeited on an employee leaving the Group. No further performance conditions apply. The Remuneration Committee may make a conditional award of shares on a 'matched' basis to Voluntary and Compulsory Deferred Shares ('Matching Shares').

Additionally, the Remuneration Committee may make conditional awards of Performance Shares to senior executives and conditional awards of Restricted Shares to other executives and senior managers.

Awards of Performance Share and Matching Shares related to Compulsory Deferred Shares are subject to a performance condition consisting of a combination of a return on equity target and a TSR target (with performance measured by comparison against other European insurance companies) over a single 3 year performance period. Matching Shares related to Voluntary Shares are subject only to the return on equity performance condition. Restricted Shares are not subject to performance conditions. All awards vest on the third anniversary of the date of grant to the extent that the performance conditions have been met.

					2007 Total
	Restricted	Voluntary Deferred	Compulsory Deferred	Performance	
Outstanding awards at 1 January	2,285,788	585,473	1,289,563	4,214,284	8,375,108
Granted	1,900,947	657,487	1,445,933	4,280,055	8,284,422
Exercised	-	(25,333)	-	-	(25,333)
Forfeited	(37,398)	(3,919)	(165,640)	(383,795)	(591,292)
Outstanding 31 December	4,148,797	1,213,708	2,569,856	8,110,544	16,042,905
Potential Matching Share awards	-	5,147,873	6,424,615	-	11,572,488
Total potential awards outstanding 31 December	4,148,797	6,361,581	8,994,471	8,110,544	27,615,393

					2006 Total
	Restricted	Voluntary Deferred	Compulsory Deferred	Performance	
Granted	2,355,335	585,473	1,289,563	4,214,284	8,444,655
Forfeited	(69,547)	-	-	-	(69,547)
Outstanding 31 December	2,285,788	585,473	1,289,563	4,214,284	8,375,108
Potential Matching Share awards	-	2,482,587	3,222,893	-	5,705,480
Total potential awards outstanding 31 December	2,285,788	3,068,060	4,512,456	4,214,284	14,080,588

Under the 2006 Long Term Incentive Plan, the weighted average estimated fair value of each Restricted Share award granted by the Group in 2007 was 143.9p (2006: 114.5p). The fair value of each Voluntary Deferred Share award was £nil (2006: nil) and the fair value of each potential associated Matching Share was 164.0p (2006: 126.0p). The fair value of each Compulsory Deferred Share award was 164.0p (2006: 127.0p) and the fair value of each potential associated Matching Share was 113.5p (2006: 87.9p). The fair value of each Performance Share award granted was 112.2p (2006: 88.8p). The total fair value of the awards granted under the plan in 2007 was £23m (2006: £14m).

Fair values of the awards granted under the 2006 Long Term Incentive Plan scheme during 2006 are taken to be the share price on the day preceding the grant date, except for the Restricted Shares where the share price is reduced by an estimate of the value of dividends that will not be received. A dividend yield of 4.0% (2006: 3.5%) was assumed. Market related performance criteria were based on an arithmetic mean estimate of performance against a specified group of 13 competitors; and it is assumed that all non market related performance criteria would be met such that all awards would vest. An estimate based on past experience is made of the number of forfeitures during the vesting period due to employees leaving the Group.

Royal & Sun Alliance Insurance plc
Notes to the Accounts (continued)

7. DIRECTORS' EMOLUMENTS

	2007 £000	2006 £000
The aggregate emoluments of the directors, including amounts received from subsidiaries, were as follows:		
Salaries and bonuses	5,203	4,777
Allowances, benefits and other awards	653	561
	5,856	5,338

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 of Royal & Sun Alliance Insurance Group plc.

	2007 £000	2006 £000
The emoluments of the highest paid director (A K Haste) were:		
Salary, bonus, allowances, benefits and other awards	1,912	1,834

At 31 December 2007 the highest paid director had accrued annual pension of £8,811 (2006: £6,768). 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 2007.

Retirement benefits accrued under defined benefit schemes for A.K.Haste and A.P.Latham who served during the year. Contributions of £178,088 (2006: £173,642) were made to Group defined contribution schemes during the year in respect of the other directors.

8. 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:

	2007 £m	2006 £m
Provisions at 1 January	338	328
(Released)/charged to the General Business Technical Account and in the profit on ordinary activities before tax	(35)	10
Provisions at 31 December	303	338

Royal & Sun Alliance Insurance plc

Notes to the Accounts (continued)

9. INVESTMENT INCOME, EXPENSES AND CHARGES

	Investment income		Net realised gains/(losses)		Net unrealised gains/(losses)		Total investment return	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Investment income								
Investment property	13	9	9	15	(52)	31	(30)	67
Equity securities	37	43	87	38	(60)	111	64	192
Debt securities	135	169	(19)	(2)	43	(50)	159	105
Other investments:								
Loans secured by mortgages	-	-	-	-	-	-	-	-
Other loans	126	107	-	-	-	-	126	107
Other	26	-	-	-	-	-	26	-
Deposits, Cash at bank and in hand	34	27	-	-	-	-	34	27
Derivatives	2	1	7	12	(4)	(15)	5	(2)
	373	366	84	63	(73)	77	384	496
Dividends from subsidiary undertakings	416	10	-	-	-	-	416	10
	789	376	84	63	(73)	77	800	506
Impairment of subsidiary undertakings	-	-	-	-	(397)	(184)	(397)	(184)
Investment expenses and charges								
Interest on bank loans and overdrafts							(2)	(2)
Interest on other loans							(88)	(56)
Investment management expenses							(4)	(7)
Unwind of discount							(22)	-
Writeback /(impairment) on loan to US subsidiary (see note below)							154	(154)
							38	(219)
Net investment return							441	103

As at 31 December 2006 the Company had a loan of £154m due from its US subsidiary. Agreement had been reached for the disposal of the US subsidiary subject to regulatory approval and at the time the 2006 accounts for the Company were drawn up, it was anticipated that the outstanding loan amount of £154m would be written off as part of the disposal transaction. It subsequently transpired that additional funds were injected into the US subsidiary at completion of the disposal transaction to enable it to repay the outstanding loan amount to the Company. Accordingly in 2007 there is a credit within the Profit & Loss account reflecting the write back of the impairment made in 2006.

10. AUDITORS' REMUNERATION

Fees payable to Deloitte & Touche LLP for the audit of the Company's annual accounts were £40,000 (2006 PricewaterhouseCoopers LLP: £42,000). Details of non-audit fees payable to Deloitte & Touche LLP are disclosed in the Royal & Sun Alliance Group 2007 Report & Accounts.

Royal & Sun Alliance Insurance plc
Notes to 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	
	2007 £m	2006 £m
Current tax		
UK Corporation tax	13	50
Double taxation relief	(8)	(10)
Overseas taxation	8	10
Adjustments in respect of prior periods	(24)	(2)
Total current tax	(11)	48
Deferred tax		
Timing differences – origination and reversal	11	18
Movement in discount		-
Total deferred tax	11	18
Tax (credit)/charge	(-)	66

UK corporation tax for the current year is based on a rate of 30% (2006: 30%).

The current tax charge for the year is less than (2006: greater than) 30% due to the items set out in the reconciliation below:

	2007 £m	2006 £m
Profit on ordinary activities before tax	430	151
Tax at 30%	129	45
Factors affecting charge:		
Disallowed expenditure	9	43
Tax exempt income and investment gains	(170)	(12)
Fiscal adjustments	(44)	(21)
Unrelieved foreign tax credits	(1)	-
Adjustment to prior year provisions	(24)	(2)
Other timing differences	(30)	(66)
Tax on items included in the Statement of Total Recognised Gains and Losses	-	6
Tax on impairment of subsidiary undertakings	120	55
Current tax (credit)/charge for the period	(11)	48

12. DIVIDENDS

	2007 £m	2006 £m
Ordinary: interim dividend paid in respect of current year 4.43p per share (2006: 6.6p)	200	300

Royal & Sun Alliance Insurance plc

Notes to the Accounts (continued)

13. INVESTMENTS

	2007 £m	2006 £m
Land and buildings		
Freehold	349	400
Long leasehold	41	43
Short leasehold	4	5
Total land and buildings	394	448
Of which Group occupied	19	55
Movement in the carrying value of land and buildings is detailed below;		
Investment property at 1 January	448	438
Additions from subsequent expenditure	8	2
Sales and purchases	(17)	(30)
Fair value (losses)/gains	(44)	38
Total land and buildings	394	448
The historic cost of investment property at 31 December is £354m (2006: £362m)		
Other financial investments		
Shares and other variable yield securities and units in unit trusts	1,028	1,168
Debt securities and other fixed income securities:		
British government securities	1,357	1,254
Other government securities	604	428
Corporate bonds	1,312	1,420
Preference shares	1	1
Loans and deposits with credit institutions		
Other loans	56	61
Deposits with credit institutions	356	518
Total other financial investments	4,714	4,850
Listed investments		
Included in total investments are the following:		
Shares and other variable yield securities and units in unit trusts	1,013	1,103
Debt securities and other fixed income securities	2,575	2,629
	3,588	3,732

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 **£29m** (2006: **£35m**).

The historical cost of total investments is **£4,672m** (2006: **£4,814m**).

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:

	2007 £m	2006 £m
Due from policyholders	326	339
Due from intermediaries	1,109	844
	1,435	1,183

Royal & Sun Alliance Insurance plc
Notes to the Accounts (continued)

15. INTANGIBLE ASSETS

	2007 £m
Cost	
At 1 January 2007	7
Additions	7
Disposals	-
At 31 December 2007	14
Depreciation	
At 1 January 2007	(5)
Charge for the year	-
Disposals	-
At 31 December 2007	(5)
Net book value	
At 31 December 2007	9
At 31 December 2006	2

Intangible assets comprise goodwill arising on acquisitions.

16. TANGIBLE ASSETS

	2007 £m
Cost	
At 1 January 2007	188
Additions	8
Disposals	(19)
Transfers	2
At 31 December 2007	179
Depreciation	
At 1 January 2007	(152)
Charge for the year	(15)
Disposals	18
Transfers	(2)
At 31 December 2007	(151)
Net book value	
At 31 December 2007	28
At 31 December 2006	36

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

Royal & Sun Alliance Insurance plc

Notes to the Accounts (continued)

17. INTERESTS IN ASSOCIATED UNDERTAKINGS

The Company has a 26.0% holding of ordinary shares in Royal Sundaram Alliance Insurance Limited which operates and is incorporated in India. During the year the Company acquired a 50% shareholding in Global Direct Insurance Investments BV which is incorporated in the Netherlands and operates in Eastern Europe.

	2007 £m	2006 £m
Shares at cost		
At 1 January	8	8
Foreign exchange gains	3	-
Acquisitions	87	-
At 31 December	98	8
Adjustment to valuation	(2)	(2)
Net asset value	96	6

18. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The Company's principal subsidiaries at 31 December 2007 are set out in note 34. 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:

	2007 £m	2006 £m
Shares at cost		
At 1 January	7,302	7,223
Acquisitions	1,147	83
Disposals	(544)	(4)
At 31 December	7,905	7,302
Revaluation/(impairment)	(1,545)	(1,148)
Net asset value	6,360	6,154

Acquisitions in 2007 principally comprise the purchase of Royal Life Holdings Limited from another company in the Royal & Sun Alliance Group for a consideration of £330m., being the net asset value of Royal Life Holdings at the date of acquisition. The consideration was left on intercompany account. There was no difference between the fair value and book value of assets acquired which comprised intercompany balances receivable and payable, and a taxation liability.

In addition the Company increased its investment in Royal International Insurance Holdings Limited by £807m to provide that company with additional capital. Disposals in 2007 principally comprise the transfer of the Company's £530m preference shareholding in The Globe Insurance Company Limited to another company in the Royal & Sun Alliance Group for a consideration of £517m.

19. CAPITAL COMMITMENTS

The estimated amount of capital commitments contracted but not provided for in these financial statements is £24m (2006: £Nil).

20. SHARE CAPITAL

	2007 £m	2006 £m
Authorised		
4,750,000,000 (2006: 4,750,000,000) ordinary class A shares of 25p each	1,188	1,188
10 (2006: 10) ordinary class B shares of US\$1 each	-	-
Issued and fully paid		
4,511,091,326 (2006: 4,511,091,326) ordinary class A shares of 25p each	1,128	1,128
1 (2006: 1) ordinary class B share of US\$1	-	-

Royal & Sun Alliance Insurance plc

Notes to the Accounts (continued)

21. MOVEMENT IN SHAREHOLDERS' FUNDS

	Notes	Share Capital/ Premium £m	Revaluation Reserve £m	Profit and loss account £m	2007 £m	2006 £m
Shareholders' funds at 1 January		3,774	-	406	4,180	4,242
Shareholders' recognised (losses)/gains		-	-	437	437	257
Interest on subordinated debt net of tax	22	-	-	(21)	(21)	(19)
Dividends	12	-	-	(200)	(200)	(300)
Shareholders' funds at 31 December		3,774	-	622	4,396	4,180

22. SUBORDINATED LOAN NOTES

	2007 £m	2006 £m
Subordinated loan equity instruments	372	372

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.

On 5 June 2006, the Company obtained a subordinated loan from Royal & Sun Alliance Insurance Group plc, its ultimate Parent Company, of £78m, derived from the issue of £375m of step up perpetual guaranteed subordinated capital securities on 12 May 2006. The notes have an annual coupon of 6.701%. The claims of the ultimate Parent Company on the loan are subordinated to the same extent as the claims of the holders of the capital securities. The loan has no specified maturity.

23. 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 £4,612m (2006: £5,029m).

Claims are discounted as follows:

		Discount rate		Average period to settlement in years	
		2007 %	2006 %	2007	2006
UK	Asbestos & Environmental	5.00	5.00	15	15

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

Royal & Sun Alliance Insurance plc

Notes to the Accounts (continued)

23. CLAIMS PROVISIONS (continued)

In 2003, the Company wrote an Adverse Development Cover (ADC) with its former US subsidiary. As part of the disposal of the US business, and as publicly disclosed in 2006, the original contract was amended and restated.

The liabilities arising under the ADC contract comprise an insurance component and a deposit component. The liability arising under the insurance component of £0.1bn represents the timing risk on the settlement of those liabilities. The financial liability arising under the deposit component is offset by the value of funds held in a trust fund whose trust deed only permits the trust fund assets to be used to settle amounts under the ADC. The value of the funds held in trust at 31 December 2007 is £0.4bn and the value of the liability of the deposit component is £0.4bn. Following the signing of the amended and restated contract the accounting treatment has been reviewed; the insurance component is accounted for within insurance liabilities and the deposit component, offset by the value of the funds held in the trust account is recognised under other liabilities.

Prior year claims development

The movement in net incurred claims arising from the difference between the net claims outstanding at the beginning of the year, and subsequent payments and the claims outstanding at the end of the year, was a surplus of £335m. The positive run-off, reflects the Company's approach to setting reserves at a level which is more likely than not to run off favourably over the longer term.

24. PROVISIONS FOR OTHER RISKS AND CHARGES

	Deferred Tax £m	Reorganisa- tion provision £m	Other provisions £m	2007 £m	2006 £m
At 1 January 2007	47	26	120	193	206
Charged/transferred to Profit and Loss Account	(36)	20	57	41	156
Charged/transferred to Statement of Total Recognised Gains and Losses	-	-	-	-	1
Transfer	(1)	-	-	(1)	(50)
Utilised	-	(8)	(39)	(47)	(120)
Release	-	-	1	1	-
At 31 December 2007	10	38	139	187	193

The reorganisation provision comprises severance and property costs and is part of an ongoing programme to achieve business improvement and expense savings.

Other provisions includes provisions of £64m (2006: £52m) held relating to vacant property leases, dilapidations and refurbishments, the costs relating to which will be borne across the period over which the leases expire, which is up to 20 years. Other provisions also includes various litigation provisions of £10m (2006: £9m), the payment of which is dependent upon legal processes and Motor Insurance Bureau provision of £33m (2006: £33m).

25. BORROWINGS

	2007 £m	2006 £m
Amounts owed to credit institutions – unsecured	340	55

Borrowings comprise bank overdrafts which are repayable on demand.

26. OTHER CREDITORS

Other creditors including taxation and social security includes £14m (2006: £53m) in respect of corporation tax payable.

Royal & Sun Alliance Insurance plc
Notes to the Accounts (continued)

27. DEFERRED TAXATION

	2007 £m	2006 £m
Unrealised investment gains	(71)	(67)
Technical reserves	39	12
Accelerated capital allowances	30	13
Other timing differences	(8)	(5)
	(10)	(47)

A deferred tax asset has not been recognised in respect of capital losses with an estimated tax value of £103m (2006: £106m) as it is not considered likely that suitable profits will arise to absorb these losses in the near future.

28. OPERATING LEASES

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

	Land & Buildings		Other	
	2007 £m	2006 £m	2007 £m	2006 £m
One year or less	2	3	136	-
Between two and five years	15	10	-	-
After five years	28	30	-	-
	45	43	136	-

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

29. RELATED PARTIES TRANSACTIONS

Advantage has been taken of the exemption provided in FRS 8 from disclosing details of transactions with Royal & Sun Alliance Insurance Group plc and its subsidiaries and associated undertakings.

30. 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 FRS 1 (revised) and has elected not to prepare its own cash flow statement.

31. 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 \$24m 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;
- the issue of £375m step up perpetual guaranteed subordinated capital securities. There is an option to repay the bonds on specific dates starting 12 July 2007; and
- a £500m committed credit facility, of which £nil has been drawn.

Royal & Sun Alliance Insurance plc

Notes to the Accounts (continued)

32. ULTIMATE PARENT COMPANY

The Company's ultimate parent company is Royal & Sun Alliance Insurance Group plc, incorporated in Great Britain and 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.

33. SEGMENTAL INFORMATION

	Accident & Health	Motor	Fire & Property	Marine Aviation & Transport	Third Party Liability	Assistance	Other	Total
2007	£m	£m	£m	£m	£m	£m	£m	£m
Gross premiums written	62	969	1,699	209	512	10	35	3,496
Gross premiums earned	57	975	1,622	188	511	10	16	3,379
Gross claims incurred	(38)	(738)	(868)	(101)	(284)	(2)	37	(1,994)
Gross operating expenses	(17)	(241)	(595)	(46)	(146)	(7)	(30)	(1,067)
Gross technical result	2	(4)	159	41	81	1	23	318
Reinsurance balance	1	(34)	(187)	(18)	(30)	-	(27)	(295)
Net technical result	3	(38)	(28)	23	51	1	(4)	23

	Accident & Health	Motor	Fire & Property	Marine Aviation & Transport	Third Party Liability	Assistance	Other	Total
2006	£m	£m	£m	£m	£m	£m	£m	£m
Gross premiums written	31	1,079	1,535	190	461	11	6	3,313
Gross premiums earned	125	954	1,558	142	452	11	9	3,251
Gross claims incurred	(69)	(793)	(647)	(214)	(324)	(2)	6	(2,043)
Gross operating expenses	(33)	(214)	(507)	(50)	(115)	(6)	(26)	(951)
Gross technical result	23	(53)	404	(122)	13	3	(11)	257
Reinsurance balance	(26)	58	(332)	147	(36)	-	(17)	(206)
Net technical result	(3)	5	72	25	(23)	3	(28)	51

Of the gross written premiums, **£3,435m** (2006: **£3,301m**) relates to contracts written in EC Member States and the remainder relates to contracts written by the Company's branches in Asia. Gross operating expenses for direct business include commissions of **£496m** (2006: **£423m**).

There is no material difference between the origin and destination of contracts.

Of the total GWP of **£3,496m** (2006: **£3,313m**), **£246m** (2006: **£249m**) relates to our business in the Republic of Ireland, **£61m** (2006: **£12m**) relates to our businesses in China, Singapore and Hong Kong and the remainder relates to our UK business.

Royal & Sun Alliance Insurance plc

Notes to the Accounts (continued)

34. PRINCIPAL SUBSIDIARY COMPANIES

		Principal activity
United Kingdom	British Aviation Insurance Company Limited (57.1%) The Globe Insurance Company Limited The Marine Insurance Company Limited (85.0%) Martello Underwriting Limited Royal International Insurance Holdings Limited* Royal & Sun Alliance Reinsurance Limited* Sun Alliance and London Insurance plc* Sun Insurance Office Limited	General insurance General insurance General insurance General insurance General insurance General insurance General insurance General insurance
Argentina	Royal & Sun Alliance Seguros (Argentina) 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 Limited Quebec Assurance Company The Johnson Corporation Royal & Sun Alliance Insurance Company of Canada Western Assurance Company Canadian Northern Shield Insurance Company	Holding company General insurance Holding Company General insurance General insurance General insurance
Chile	Royal & Sun Alliance Seguros (Chile) SA (99.4%)	General insurance General insurance
Colombia	Royal & Sun Alliance Seguros (Colombia) SA (86.7%)	General insurance
Denmark	Codan A/S (note 4) Codan Forsikring A/S (note 4)	Holding company General insurance
Guernsey	Insurance Corporation of Channel Islands Limited	General insurance
Isle of Man	Tower Insurance Company Limited	General insurance
Mexico	Royal & Sun Alliance Seguros (Mexico) SA de C.V.	General insurance
Netherlands Antilles	Royal & Sun Alliance Insurance (Antilles) NV (51.0%)	General insurance
Norway	Duborgh Skadeforsikring AS (note 4) White Label Holding AS Group (note 4)	Insurance brokerage Holding Company
Republic of Ireland	EGI Holdings Limited	General insurance
Singapore	Royal & Sun Alliance Insurance (Singapore) Limited	General insurance
Sweden	Trygg-Hansa Försäkrings AB, Publikt (note 4)	General insurance

Royal & Sun Alliance Insurance plc

Notes to the Accounts (continued)

34. PRINCIPAL SUBSIDIARY COMPANIES (continued)

Uruguay	Royal & Sun Alliance Seguros (Uruguay) SA	General insurance
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Notes:

1. UK companies are incorporated in Great Britain and are registered in England & Wales;
*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.
4. During the year, Codan A/S purchased £24m of its own shares from the market. On 24 May 2007, the Group launched a voluntary conditional offer for the acquisition of all the outstanding issued shares and voting rights in Codan A/S. The offer expired on 21 June, by which time the Group had acquired a sufficient shareholding to effect a compulsory acquisition of remaining shares. The Group has exercised this right and the three month mandatory squeeze out process started on 31 October. The Group now owns 100% of the issued share capital. The total consideration was £590m. On 31 July 2007 Codan A/S delisted from the Copenhagen stock exchange.