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ROYAL & SUN ALLIANCE INSURANCE PLC

Annual Report and Accounts

for the year ended 31 December 2008

COMPANIES HOUSE

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BELFAST

Royal & Sun Alliance Insurance plc

Contents

Directors

A P Brown

R J Clayton

D P Cockrem

I A Craston

M G Culmer

M Harris

A K Haste

S P G Lee

P L Miles

Secretary

J Possener

Registered office

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

Auditors

Deloitte LLP
Chartered Accountants and Registered Auditors
London

The directors present their annual report on the affairs of the Company and the audited financial statements for the year ended 31 December 2008

RSA 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 subsidiaries and associated undertakings are listed in note 36 to the financial statements

The results for the Company show a profit on ordinary activities before tax of £644m *(2007 £430m)* for the year and gross premiums written of £3,457m *(2007 £3,496m)* The shareholders' funds of the Company were £4,914m as at 31 December 2008 *(31 December 2007 £4,396m)*

The United Kingdom, which is the Company's major market, remains competitive and the Company's strategy of targeting profitable growth, taking the right action on rate and selective capacity withdrawal is being maintained

In Personal business UK premiums were slightly ahead of 2007 with growth in the MORE TH>N brand business offset by lower volumes from affinity business as a consequence of lower mortgage originations and new car sales In Commercial business premiums were in line with last year with strong growth in speciality lines and targeted growth in Commercial Fleet offsetting the withdrawal of capacity in lines of business such as Liability and small and mid corporate Property, where the Company's target returns cannot be achieved

Overall retention remains strong The Company has taken action on rate and achieved increases across Personal Motor and Household, and across Liability, Property and Motor within its Commercial portfolio

During the year the Company purchased certain software supporting its underwriting and claims handling systems from a fellow company in the Group Formerly the Company was party to a leasing arrangement covering use of the software

Future outlook

The Company's objective is to continue delivering sustainable profitable performance On 1 January 2009 the Company transferred the business of its branch in the Republic of Ireland into a wholly owned subsidiary, RSA Insurance Ireland Limited

Dividends

An interim dividend of £450m *(2007 £200m)* was declared on 26 November 2008 The directors do not recommend payment of a final ordinary dividend *(2007 £Nil)*.

Principal risks and uncertainties

The Company's principal risks and uncertainties are integrated within and managed together with the principal risks of the Group 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, risks, uncertainties and contingencies on pages 76 to 78, and in the risk framework on pages 30 to 32 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

Financial risk management

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 liabilities 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

Credit risk

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

Market risk arises within the Company's investment portfolios 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

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.

Key performance indicators

The directors of the Group manage the Group's operations on a divisional basis as described in the Annual Report & Accounts of the Group For this reason the Company's directors believe that analysis using key performance indicators (KPIs) for the UK business is relevant to the Company

The key measure used by the Group in managing the operations is the combined operating ratio (COR) This measure is calculated by aggregating the loss ratio (claims incurred to net premiums earned) and the expense ratio (operating expenses to net premiums written)

For the UK business in aggregate in 2008 the COR was 97 6% which was unchanged from 2007 The COR for Personal business was 95 0% compared with 100 6% in 2007, due to an improvement in the Household result The COR for commercial business was 99 3% compared with 95 9% for 2007 because of adverse large loss experience and lower prior year claims development

Further information on financial KPIs is detailed in the Annual Report & Accounts of the Group (which do not form part of this report) within the Group CEO review on pages 6 to 10 and the regional business reviews on pages 14 to 25 The Annual Report & Accounts of the Group also includes non-financial KPIs which are detailed in the regional business reviews on pages 14 to 25, the corporate responsibility report on pages 33 to 35 and the directors' report on pages 41 to 43

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 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 fifth annual web based Employee Survey was run in 2008 Our new survey providers, Gallup, supported us in measuring employee engagement using the Gallup Q12 questions When comparing this year's scores with the equivalent from our previous supplier we have made good progress in all areas.

Our policy is to encourage employee share ownership Employees are encouraged to participate in Sharesave which is an Employee Sharesave Scheme (HM Revenue and Customs approved) in respect of the ordinary shares of RSA Insurance Group plc This year 55% of UK based eligible employees participated

We also encourage employees to participate in our employee discount schemes Our Staff Saver Scheme in the UK currently has approximately 6,000 Staff Saver policies in force, an increase from approximately 500 policies in 2007

Employees are kept well informed of the overall performance and objectives of the Group. Communications are regularly provided by email, intranet articles and staff publications Key messages from the Group's two Leaders Conferences are fed back to teams by local management.

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

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 2008 amounted to £33m *(2007 £23m)*, corresponding to 22 *(2007 18)* days payment when averaged over the year.

Directors

The names of the current directors are listed on page 2 P L Miles was appointed a director on 22 May 2008 and A P Brown was appointed a director on 24 September 2008 B F McIntyre resigned as a director on 31 December 2008 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

Auditors

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

- so far as the 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 any relevant audit information, 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 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 2009 Annual General Meeting

Going concern

In considering the appropriateness of the going concern basis the Board have reviewed the Company's ongoing financial commitments for the next twelve months and beyond. The Board's review included consideration of the Company's underwriting plans, strong regulatory capital surplus, diverse insurance risk profile, considerable undrawn financing facilities and highly liquid investment portfolio As a result of this review the Directors have satisfied themselves that it is appropriate to prepare these financial statements on a Going Concern basis

By order of the Board

J. Possener

J Possener
Secretary
25 February 2009

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 2008 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 37 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 Annual Report and 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 other information contained in the Annual Report, as described in the contents section and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements within it or material inconsistencies with the financial statements Our responsibilities do not extend to any other information outside the Annual Report

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 2008 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 notes 1 and 25

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 2008 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 LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London
25 February 2009

Profit & loss account
for the year ended 31 December 2008

Technical account – General business

	Notes	2008 £m	2007 £m
Gross premiums written – continuing operations	7	3,193	3,250
Gross premiums written – discontinued operations	7	264	246
Gross premiums written		3,457	3,496
Outward reinsurance premiums		(539)	(539)
Premiums written, net of reinsurance		2,918	2,957
Change in the gross provision for unearned premiums		(41)	(117)
Change in the provision for unearned premiums, reinsurers' share		(6)	3
Earned premiums, net of reinsurance		2,871	2,843
Claims paid			
Gross amount		(2,302)	(2,627)
Reinsurers' share		327	347
		(1,975)	(2,280)
Change in the provision for claims			
Gross amount		394	598
Reinsurers' share		(283)	(106)
		111	492
Claims incurred, net of reinsurance		(1,864)	(1,788)
Acquisition costs		(834)	(838)
Change in deferred acquisition costs		50	38
Administrative expenses		(319)	(312)
Reinsurance commissions and profit participation		49	45
Net operating expenses		(1,054)	(1,067)
Amortisation of renewal rights	16	(4)	-
Balance on the technical account before change in equalisation provision		(51)	(12)
Change in the equalisation provision	25	18	35
Balance on the Technical Account for General Business		(33)	23

Of the balance on the technical account for general business, £4m *(2007 £47m)* relates to discontinued business

The notes of pages 13 to 52 form an integral part of these accounts

Profit & loss account (continued)
for the year ended 31 December 2008

Non-technical account

	Notes	2008 £m	2007 £m
Balance on the Technical Account for General Business		(33)	23
Investment income	13	1,216	789
Gains on the realisation of investments	13	68	84
		1,284	873
Unrealised (losses)/gains on trading investments / investment property	13	(347)	(73)
Impairment of subsidiary undertakings	18	(100)	(397)
Investment expenses and charges	13	(111)	38
Other (charges)/income		(1)	-
Operating profit		692	464
Loss on disposal of subsidiary undertakings and branches		(48)	(34)
Profit on ordinary activities before tax – continuing operations	7	600	360
Profit on ordinary activities before tax – discontinuing operations	7	44	70
Profit on ordinary activities before tax		644	430
Taxation on profit on ordinary activities	14	85	-
Profit for the financial year attributable to shareholders		729	430

An analysis of continuing and discontinuing operations is shown in note 7

Statement of total recognised gains and losses for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Profit for the financial year		729	430
Foreign exchange gains		42	30
Tax on foreign exchange gains		29	(2)
Movement in valuation of participating interests		(17)	-
Pension fund actuarial gains/(losses)	11	290	(36)
UK deferred tax attributable to actuarial gains/(losses)		(84)	15
Total recognised gains and losses relating to the year		989	437

The notes of pages 13 to 52 form an integral part of these accounts

Balance sheet
as at 31 December 2008

ASSETS	Notes	2008 £m	2007 £m
Intangible assets	16	26	9
Investments			
Land and buildings	17	278	394
Investments in group undertakings and participating interests			
Investment in subsidiary undertakings	18	5,655	6,360
Interests in associated undertakings	19	105	96
		5,760	6,456
Other financial investments			
Shares and other variable yield securities and units in unit trusts		664	1,028
Debt securities and other fixed income securities		3,547	3,274
Loans and deposits with credit institutions		178	412
	17	4,389	4,714
Deposits with ceding undertakings		2	3
Total investments		10,429	11,567
Reinsurers' share of technical provisions			
Provision for unearned premiums		155	149
Claims outstanding		792	943
		947	1,092
Debtors			
Debtors arising out of direct insurance operations - policyholders		299	326
Debtors arising out of direct insurance operations - intermediaries		1,206	1,109
Debtors arising out of reinsurance operations		125	118
Amounts owed by group undertakings		4,001	3,272
Deferred taxation	27	51	-
Other debtors, including taxation	14	476	169
		6,158	4,994
Other assets			
Tangible assets	20	272	28
Cash at bank and in hand		212	116
		484	144
Prepayments and accrued income			
Accrued interest and rent		69	115
Deferred acquisition costs		400	335
Other prepayments and accrued income		145	149
		614	599
		18,658	18,405
Pension fund asset	11	412	167
Total assets		19,070	18,572

The notes of pages 13to 52 form an integral part of these accounts

Royal & Sun Alliance Insurance plc

Balance sheet
as at 31 December 2008

LIABILITIES	Notes	2008 £m	2007 £m
Capital and reserves			
Called up share capital	21	1,128	1,128
Share premium account	22	2,646	2,646
Profit and loss account	22	1,140	622
Shareholders' funds		4,914	4,396
Other capital instruments			
Subordinated loan note equity instrument	23	372	372
Funds attributable to equity holders		5,286	4,768
Technical provisions			
Provision for unearned premiums		1,989	1,870
Claims outstanding	24	5,136	5,109
Equalisation provision	25	285	303
		7,410	7,282
Provisions for other risks	26	106	187
Deposits received from reinsurers		8	5
Creditors			
Creditors arising out of direct insurance operations		96	97
Creditors arising out of reinsurance operations		141	127
Amounts owed to credit institutions	28	328	340
Amounts owed to group undertakings		5,267	5,314
Other creditors including taxation and social security	29	252	205
		6,084	6,083
Accruals and deferred income		161	225
		19,055	18,550
Pension fund liability	11	15	22
Total liabilities		19,070	18,572

The notes of pages 13 to 52 form an integral part of these accounts

The financial statements were approved by the Board of Directors on 25 February 2009 and are signed on its behalf by

George Culmer

Director

1. Accounting Policies

Basis of preparation

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) on 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 Section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it is a wholly-owned subsidiary of RSA Insurance Group plc, which prepares group accounts The financial statements have been prepared under the current value rules, as permitted by Schedule 9A of the Companies Act 1985, on the going concern basis

In considering the appropriateness of the going concern basis the Board have reviewed the Company's ongoing financial commitments for the next twelve months and beyond The Board's review included consideration of the Company's underwriting plans, strong regulatory capital surplus, diverse insurance risk profile, considerable undrawn financing facilities and highly liquid investment portfolio As a result of this review the Directors have satisfied themselves that it is appropriate to prepare these financial statements on a Going Concern basis

a) 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.

b) General insurance business

i. Underwriting result

The underwriting result is accounted for on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance 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 Commission and other acquisition costs incurred in writing the business are deferred and amortised over the period in which the related premiums are earned

During 2008, management have reviewed and amended the methodology that they use to estimate the deferred element of the acquisition costs This change in methodology has contributed towards the increase in deferred acquisition costs carried forward at the end of the year

Claims paid represents 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 provision

ii. 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 The discount rate used is based upon an investment return expected to be earned by the assets, which are appropriate in magnitude and nature to cover the provisions for claims outstanding being discounted, during the period necessary for the payment of such claims

1. Accounting Policies (continued)

ii. Technical provisions (continued)

Differences between the estimated cost and subsequent settlement of claims are dealt with in the technical account for the year in which the claims are settled or in which the provisions for claims outstanding are 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 that is expected to be earned from the assets backing the provision for unearned premiums (net of deferred acquisition costs) The unexpired risk provision is assessed in aggregate for business classes which, in the opinion of the directors, are managed together When considering any requirement for a provision for unexpired risks, no account is taken of any new claims events occurring after the balance sheet date other than those that can be expected during the unexpired period of risk at the balance sheet date

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

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

iii. Reinsurance recoveries

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to the market data on the financial strength of each of the reinsurance companies and taking into account any disputes on, and defects in, contract wordings

c) *Translation of foreign currencies*

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates ruling at the balance sheet date Differences arising on retranslation are included within the profit and loss account Transactions denominated in foreign currencies are translated into sterling using the cumulative average rate for the financial year The resulting exchange differences are included within the profit and loss account Non monetary items are translated at the rate of exchange at the date of the transaction, and are not subsequently retranslated.

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

d) Investment return

Investment return is recognised in the Non-Technical Account and comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses 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 gains and losses on investments are calculated as the difference between net sales proceeds and purchase price

Movements in unrealised gains and losses on investments represent the difference between their carrying value at the balance sheet date and their purchase price or their carrying value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period

e) Pension costs

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

1. Accounting Policies (continued)

e) Pension costs (continued)

Contributions to defined contribution pension schemes are charged in the period in which the employment services qualifying for the benefit are provided Differences between contributions payable in the year and contributions actually paid are shown as either prepayments or accruals in the balance sheet

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

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

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

- the fair value at the Balance Sheet date of the scheme assets out of which the obligations are to be settled directly,
- minus the present value of defined benefit obligation of the scheme at the balance sheet date,
- minus any past service cost not yet recognised, 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

1. Accounting Policies (continued)

f) 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

g) 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

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

h) Operating leases

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

i) 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

1. Accounting Policies (continued)

j) 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

k) Investments in subsidiaries

Investments in subsidiaries are valued at net asset value unless the subsidiary is in a net liability position, in which case the subsidiary is valued at nil Reductions in the carrying value of investments in subsidiaries below historic cost and reversals of such reductions are taken to the profit and loss account Other differences between net asset values and book values of investments in subsidiaries are taken to the revaluation reserve

l) *Interests in 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.

m) 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

n) 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,
- 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,

1. Accounting Policies (continued)

n) Estimation of the fair value of financial assets and liabilities other than investments in subsidiaries (continued)

- for cash, short- term investments, commercial paper, other assets, liabilities and accruals carrying amounts approximate to fair value,
- 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, and
- For derivatives, fair values are generally based upon quoted market prices

o) 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

p) Tangible assets

Tangible assets other than investment properties (see (j) above) are stated in the balance sheet at their revalued amount (freehold buildings) or cost less accumulated depreciation and any impairment losses (all other tangible fixed assets) Depreciation is calculated to write off the cost less the estimated residual value of the tangible fixed assets on a straight line basis over their expected useful lives (between three and ten years) No depreciation is charged on freehold land

q) 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

2. Estimation Techniques, Risks, 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

2. Estimation Techniques, Risks, Uncertainties and Contingencies (continued)

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

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

2. Estimation Techniques, Risks, Uncertainties and Contingencies (continued)

Uncertainties and contingencies (continued)

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

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 and the possibility of retrospective legislative changes 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 RSA 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

2. Estimation Techniques, Risks, Uncertainties and Contingencies (continued)

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 being willing and able to perform their obligations in accordance with the terms and conditions of the contracts

Litigation, disputes and investigations

The Company, in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectoral inquiries and investigations in the normal course of its business The directors do not believe that any current mediation, arbitration, regulatory, governmental or sectoral inquiries and investigations and pending or threatened litigation or dispute 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 investigations 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 financial strength 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 RSA Insurance Group's directors believe will not be able to pay amounts due in full

Investment risk

The Company is exposed to market risk and credit risk on its invested assets Market risk includes the risk of potential losses from adverse movements in market rates and prices including interest rates, equity prices, property prices and foreign currency exchange rates The Company's exposure to market risks is controlled by the setting of investment limits in line with the RSA Insurance Group's risk appetite From time to time the Company also makes use of derivative financial instruments to reduce exposure to adverse fluctuations in interest rates, foreign exchange rates and equity markets The Company has strict controls over the use of derivative instruments

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 Limits are set at both a portfolio and counterparty level based on likelihood of default to manage the RSA Insurance Group's overall credit profile and specific concentrations within risk appetite

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

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

2. Estimation Techniques, Risks, Uncertainties and Contingencies (continued)

Rating environment

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 RSA Insurance 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 'A2' (stable) from Moody's upgraded from 'A3' in December 2008 Any worsening in the ratings could have an adverse impact on the ability of the RSA Insurance Group and the Company to write certain types of general insurance business

In assessing credit risk in relation to reinsurance and investments, the RSA Insurance Group takes into account a variety of factors, including credit rating If any such rating changes, or is otherwise reassessed, this has potential implications for the related exposures

Regulatory environment

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

In particular the Company is continuing to monitor and respond to developments relating to 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

3. Risk Management

Introduction

RSA 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 Group's 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 risks This note summarises the key risks to the Group, and hence the Company, and the steps taken to manage them

The Group's Board of Directors 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 imposes a minimum amount for which employers can be liable for claims for compensation from employees injured at work These liabilities are usually insured under an employers' liability (or similar) insurance policy all policies issued by the Company comply with minimum statutory requirements

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 reviews

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 beyond the Group's risk appetite 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 Group 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 operating segments 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 2008 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

Reserves – An Overview (continued)

- Consideration is made of how previous actuarial indications have developed

In forming its collective judgment, the Committee considers 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

All of the Group's operations are required to purchase reinsurance within agreed local reinsurance appetite parameters 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

In addition to local reinsurance arrangements, 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

The following table provides information regarding the aggregated credit risk exposure for financial assets of the Company as at 31 December 2008

	Credit rating relating to financial assets that are neither past due nor impaired						
	AAA	AA	A	BBB	<BBB	Not rated	Total of financial assets that are neither past due nor impaired
	£m	£m	£m	£m	£m	£m	£m
Debt securities	2,181	543	671	122	18	12	3,547
Other financial assets	-	-	-	1	-	35	36
Short term investments	10	95	37	-	-	-	142
Reinsurance assets	94	264	342	136	43	40	919
Insurance debtors (1)	25	16	48	27	2	1,428	1,546
Derivative assets	-	-	192	-	-	-	192
Cash at bank and in hand	1	48	153	-	-	10	212

As at 31 December 2007

	Credit rating relating to financial assets that are neither past due nor impaired						
	AAA	AA	A	BBB	<BBB	Not rated	Total of financial assets that are neither past due nor impaired
	£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 (1)	-	-	19	17	-	1,356	1,392
Derivative assets	-	-	59	-	-	-	59
Cash at bank and in hand	-	3	87	-	-	26	116

Notes
1 The insurance and reinsurance debtors classified as not rated comprise personal policyholders and small corporate customers that do not have individual credit ratings The overall risk to the Company is deemed to be low as the cover could be cancelled if payment were not received on a timely basis

With the exception of AAA rated Government securities, the largest aggregate credit exposure does not exceed 6% of the Company's total financial assets

Credit risk (continued)

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 oversees the management of these risks 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 2008 the reinsurance asset recoverable from these groups does not exceed **5%** of the Company's total financial assets Stress tests are regularly performed on the RSA Insurance 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 **1%** 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 2008, 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

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 2008

	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**	**£m**	**£m**
Debt securities	**3,547**	-	-	-	-	-	**3,547**	**1**
Other financial assets	**36**	-	-	-	-	-	**36**	-
Short term investments	**142**	-	-	-	-	-	**142**	-
Reinsurance assets	**919**	-	-	-	-	**28**	**947**	-
Insurance debtors	**1,546**	**39**	**12**	**5**	**13**	**15**	**1,630**	-
Derivative assets	**192**	-	-	-	-	-	**192**	-
Cash at bank and in hand	**212**	-	-	-	-	-	**212**	-

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	£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	32	1,213	7
Insurance debtors	1,392	25	14	-	2	2	1,435	2
Derivative assets	59	-	-	-	-	-	59	-
Cash at bank and in hand	116	-	-	-	-	-	116	-

Credit risk (continued)

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 **£1,049m** *(2007 £954m)* of financial assets as collateral for liabilities or contingent liabilities and had accepted **£724m** *(2007. £851m)* collateral that could be sold or pledged. The nature of the assets pledged as collateral comprises government securities of **£893m** *(2007 £933m)*, cash and cash equivalents of **£93m** *(2007 £21m)* and debt securities **£63m** *(2007 £Nil)* 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 event of default by the owner, the fair value of which has been noted above at **£724m** The terms and conditions of the collateral held are market standard The assets held as collateral are readily convertible into cash

At 31 December 2008, the Company had entered into short term sale and repurchase agreements for UK government securities (repos) The Company continues to recognise the debt securities on the balance sheet as the Group remains exposed to the risks and rewards of ownership The carrying value of these debt securities recognised on the balance sheet is **£297m** *(2007 £295m)* and the carrying value of the associated liabilities is **£297m** *(2007 £295m)*

Certain of the Company's equities and debt securities that are held at fair value are unlisted (2008 **£592m**, *2007 £685m*) 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 investment 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 shares 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 The Company's investment in investment property is recorded as such and these investments are held as part of an efficient portfolio management strategy

Foreign currency exchange risk

The Company is exposed 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

Structural foreign currency exchange risk is managed at a RSA Insurance 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

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 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**	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Cross currency							
Asset	**74**	-	-	**74**	27	**1,214**	1,073
Liability	**83**	-	**2**	**85**	32	**1,286**	1,247
Credit							
Asset	-	-	-	-	-	-	-
Liability	-	-	-	-	-	-	-
Equity/index							
Asset	**118**	-	-	**118**	32	See below	See below
Liability	**61**	-	-	**61**	31	See below	See below

Derivatives (continued)

At 31 December 2008 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 **£530m** *(2007 £800m)* If UK equity markets decreased by 15%, the impact of these derivatives as of 31 December 2008, would be to decrease the impact of the decline by **£27m** *(2007 £47m)*

At 31 December 2008 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

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	
	2008	2007
	£m	£m
Interest rate markets (note 2)		
Impact on fixed interest securities of increase in interest rates of 100bps	**(75)**	(78)
Decrease of equity markets (note 3)		
Direct impact on equities of a 15% fall in equity markets	**(100)**	(154)
Mitigating impact arising from derivatives held	**27**	47
Property markets (note 3)		
Decrease of property markets of 15%	**(42)**	(59)

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 2009 and 1 January 2008 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

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

In addition the Company has committed credit facilities available as set out in note 23

Maturity periods or contractual repricing

The following table summarises the contractual repricing or maturity dates (whichever is earlier) for 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	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years	Total	Balance sheet carrying value
	£m	£m	£m	£m	£m	£m	£m	£m
2008								
Financial liabilities								
Subordinated loan equity instruments	-	-	-	-	-	372	372	372
Amounts owed to Group undertakings	5,267	-	-	-	-	-	5,267	5,267
Amounts owed to credit institutions	328	-	-	-	-	-	328	328
Derivative trading liabilities	144	-	-	-	2	-	146	146
Direct insurance creditors	96	-	-	-	-	-	96	96
Reinsurance creditors	141	-	-	-	-	-	141	141
Total	5,976	-	-	-	2	372	6,350	6,350
Interest on subordinated loan equity instruments	30	30	30	30	30	46	196	-

	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years	Total	Balance sheet carrying value
	£m	£m	£m	£m	£m	£m	£m	£m
2007								
Financial liabilities								
Subordinated loan equity instruments	-	-	-	-	-	372	372	372
Amounts owed to Group undertakings	5,314	-	-	-	-	-	5,314	5,314
Amounts owed to credit institutions	340	-	-	-	-	-	340	340
Derivative trading liabilities	62	-	-	-	-	-	62	62
Direct insurance creditors	97	-	-	-	-	-	97	97
Reinsurance creditors	124	3	-	-	-	-	127	127
Total	5,937	3	-	-	-	372	6,312	6,312
Interest on subordinated loan equity instruments	30	30	30	30	30	76	226	-

Capital management

Royal & Sun Alliance Insurance plc is the major UK insurer within the group of companies (the 'Group') controlled by RSA Insurance Group plc and is regulated by the Financial Services Authority ('FSA')

The maintenance of a strong capital position of both the Group and the Company (which owns all the regulated companies within the Group and transacts the majority of the UK business), is critical for the Company's ability to conduct insurance business

The Group and the Company maintain sufficient capital, which comprises shareholders' equity and subordinated loan capital, to meet their plans and objectives This represents sufficient surpluses for both regulatory and economic capital, as well as sufficient capital to support the Group's and the Company's aim of maintaining a single 'A' rating.

To provide protection against material events or shocks, the Company would normally expect to hold sufficient capital to maintain significant economic and regulatory surpluses

The maintenance of a capital position in excess of regulatory requirements is an absolute requirement for all of the Group's regulated entities There is no tolerance for breaching capital requirements for any regulated entity

Economic capital

Economic capital is the Group's preferred measure of capital sufficiency It is the Group's own assessment of the amount of capital it needs to hold to meet its obligations given the Group's risk appetite Assets and liabilities are valued on an economic basis providing the most realistic representation of the Group's financial condition.

The economic capital analysis compares the economic value of the Group's assets with the total resources required in a range of adverse scenarios, calibrated to a defined risk tolerance consistent with the Group's 'A' rating which is in line with target The economic capital surplus is the amount by which the economic assets exceed the total resources required The total resources required is the amount of assets the Group needs today to meet its liabilities under the defined risk tolerance The Group defines the economic capital required as the difference between the total resource requirement and the accounting value of liabilities. At 31 December 2008, the Group's surplus economic capital was approximately **£1.8bn** *(2007 £2 2bn)* Additionally, the Company provides an economic capital assessment for the RSAI plc group of UK insurance companies which operate under a deed of mutual guarantee

The economic capital model is used to support, inform and improve the Group's decision making across the Group It is used to determine the Group's optimum capital structure, its investment strategy, its reinsurance programme and to determine the pricing and target returns for each portfolio The economic capital model is also used for the Group's and Company's internal capital assessment ('ICA') The only adjustment made is to use the FSA's required calibration.

Regulatory solvency position

The Group and Company remain fully compliant with both the FSA's risk based ICA methodology and Solvency I

As at 31 December 2008 the Group and Company had a Solvency 1 surplus of approximately **£1.7bn** *(2007 £1 5bn)* and **£1.6bn** *(2007 £1 6bn)* respectively The coverage ratio for the Company stood at approximately **2.2** times at 31 December 2008 *(2007 2 3 times)*

The Group and Company received their Individual Capital Guidance (based on its ICA submission) from the FSA in late 2007, which was not changed in 2008 and at the request of the FSA remains confidential The ICA is a forward looking, economic assessment of the capital requirements of the Group and Company based on the assessment of the risks to which it is exposed The models used to determine the ICA have been integrated into the Group's business processes and are used to enhance the management of the Group.

The Group is also continuing to implement a number of capital management initiatives, including optimising its regulatory structure and improving the capital efficiency of its discontinued lines of business

4. Reorganisation costs and other items

The Technical Account includes

	2008 £m	2007 £m
Reorganisation costs	7	20
Operating lease rentals – equipment	100	104

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

5. Exchange rates

The rates of exchange used in these accounts in respect of the major overseas currencies are	2008 Cumulative Average	2008 End of Period	2007 Cumulative Average	2007 End of Period
Euro	1.26	1.03	1 46	1 36
US Dollar	1.85	1.44	1 85	1 99
Hong Kong Dollar	14.44	11.14	15 61	15 52
Singapore Dollar	2.62	2.07	3 01	2 87

6. Segmental information

(a) by class of business

	Accident & Health	Motor	Fire & Property	Marine Aviation & Transport	Third Party Liability	Assistance	Other	Total
2008	£m	£m	£m	£m	£m	£m	£m	£m
Gross premiums written	23	1,033	1,645	205	438	11	102	3,457
Gross premiums earned	24	975	1,667	201	444	11	94	3,416
Gross claims incurred	(10)	(701)	(871)	(22)	(291)	(4)	9	(1,890)
Gross operating expenses	(12)	(247)	(594)	(62)	(145)	(5)	(42)	(1,107)
Gross technical result	2	27	202	117	8	2	61	419
Reinsurance balance	(3)	(13)	(324)	(73)	(6)	-	(33)	(452)
Net technical result	(1)	14	(122)	44	2	2	28	(33)

(6a) Segmental information (continued)

2007	Accident & Health £m	Motor £m	Fire & Property £m	Marine Aviation & Transport £m	Third Party Liability £m	Assistance £m	Other £m	Total £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

(b) by geographical segment

	2008 £m	2007 £m
Gross premiums written for direct business by origin		
UK	**3,095**	3,189
Ireland - discontinued	**264**	246
Other	**98**	61
	3,457	3,496
Profit / (loss) before tax		
UK	**593**	364
Ireland - discontinued	**44**	68
Other	**7**	(2)
	644	430
Net assets		
UK	**4,616**	4,209
Ireland - discontinued	**301**	191
Other	**(3)**	(4)
	4,914	4,396

Gross premiums are disclosed by origin There is no material difference between the amounts shown and those by reference to destination (i e location of risk)

Total commissions for direct insurance business accounted for by the Company during the year amounted to **£551m** *(2007 £541m)*

7. Analysis of profit and loss account items

An analysis of continuing and discontinued business is detailed below Discontinued business relates to Irish branch business sold on 1 January 2009

			2008			2007
	Continuing	**Discontinued**	**Total**	Continuing	Discontinued	**Total**
	£000	**£000**	**£000**	£000	£000	£000
Gross premiums written	**3,193**	**264**	**3,457**	3,250	246	3,496
Outward reinsurance premiums	**(500)**	**(39)**	**(539)**	(492)	(47)	(539)
Premiums written, net of reinsurance	**2,693**	**225**	**2,918**	2,758	199	2,957
Earned premiums, net of reinsurance	**2,649**	**222**	**2,871**	2,653	190	2,843
Claims incurred, net of reinsurance	**(1,727)**	**(137)**	**(1,864)**	(1,720)	(68)	(1,788)
Net operating expenses	**(973)**	**(81)**	**(1,054)**	(992)	(75)	(1,067)
Amortisation of renewal rights	**(4)**	**-**	**(4)**	-	-	-
Change in the equalisation provision	**18**	**-**	**18**	35	-	35
Balance on the Technical Account for General Business	**(37)**	**4**	**(33)**	(24)	47	23
Investment income	**1,189**	**27**	**1,216**	767	22	789
Gain/(loss) on the realisation of investments	**67**	**1**	**68**	85	(1)	84
Unrealised gains/(losses) on investments	**(359)**	**12**	**(347)**	(75)	2	(73)
Impairment of subsidiary undertakings	**(100)**	**-**	**(100)**	(397)	-	(397)
Investment expenses and charges	**(111)**	**-**	**(111)**	38	-	38
Other (charges) / income	**(1)**	**-**	**(1)**	-	-	-
Loss on disposal of subsidiary undertakings and branches	**(48)**	**-**	**(48)**	(34)	-	(34)
Profit on ordinary activities before tax	**600**	**44**	**644**	360	70	430

8. Auditors remuneration

Fees payable to Deloitte LLP for the audit of the Company's annual accounts was **£40,000** *(2007· £40,000)* Details of non-audit fees payable to Deloitte LLP are disclosed in the RSA Insurance Group plc 2008 Annual Report & Accounts

9. Directors' emoluments

	2008	2007
	£000	£000
The aggregate emoluments of the directors, including amounts received from subsidiaries, were as follows		
Salaries and bonuses	**5,802**	5,203
Allowances, benefits and other awards	**682**	653
	6,484	5,856

The criteria for making bonus awards is based on targeted levels of business sector profit and specific business objectives Details of directors interests in RSA 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 RSA Insurance Group plc As at 31 December 2008, there was an interest free loan of £5,000 outstanding to A P Brown, appointed as a director on 24 September 2008, under the standard terms of the Group's UK Car Ownership Scheme, which is open to all UK managers within a qualifying salary band

9. Directors' emoluments (continued)

	2008 £000	2007 £000
The emoluments of the highest paid director (A K Haste) were		
Salary, bonus, allowances, benefits and other awards	**2,037**	1,912

At 31 December 2008 the highest paid director had accrued annual pension of **£11,079** *(2007 £8,811)* 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 2008

Retirement benefits accrued under defined benefit schemes for A.K Haste and I A Craston who served during the year Contributions of **£195,819** *(2007 £178,088)* were made to Group defined contribution schemes during the year in respect of the other directors

10. Employees and staff costs

	2008 £m	2007 £m
Wages and salaries	**343**	354
Social security costs	**36**	34
Other pension costs	**73**	63
	452	451

Other pension costs include only those items included within operating costs Items reported elsewhere have been excluded

	2008	2007
The average monthly number of persons (including executive directors) employed by the Company during the year was	**9,790**	10,136

11. 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

11. Retirement benefits (continued)

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 2008 contributions of **£9m** *(2007 £8m)* were made to defined contribution schemes in the United Kingdom

For the two main UK defined benefit schemes, the level of contributions in 2008 were **23%** and **22%** of pensionable salaries *(2007 23% and 22%)* Additional contributions totalling **£38m** *(2007 £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 2009 are approximately **£71m**, including a further **£33m** 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

	2008 £m	2007 £m
Current service cost	**41**	45
Past service cost	**23**	11
Curtailment gains	**-**	(1)
Total charge/(credit) to be included in Profit before tax	**64**	55

Expected return on assets	**(282)**	(280)
Interest cost on pension scheme liabilities	**264**	230
Total financing credit to be included in Profit before tax	**(18)**	(50)

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

Amounts recognised within the Statement of Total Recognised Gains and Losses

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Actual return on assets in (deficit)/excess of expected return on assets	**(352)**	95	(29)	425	138
Experience (losses)/gains on liabilities	**(99)**	(76)	67	(66)	90
Change in actuarial assumptions underlying the present value of scheme liabilities	**741**	(55)	205	(456)	(279)
Actuarial gain/(loss)	**290**	(36)	243	(97)	(51)
Deferred taxation	**(84)**	15	(73)	29	15
Recognised in the Statement of total recognised gains and losses	**206**	(21)	170	(68)	(36)

11. Retirement benefits (continued)

Movement in surplus during the year	**2008 £m**	2007 £m
Surplus at 1 January	**201**	82
Total operating charge	**(64)**	(55)
Employer contribution	**113**	160
Total financing credit	**18**	50
Actuarial gain/(loss)	**290**	(36)
Exchange rate adjustment	**(3)**	-
Surplus at 31 December	**555**	201

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

	2008 £m	2007 £m	2006 £m
Equities	**1,064**	1,193	2,086
Bonds	**3,521**	3,411	2,170
Other	**246**	397	417
Fair value of assets held by pension schemes	**4,831**	5,001	4,673
Present value of pension liabilities	**(4,276)**	(4,800)	(4,591)
Net surplus/(deficit)	**555**	201	82
Related deferred tax liability	**(158)**	(56)	(25)
Pension fund asset	**412**	167	118
Pension fund liability	**(15)**	(22)	(61)
Net pension asset/(liability)	**397**	145	57

Included in the profit and loss account reserve is a pension and post retirement reserve on a FRS 17 basis at 31 December 2008 of (£74m) *(2007 (£280m))*.

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

	2008 %	2007 %
Assumptions used in calculation of retirement benefit obligation		
Annual rate of general inflation	**2.8**	3 2
Annual rate of increase in pensions	**2.8**	3 2
Annual rate of increase in salaries	**4.3**	4 7
Interest rate used to discount liabilities	**6.2**	5 6
Assumptions used in calculation of profit & loss account credit/charge in year		
Discount rate	**5.6**	5 1
Expected return on		
Equities	**7.5**	7 5
Bonds	**5.0**	4 6
Other	**6.5**	6 1

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

11. Retirement benefits (continued)

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 £68m A 0 1% increase in the inflation rate assumption would increase the defined benefit obligations in the UK by £59m An increase of one year in life expectancy would increase the defined benefit obligations by approximately £124m

12. Share based payment

The RSA Insurance 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 **£17m** in 2008 (*2007 £13m*) 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'

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

12. Share based payment (continued)

The official closing middle market price for an ordinary share in the Group at its highest during the year was 165 8p per share and at its lowest was 116 3p per share, on the last dealing day of the year it was 138 1p 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·

	2008			2007
	Shares	**Price***	Shares	Price*
Options outstanding at 1 January	**40,363,329**	**127.22**	45,576,617	128 83
Granted	-	-	-	-
Exercised	**(13,230,719)**	**83.46**	(2,727,473)	85 70
Forfeited	**(746,636)**	**184.08**	(1,019,312)	91 05
Expired	**(1,849,240)**	**357.66**	(1,466,503)	265 75
Cancelled				
Options outstanding at 31 December	**24,536,734**	**132.55**	40,363,329	127 72

*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

	2008					2007
Range of exercise prices	**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	**18,463,301**	**5.69**	**79.13**	31,669,643	6 86	80 48
100 1 – 150 0	**1,027,095**	**5.16**	**114.62**	1,636,704	5 89	114 41
200 1 – 250 0	**1,371,829**	**3.19**	**234.23**	1,640,735	4 19	234 23
250 1 – 300 0	**860,563**	**1.23**	**278.65**	1,004,701	2 23	278 65
300 1 – 350 0	**61,819**	**2.88**	**312.58**	61,819	3 88	312 58
350 1 – 400 0	**1,391,591**	**2.19**	**380.29**	1,654,758	3 19	380.30
400 1 – 450 0	**1,360,536**	**1.67**	**414.41**	2,694,969	1 66	410 57
	24,536,734	**4.92**	**132.55**	40,363,329	6 09	127 72

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

Options exercisable

	2008			2007
Range of exercise prices	**Number of shares**	**Weighted average exercise price***	Number of shares	Weighted average exercise price*
50 1 – 100 0	**18,463,301**	**79.13**	14,332,671	76 21
100 1 – 150 0	**1,027,095**	**114.62**	1,334,980	114 05
200 1 – 250 0	**1,371,829**	**234.23**	1,640,735	234 23
250 1 – 300 0	**860,563**	**278.65**	1,004,701	278 65
300 1 – 350 0	**61,819**	**312.58**	61,819	312 58
350 1 – 400 0	**1,391,591**	**380.29**	1,654,758	380 30
400 1 – 450 0	**1,360,536**	**414.41**	2,694,969	410 57
	24,536,734	**132.55**	22,724,633	161 23

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

Under the schemes, there were no awards during 2007 or 2008 The value of the awards is charged in the Profit & Loss Account over the vesting period The weighted average share price on the dates the option was exercised in 2008 was **146.30p** *(2007 152 06p)*

12. Share based payment (continued)

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

	2008		2007	
	Shares	**Price***	Shares	Price*
Options outstanding at 1 January	**47,582,557**	**82.98**	49,454,439	76 38
Granted	**9,594,876**	**117.0**	11,210,520	105 00
Exercised	**(11,735,850)**	**72.83**	(8,978,331)	63 84
Forfeited	**(1,314,918)**	**82.53**	(3,358,656)	70 60
Expired	**(779,854)**	**79.61**	(745,415)	222 15
Cancelled	**(1,267,454)**	**94.27**	-	-
Options outstanding at 31 December	**42,079,357**	**93.30**	47,582,557	82 98

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

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

Options outstanding

	2008			2007		
Range of Exercise Prices	**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	**16,134,632**	**2.04**	**66.66**	29,416,949	1 40	68 95
100 1 — 150 0	**25,944,725**	**3.87**	**109.88**	18,165,608	3 34	105 69
150 1 — 200 0	-	-	-	-	-	-
200 1 — 250 0	-	-	-	-	-	-
250 1 — 300 0	-	-	-	-	-	-
300 1 — 350 0	-	-	-	-	-	-
350 1 — 400 0	-	-	-	-	-	-
	42,079,357	**3.17**	**93.30**	47,582,557	2 14	82 98

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

Options exercisable

	2008		2007	
Range of exercise prices	**Number of shares**	**Weighted average exercise price***	Number of shares	Weighted average exercise price*
50 1 – 100 0	522,886	75 00	7,803,929	72 66
200 1 – 250 0	-	-	-	-
250 1 – 300 0	-	-	-	-
300 1 – 350 0	-	-	-	-
350 1 – 400 0	-	-	-	-
	522,886	75 00	7,803,929	72 66

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

12. Share based payment (continued)

Under the International Sharesave Plan, the weighted average estimated fair value per option granted by the Company during 2008 was **42.31p** *(2007 45 84p)* The fair value of share options granted under the International Sharesave Plan during 2008 was **£6m** *(2007 £5m)* The value of the awards is charged in the Profit & Loss Account over the vesting period The weighted average share price on options exercised in 2008 was **147.21p** *(2007 150 57p)*

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 **5.7%** *(2007. 4 0%)*, expected volatilities of **30%** *(2007 30%)*, ordinary share price of **158.10p** *(2007 142 90p)*, risk free interest rates of **4.3%** *(2007 5%)*, 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 2008 was **138.10p** *(2007 148 20p)* The expected volatility is determined by reference to the actual volatility of the share price over the appropriate term ending on the grant date

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

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

	2008	2007
	Shares	Shares
Outstanding Deferred Share awards at 1 January	**2,141,553**	2,583,160
Granted	-	-
Exercised	**(1,212,110)**	(327,775)
Forfeited	**(138,929)**	(113,832)
Outstanding Deferred Share awards at 31 December	**790,514**	2,141,553
Potential Matching Share awards	**2,102,575**	5,294,132
Total potential share awards outstanding at 31 December	**2,893,089**	7,435,685

12. Share based payment (continued)

Under the Share Matching Plan there were no awards granted during 2007 or 2008

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

					2008
	Restricted	**Voluntary Deferred**	**Compulsory Deferred**	**Performance**	**Total**
Outstanding awards at 1 January	**4,148,797**	**1,213,708**	**2,569,856**	**8,110,544**	**16,042,905**
Granted	**2,217,309**	**800,955**	**1,574,860**	**4,289,678**	**8,882,802**
Exercised	**-**	**(47,146)**	**-**	**-**	**(47,146)**
Forfeited	**(134,026)**	**-**	**-**	**(12,680)**	**(146,706)**
Outstanding 31 December	**6,232,080**	**1,967,517**	**4,144,716**	**12,387,542**	**24,731,855**
Potential Matching Share awards	**-**	**8,345,852**	**10,361,752**	**-**	**18,707,604**
Total potential awards outstanding 31 December	**6,232,080**	**10,313,369**	**14,506,468**	**12,387,542**	**43,439,459**

					2007
	Restricted	Voluntary Deferred	Compulsory Deferred	Performance	Total
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	(37,938)	(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

12. Share based payment (continued)

Under the 2006 Long Term Incentive Plan, the weighted average estimated fair value of each Restricted Share award granted by the Group in 2008 was **116.43p** *(2007 143 9p)* The fair value of each Voluntary Deferred Share award was **£nil** *(2007 £nil)* and the fair value of each potential associated Matching Share was **136.00p** *(2007 164 0p)* The fair value of each Compulsory Deferred Share award was **136.00p** *(2007 164 00p)* and the fair value of each potential associated Matching Share was **91.00p** *(2007 113 50p)* The fair value of each Performance Share award granted was **91.65p** *(2007 112 2p)* The total fair value of the awards granted under the plan in 2008 was **£24m** *(2007 £23m)*

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 **5.7%** *(2007 4 0%)* 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

13. Investment income, expenses and charges

	Investment income		**Net realised gains/(losses)**		**Net unrealised gains/(losses)**		**Total investment return**	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Investment income								
Investment property	**15**	13	**(3)**	9	**(105)**	(52)	**(93)**	(30)
Equity securities	**36**	37	**(4)**	87	**(336)**	(60)	**(304)**	64
Debt securities	**166**	135	**(7)**	(19)	**29**	43	**188**	159
Other investments								
Loans secured by mortgages	**-**	-	**-**	-	**-**	-	**-**	-
Other loans	**150**	126	**-**	-	**-**	-	**150**	126
Other	**29**	26	**-**	-	**-**	-	**29**	26
Deposits, Cash at bank and in hand	**21**	34	**-**	-	**-**	-	**21**	34
Derivatives	**1**	2	**82**	7	**65**	(4)	**148**	5
	418	373	**68**	84	**(347)**	(73)	**139**	384
Dividends from subsidiary undertakings	**798**	416	**-**	-	**-**	-	**798**	416
	1,216	789	**68**	84	**(347)**	(73)	**937**	800
Impairment of subsidiary undertakings		-	**-**	-	**(100)**	(397)	**(100)**	(397)
Investment expenses and charges								
Interest on bank loans and overdrafts							**(2)**	(2)
Interest on other loans							**(69)**	(88)
Investment management expenses							**(11)**	(4)
Unwind of discount							**(29)**	(22)
Write back on loan to US subsidiary (see note below)							**-**	154
							(111)	38
Net investment return							**726**	441

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

14. Taxation

The charge for taxation in the profit and loss account comprises

	2008 £m	2007 £m
Current tax		
UK Corporation tax	(23)	13
Double taxation relief	(10)	(8)
Overseas taxation	4	8
Adjustments in respect of prior periods	(13)	(24)
Total current tax	(42)	(11)
Deferred tax		
Timing differences – origination and reversal	(44)	12
Adjustment for change in tax rates	1	(1)
Total deferred tax	(43)	11
Tax (credit)/charge	(85)	(-)

UK corporation tax for the current year is based on a rate of 28.5% *(2007 30%)* From 1 April 2008 the UK Government enacted a change in UK corporation tax rate from 30% to 28% The standard rate of corporation tax has therefore been calculated using a rate of 30% for 91 days and 28% for 275 days

Factors affecting the current tax charge

The current tax credit for the year is less than 28 5% *(2007. less than 30%)* due to the items set out in the reconciliation below:

	2008 £m	2007 £m
Profit on ordinary activities before tax	644	430
Tax at 28 5% *(2007. 30%)*	184	129
Factors affecting charge		
Disallowed expenditure	6	9
Tax exempt income and investment gains / losses	(222)	(170)
Fiscal adjustments	(62)	(44)
Unrelieved foreign tax credits	-	(1)
Adjustment to prior year provisions	(13)	(24)
Other timing differences	37	(30)
Tax on impairment of subsidiary undertakings	28	120
Current tax credit for the year	(42)	(11)

Other debtors includes £99m *(2007 £Nil)* in respect of corporation tax receivable

15. Dividends

	2008 £m	2007 £m
Paid 9 97p *(2007 4 43p)* interim dividend per ordinary share	450	200

16. Intangible assets

	Goodwill on acquisition 2008 £m	Renewal rights 2008 £m	Total 2008 £m
Cost			
At 1 January	14	-	14
Additions	7	15	22
At 31 December	21	15	36
Amortisation			
At 1 January	5	-	5
Charge for the year	1	4	5
At 31 December	6	4	10
Net book value			
At 31 December 2008	15	11	26
At 31 December 2007	9	-	9

17. Investments

	2008 £m	2007 £m
Land and buildings		
Freehold	238	349
Long leasehold	37	41
Short leasehold	3	4
Total land and buildings	278	394
Of which Group occupied	14	19

Movement in the carrying value of land and buildings is detailed below

	2008 £m	2007 £m
Investment property at 1 January	394	448
Additions from subsequent expenditure	1	7
Sales and purchases	(12)	(17)
Fair value losses	(105)	(44)
Total land and buildings at 31 December	278	394

The historic cost of property at 31 December is **£327m** *(2007·£354m)*

17. Investments (continued)

	2008 £m	2007 £m
Other financial investments		
Shares and other variable yield securities and units in unit trusts	664	1,028
Debt securities and other fixed income securities		
British government securities	1,361	1,357
Other government securities	644	604
Corporate bonds	1,542	1,312
Preference shares	-	1
At fair value through profit or loss (designated as such upon initial recognition)	4,211	4,302
Loans and deposits with credit institutions		
Other loans	34	56
Deposits with credit institutions	144	356
Loans and receivables	178	412
Total other financial investments	4,389	4,714

	2008 £m	2007 £m
Listed investments		
Included in total investments are the following		
Shares and other variable yield securities and units in unit trusts	633	1,013
Debt securities and other fixed income securities	2,969	2,575
	3,602	3,588

Included within shares and other variable yield securities and units in unit trusts above are ordinary shares in RSA 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 **£17m** *(2007: £29m)*

The historical cost of total investments is **£4,323m** *(2007 £4,672m)*

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 Messrs Jones Lang LaSalle, external qualified valuation surveyors

18. Investment in subsidiary undertakings

The Company's principal subsidiaries at 31 December 2008 are set out in note 36 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

	2008 £m	2007 £m
Net asset value:		
At 1 January	6,360	6,154
Acquisitions	248	1,147
Disposals	(853)	(544)
Impairment	(100)	(397)
At 31 December	5,655	6,360

The historical cost of investments in subsidiaries is **£7,300m** *(2007 £7,905m)*

Acquisitions of £248m in 2008 include the purchase of Royal & Sun Alliance SA from another company in the Royal & Sun Alliance Group for a consideration of £161m, being the net asset value of Royal & Sun Alliance SA at the date of acquisition, the domestication of the Company's branch operation in China at its net asset value of £39m and the acquisition of the Martello Group of companies at a cost of £39m from another company in the Royal & Sun Alliance Group

Disposals of £853m principally comprises the liquidation of Royal & Sun Alliance Life Holdings Ltd which had a cost of £627m as part of a restructuring exercise, and the dissolution of Royal & Sun Alliance SA following its transfer to the Company as discussed above

19. 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, and a 50% shareholding in Intouch Insurance Group BV which is incorporated in the Netherlands and operates in Eastern Europe Intouch Insurance Group BV changed its name from Global Direct Investments BV on 14 March 2008

	2008 £m	2007 £m
Net asset value:		
At 1 January	96	6
Foreign exchange gains	24	3
Acquisitions	2	87
Revaluations	(17)	-
At 31 December	105	96

The historical cost of interests in associated undertakings is £100m *(2007· £98m)*.

On 5 February 2009, the Group announced it had reached an agreement to acquire the remaining share capital of Intouch Insurance Group BV for a consideration of Euro 70m The transaction requires regulatory approval prior to the Company obtaining control of the business It is expected that approval will be granted by the third quarter of 2009

20. Tangible assets

	Equipment 2008 £m	Software development 2008 £m	Total 2008 £m
Cost			
At 1 January 2008	165	14	179
Additions	45	223	268
Disposals	(4)	-	(4)
At 31 December 2008	206	237	443
Depreciation			
At 1 January 2008	(142)	(9)	(151)
Charge for the year	(11)	(10)	(21)
Disposals	1	-	1
At 31 December 2008	(152)	(19)	(171)
Net book value			
At 31 December 2008	54	218	272
At 31 December 2007	23	5	28

21. Share capital

	2008 £m	2007 £m
Authorised:		
4,750,000,000 *(2007 4,750,000,000)* ordinary class A shares of 25p each	1,188	1,188
10 *(2007 10)* ordinary class B shares of US$1 each	-	-
Allotted, issued and fully paid up:		
4,511,091,326 *(2007 4,511,091,326)* ordinary class A shares of 25p each	1,128	1,128
1 *(2007. 1)* ordinary class B share of US$1	-	-

22. Reconciliation of movement in shareholders' funds

	Notes	Share Capital £m	Share Premium £m	Profit and loss account £m	2008 £m	2007 £m
Shareholders' funds at 1 January		1,128	2,646	622	**4,396**	4,180
Shareholders' recognised gains/(losses)		-	-	989	**989**	437
Interest on subordinated debt net of tax	23	-	-	(21)	**(21)**	(21)
Dividends	15	-	-	(450)	**(450)**	(200)
Shareholders' funds at 31 December		1,128	2,646	1,140	**4,914**	4,396

23. Subordinated loan notes

	2008 £m	2007 £m
Subordinated loan equity instruments	**372**	372

On 1 December 2004, the Company obtained a subordinated loan from RSA 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 RSA 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

24. Claims outstanding

Claims outstanding include claims on certain classes of business which have been discounted The total value of outstanding claims provisions less related reinsurance recoveries before discounting amounted to £4,823m *(2007 £4,612m)*

Claims are discounted as follows

		Discount rate		Average period to settlement in years	
		2008 %	2007 %	**2008**	2007
UK	Asbestos & Environmental	**5.00**	5 00	**15**	15

The investment return corresponding to the unwind of the discount on the assets supporting the liabilities was £29m *(2007 £22m)*

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

In 2003 the Company wrote an Adverse Development Cover (ADC) contract with its former US subsidiary 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 due under the ADC The value of the funds held in trust at 31 December 2008 is £0 6bn and the value of the liability of the deposit component is £0 6bn

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.

24. Claims outstanding (continued)

Prior year claims development

The movement in net incurred claims arising from the difference between the net claims provision at the beginning of the year, and subsequent payments and the claims provision at the end of the year, was a surplus of **£235m** (2007 £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

25. Equalisation provisions

	2008	2007
	£m	£m
Provision as at 1 January	**303**	338
Released to the Technical Account for General Business and in the profit on ordinary activities before tax	**(18)**	(35)
Provision as at 31 December	**285**	303

As explained in note 1a)ii, the effect of this provision is to decrease shareholders' funds by **£285m** (*2007· £303m*) The decrease in the provision during the year had the effect of increasing (*2007 increasing*) the balance on the technical account for general business and the profit on ordinary activities before taxation by **£18m** (*2007 £35m*)

26. Provisions for other risks

	Deferred Tax £m	Reorganisation provision £m	Other provisions £m	**2008 £m**	2007 £m
At 1 January	10	38	139	**187**	193
Charged/transferred to Profit and Loss Account	(10)	7	25	**22**	41
Utilised	-	(29)	(58)	**(87)**	(48)
Released	-	(2)	(14)	**(16)**	1
At 31 December	-	14	92	**106**	187

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 **£60m** *(2007 £64m)* 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 **£Nil** *(2007: £10m)*, the payment of which is dependent upon legal processes and Motor Insurance Bureau provision of **£23m** *(2007 £33m)*

27. Deferred tax

	2008	2007
	£m	£m
Unrealised investment gains	**(7)**	(71)
Technical reserves	**-**	39
Accelerated capital allowances	**37**	30
Other timing differences	**21**	(8)
	51	(10)

At the balance sheet date, the Company had unused tax losses of **£1,321m** *(2007 £366m)* available for offset against future profits A deferred tax asset of **£21m** *(2007 £nil)* has been recognised in respect of trading losses included within other temporary differences at 31 December 2008. No deferred tax asset has been recognised in respect of **£1,247m** *(2007. £366m)* of unused capital tax losses due to unpredictability of future capital gain profit streams

28. Borrowings

	2008 £m	2007 £m
Amounts owed to credit institutions	328	340

Borrowings comprise secured loans from credit institutions and bank overdrafts which are repayable on demand At 31 December 2008 and 2007 the Company had in place a one billion US Dollar Euro commercial paper programme There were no amounts outstanding at 31 December 2008 *(2007 £nil)*

29. Other creditors

Other creditors including taxation and social security includes **£Nil** *(2007 £14m)* in respect of corporation tax payable

30. Operating lease rentals

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

	Land & Buildings		Other	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Operating leases which expire				
Within one year	2	2	-	136
Within two and five years	15	15	-	-
After five years	27	28	-	-
	44	45	-	136

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

31. Capital commitments

The estimated amount of capital commitments contracted but not provided for in these financial statements is **£19m** *(2007 £24m)*

32. Contingent liabilities

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

- the issue of €500m subordinated guaranteed Euro bonds due 15 October 2019. There is an option to repay the Euro bonds on specific dates from 15 October 2009,
- 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 2017, and
- a £455m committed credit facility, of which £nil has been drawn

33. Cash flow statement

The Company is a wholly-owned subsidiary of RSA Insurance Group plc and the cash flows of the Company are included in the consolidated cash flow statement of RSA Insurance Group plc The Company has thus taken advantage of the exemption permitted by FRS 1 (revised 1996) 'Cash flow Statements' and has elected not to prepare its own cash flow statement

34. Related party transactions

Advantage has been taken of the exemption provided in FRS 8 'Related Party Disclosures' from disclosing details of transactions with RSA Insurance Group plc and its subsidiaries and associated undertakings

35. Parent companies

The Company's immediate parent company is Royal Insurance Holdings plc, which is registered in England and Wales

The Company's ultimate parent company and controlling party is RSA Insurance Group plc, which is registered in England and Wales and is the parent company of the smallest and largest group to consolidate these financial statements A copy of that company's accounts can be obtained from 9th Floor, One Plantation place, 30 Fenchurch Street, London, EC3M 3BD

36. Principal subsidiary companies

		Principal activity
United Kingdom	British Aviation Insurance Company Limited (57 1%)	General insurance
	The Globe Insurance Company Limited	General insurance
	The Marine Insurance Company Limited (85 0%)	General insurance
	Martello Professional Risks Limited*	General insurance
	Royal International Insurance Holdings Limited*	General insurance
	Royal & Sun Alliance Reinsurance Limited*	General insurance
	Sun Alliance and London Insurance plc*	General insurance
	Sun Insurance Office Limited	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	Holding company
	Quebec Assurance Company	General insurance
	The Johnson Corporation	Holding Company
	Royal & Sun Alliance Insurance Company of Canada	General insurance
	Western Assurance Company	General insurance
	Canadian Northern Shield Insurance Company	General insurance
Chile	Royal & Sun Alliance Seguros (Chile) SA (99 4%)	General insurance
China	Sun Alliance Insurance (China) Limited	General insurance
Colombia	Royal & Sun Alliance Seguros (Colombia) SA (86 7%)	General insurance
Denmark	Codan A/S	Holding company
	Codan Forsikring A/S	General insurance
Guernsey	Insurance Corporation of Channel Islands Limited	General insurance
Isle of Man	Tower Insurance Company Limited	General insurance
Mexico	Royal & SunAlliance Seguros (Mexico) SA de C V	General insurance
Netherlands Antilles	Royal & Sun Alliance Insurance (Antilles) NV (51.0%)	General insurance
Norway	Duborgh Skadeforsikring AS	Insurance brokerage
	White Label Holding AS Group	Holding Company
Republic of Ireland	RSA Insurance Ireland Limited	General insurance
Sweden	Trygg-Hansa Försäkrings AB, Publikt	General insurance
Uruguay	Royal & Sun Alliance Seguros (Uruguay) SA	General insurance

36. Principal subsidiary companies (continued)

Notes

1 UK companies are incorporated in Great Britain and are registered in England & Wales,
*100% direct subsidiary 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

37. Subsequent event

On 1 January 2009 the Company transferred the business of its branch in the Republic of Ireland into a wholly owned subsidiary, RSA Insurance Ireland Limited