

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all your Ordinary Shares in the Company, please forward this document, together with the accompanying documents, at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



Royal & Sun Alliance Insurance Group plc

Proposed Disposal of UK Life Operations

Circular to Shareholders

and

Notice of Extraordinary General Meeting

Notice of an extraordinary general meeting of the Company, to be held at the offices of Allen & Overy LLP, One New Change, London, EC4M 9QQ, at 9.00 a.m. on Thursday 9 September 2004, is set out at the end of this document. Ordinary Shareholders are asked to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and, in any event, so as to be received by the Company's Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA, by not later than 9.00 a.m. on Tuesday 7 September 2004.

Goldman Sachs and Lehman Brothers are acting for the Company and no-one else in connection with the Disposal and will not be responsible to any other person for providing the protections afforded to clients of Goldman Sachs or Lehman Brothers or for providing advice in relation to the Disposal.

Important Disclaimer

This document contains certain statements which may be forward-looking statements as defined in the US Private Securities Litigation Reform Act of 1995. It contains or may contain forward-looking statements and information relating to the Company's financial condition, results of operations, business, strategy and plans, and general industry outlook (including trends in results, prices, volumes, operations, margins, overall market conditions, risk management and exchange rates) based on currently available information. These statements are often, but not always, made through the use of words or phrases such as 'aim', 'anticipate', 'believe', 'continue', 'could', 'estimate', 'expect', 'intend', 'may', 'plan', 'seek', 'should' or 'will' or the negative of these terms or similar expressions. The specific forward-looking statements (if any) may cover, among other matters, the Company's strategy and operational objectives, restructuring plans, expense savings, rate increases, losses related to the US financial enhancement products, capital requirements in the UK, outcome of litigation, delays in claims notifications for asbestos and environmental claims, adverse claims development on long tail business and court judgments, sale and accounting treatment of regulated life products and the general regulatory environment in the UK and US. Such statements are inherently subject to certain risks and uncertainties. Actual future results and trends could differ materially from those set forth in such statements due to various factors. Such factors include general economic conditions, including in particular economic conditions in the United Kingdom; political and social conditions; the frequency, severity and development of insured loss events, including catastrophes and man made disasters; the availability and pricing of, and ability to collect on, reinsurance; the ability to exclude and to reinsure the risk of loss from terrorism; mortality and morbidity experience and trends; policy renewal and lapse rates; fluctuations in interest and inflation rates; returns on and fluctuations in the value of the Company's investment portfolios; corporate bankruptcies; fluctuations in foreign currency exchange rates; the ability of the Company's subsidiaries to pay dividends; a downgrade in the Company's financial strength or claims paying or other credit ratings; adverse changes in laws and regulations; adverse outcomes in judicial decisions and rulings and general competitive factors, and other risks and uncertainties, including those detailed in the Company's filings with the US Securities and Exchange Commission and the UK Listing Authority. The Company undertakes no obligation to update or revise any of the forward-looking statements publicly, whether as a result of new information, future events or otherwise, save in respect of any requirement under applicable law or regulation or the UK Listing Rules.

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DEFINITIONS

“the Act”	the Companies Act 1985, as amended;
“the Board” or “the Directors”	the directors of Royal & Sun Alliance Insurance Group plc;
“Bonus Plan”	has the meaning given to it in paragraph 3.3 of Part V of this Circular;
“Bradford”	Bradford Insurance Company Limited (company number 165018) with its registered office at New Hall Place, Old Hall Street, Liverpool, L3 9UE;
“Cash Preference Shares”	has the meaning given to it in paragraph 5 of Part I of this Circular;
“Circular”	this Circular dated 18 August 2004;
“the Company”	Royal & Sun Alliance Insurance Group plc (company number 2339826) with its registered office at 30 Berkeley Square, London, W1J 6EW;
“Completion”	completion of the Disposal in accordance with the terms of the Sale Agreement as set out in paragraph 3 of Part IV of this Circular;
“Conditions”	has the meaning given to it in paragraph 2 of Part IV of this Circular;
“the Contingent Loans”	has the meaning given to it in paragraph 3 of Part I of this Circular;
“Deferred Awards”	has the meaning given to it in paragraph 3.3 of Part V of this Circular;
“Disposal”	the proposed disposal of the UK Life Operations as more particularly described in this circular;
“ECR”	has the meaning given to it in paragraph 8.1 of Part V of this Circular;
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company convened for 9.00 a.m. on Thursday 9 September 2004, notice of which is set out at the end of this Circular (or any adjournment thereof);
“Form of Proxy”	the form of proxy relating to the Extraordinary General Meeting;
“FSA”	the Financial Services Authority;
“FSA Approval”	has the meaning given to it in paragraph 2 of Part IV of this Circular;
“General Business”	any contracts of insurance falling within Part I of Schedule 1 to the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 entered into by, or on behalf of, the companies comprising the UK Life Operations prior to Completion, any contracts entered into by, or on behalf of, the companies comprising the UK Life Operations prior to Completion under which Phoenix agreed to reinsure any contract falling within Part I of that Schedule 1 and any obligations of the UK Life Operations under a deed of mutual guarantee dated 1 January 1997 and made between, <i>inter alia</i> , RSAI and Phoenix;
“GFSC”	Guernsey Financial Services Commission;
“Goldman Sachs”	Goldman Sachs International of Peterborough Court, 133 Fleet Street, London, EC4A 2BB;
“the Group” or “Royal & SunAlliance”	the Company and its subsidiary undertakings and, where the context permits, each of them;

“ISIS”	ISIS Asset Management plc;
“Lehman Brothers”	Lehman Brothers Europe Limited as joint financial adviser to the Company and Lehman Brothers International (Europe) as joint sponsor to the Company of 25 Bank Street, London, E14 5LE;
“Matching Awards”	has the meaning given to it in paragraph 3.3 of Part V of this Circular;
“Misselling Liabilities”	has the meaning given to it in paragraph 5 of Part I of this Circular;
“Option Scheme”	has the meaning given to it in paragraph 3.3 of Part V of this Circular;
“Ordinary Shareholders”	the holders of Ordinary Shares in the Company;
“Ordinary Shares”	the ordinary shares of 27.5p each in the capital of the Company;
“Phoenix”	Phoenix Assurance plc (company number 71805) with its registered office at New Hall Place, Old Hall Street, Liverpool, L3 9UE;
“PIK” and “PIK Preference Shares”	have the meanings given to them in paragraph 5 of Part I of this Circular;
“PricewaterhouseCoopers LLP”	PricewaterhouseCoopers LLP of Southwark Towers, 32 London Bridge Street, London SE1 9SY;
“Registrars”	Lloyds TSB Registrars of The Causeway, Worthing, West Sussex BN99 6DA;
“the Remaining Group”	the Group following completion of the Disposal;
“Resolution Life”	Resolution Life Limited (company number 4560778) with its registered office at 2nd Floor, Berkeley Square House, Berkeley Square, London, W1J 6BD;
“the Rights Issue”	the Company’s one for one rights issue as detailed in the prospectus issued by the Company dated 4 September 2003;
“RIH”	Royal Insurance Holdings plc (company number 02221960) with its registered office at St. Marks Court, Chart Way, Horsham, West Sussex, RH12 1XL;
“RLG”	Resolution Life Group Limited (company number 4560770) with its registered office at 2nd Floor, Berkeley Square House, Berkeley Square, London W1J 6BD, the parent company of Resolution Life;
“Royal & SunAlliance Share Schemes”	the Royal Insurance Holdings 1988 Savings-Related Share Option Scheme; the Royal & Sun Alliance International Sharesave Plan; the Royal & Sun Alliance 1989 Savings Related Share Option Scheme; the Royal Insurance Holdings 1988 Share Option Scheme; the Royal Insurance Holdings 1989 Overseas Share Option Scheme; the Royal & Sun Alliance 1989 Executive Share Option Scheme; the Royal & Sun Alliance 1996 Executive Share Option Scheme; the Royal & Sun Alliance Insurance Group plc 1999 Executive Share Option Scheme; the Royal & Sun Alliance Insurance Group plc Equity Incentive Scheme for US Employees; the Royal & Sun Alliance Irish Sharesave Plan; the Royal & Sun Alliance Insurance Group plc Employees’ Stock Purchase Plan for US Employees; and the Royal & Sun Alliance Insurance Group plc Share Matching Plan;
“Royal Indemnity”	Royal Indemnity Company, a US subsidiary of the Company;

“RSAI”	Royal & Sun Alliance Insurance plc (company number 93792) with its registered office at St. Marks Court, Chart Way, Horsham, West Sussex RH12 1XL;
“RSALI”	Royal & Sun Alliance Linked Insurances Limited (company number 1016269) with its registered office at New Hall Place, Old Hall Street, Liverpool, L3 9UE;
“RSALP”	Royal & Sun Alliance Life & Pensions Limited (company number 1565099) with its registered office at New Hall Place, Old Hall Street, Liverpool, L3 9UE;
“SALAC”	Sun Alliance and London Assurance Company Limited (company number 894616) with its registered office at New Hall Place, Old Hall Street, Liverpool, L3 9UE;
“the Sale Agreement”	the agreement between the Company, Resolution Life and RLG for the sale and purchase of the UK Life Operations dated 30 July 2004;
“the Share Matching Plan”	has the meaning given to it in paragraph 3.3 of Part V to this Circular;
“UK”	the United Kingdom of Great Britain and Northern Ireland;
“UK GAAP”	United Kingdom Generally Accepted Accounting Principles;
“UK Life Operations”	the UK life and pensions operations of Royal & SunAlliance which are made up of Bradford; SALAC; RSALP; Phoenix; Royal & Sun Alliance Life Insurance Services Limited; and Royal & Sun Alliance Pensions Trustee Services Limited and their subsidiaries;
“Unisys”	Unisys Limited.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Event	Time and/or date
Latest time for receipt of forms of proxy for the Extraordinary General Meeting	9.00 a.m. on Tuesday 7 September 2004
Last time for receipt of messages regarding proxies via CREST	9.00 a.m. on Tuesday 7 September 2004
Extraordinary General Meeting (to approve the Disposal)	9.00 a.m. on Thursday 9 September 2004
Estimated completion of the Disposal	By the end of October 2004

PART I
Letter from the Chairman



Royal & Sun Alliance Insurance Group plc
(Registered in England and Wales under number 2339826)

Directors:
John Napier
George Culmer
Noel Harwerth
Andy Haste
Malcolm Le May
Edward Lea
John Maxwell

Registered Office:
30 Berkeley Square
London
W1J 6EW

18 August 2004

To holders of Ordinary Shares and, for information purposes only, to participants in the Royal & SunAlliance Share Schemes.

Dear Shareholder,

PROPOSED DISPOSAL OF THE UK LIFE OPERATIONS AND NOTICE OF EGM

1. INTRODUCTION

On 30 July 2004, Royal & Sun Alliance Insurance Group plc announced that it intended to dispose of its UK Life Operations to Resolution Life Limited for a consideration of £850 million comprising £750 million cash together with £100 million of preference shares. In addition, the Contingent Loans being provided by Royal & SunAlliance to the UK Life Operations (currently £235 million drawn down of which an estimated £168 million is utilised) will be repaid at Completion. The Disposal is conditional, *inter alia*, upon FSA Approval and the approval of Ordinary Shareholders which is to be sought at an Extraordinary General Meeting of the Company. The notice of the Extraordinary General Meeting is printed at the end of this Circular.

I am now writing to you on behalf of your Board to explain the background to, and reasons for, the Disposal and to recommend the Disposal to you and to explain the actions you should take. The purpose of this Circular is to provide you with further information on, and seek your approval for, the Disposal.

2. BACKGROUND TO AND REASONS FOR THE DISPOSAL

We have for a number of years communicated a desire to focus on our general insurance business and, following the appointment of Andy Haste as Group Chief Executive Officer in April 2003, this view was confirmed after a rigorous review of the Group's businesses instigated by the Board.

As we announced at the time of our Rights Issue in September 2003, we concluded that we will focus at a strategic and operational level on general insurance in a smaller number of markets where we have a strong market position and, we believe, a sustainable competitive advantage. We also stated we would seek opportunities to release capital from our life operations.

Since that date we have proceeded to execute our strategy, beginning with the announcement of the disposal of our Chilean life operations in December 2003 and our Polish life operations in

April 2004. On 24 June 2004 we announced the sale of Codan Life, our Scandinavian life insurance business, which constituted the majority of our remaining overseas life operations. The Disposal completes the Group's strategic exit from life business.

The Disposal is significant in four key respects:

- From a strategic perspective, the Disposal represents the continuation of the strategy of prioritising general insurance as the core business of Royal & SunAlliance in our efforts to further our aim of being a well-run high performing general insurance business.
- From a capital perspective, the Disposal allows us to accelerate the release of capital from the UK Life Operations thereby unlocking value now that would otherwise have only materialised over a longer time period. The capital released will be immediately available to support the general insurance operations of the Remaining Group and it will help us prepare for future regulatory developments by improving our capital position and flexibility.
- From a risk perspective, the Disposal removes the continuing obligations of Royal & SunAlliance to support the solvency of the life funds and significantly reduces the Remaining Group's exposure to further adverse developments affecting the UK life insurance industry generally.
- The consideration paid by Resolution Life will be £750 million in cash and £100 million of preference shares as explained in more detail in paragraph 5 below. In addition the Contingent Loans will also be repaid at Completion.

The Disposal is expected to release regulatory capital eligible to support the general business of the Remaining Group of approximately £650 million (approximately £500 million on Royal & SunAlliance's internal risk based capital model). An explanation of how regulatory capital and risk based capital are calculated is set out in paragraph 8 of Part V of this Circular.

3. INFORMATION ON THE UK LIFE OPERATIONS

The UK Life Operations are the closed UK life and pensions operations of Royal & SunAlliance and include within them four principal operating companies:

- ***Sun Alliance and London Assurance Company Limited*** is a with-profits company, comprising a fund where shareholders are entitled to receive up to 10 per cent. of the distributed surplus. The fund was closed to new business in December 2001;
- ***Royal & Sun Alliance Life & Pensions Limited*** is a with-profits company, comprising a fund where shareholders are entitled to receive up to 10 per cent. of the distributed surplus. The fund was closed to new business in December 2001;
- ***Phoenix Assurance plc*** comprises one fund where all of the surplus is attributable to shareholders and also a small with-profits fund where all the surplus arising is distributed to with-profits policyholders. Both funds were closed to new business in August 2002. Phoenix also writes some general insurance business. It is intended that this business be transferred back to the Remaining Group as soon as reasonably practicable after Completion, pending which the general insurance business will be reinsured from Phoenix to RSAI, as described in paragraphs 9 and 10 of Part IV of this Circular; and
- ***Royal & Sun Alliance Linked Insurances Limited***, is a unit linked company comprising a fund where all of the surplus arising is attributable to shareholders. The fund was closed to new business in August 2002.

The investment management of the UK Life Operations is outsourced to ISIS Investment Management Limited on a 10-year contract which commenced in 2002. This followed the sale of the Group's former UK asset management operation (Royal & SunAlliance Investments) to ISIS (formerly Friends Ivory & Sime), which was announced in April 2002.

In February 2003 we announced the agreement of an outsourcing contract with Unisys for the administration and processing of our then 2.4 million life policies, which resulted in the transfer of approximately 1,800 employees to Unisys in May 2003.

The UK Life Operations currently employ around 120 people (as at 30 July 2004) who will transfer with the business. The operations are based in Liverpool.

As announced on 12 August 2004, the unaudited interim long term business result relating to the UK Life Operations for the six months ended 30 June 2004 was £43 million. The audited long term business result for the financial year ending 31 December 2003 was £108 million, as can be seen in Part II of this Circular.

The net assets of the UK Life Operations as at 30 June 2004 were £981 million. Since 30 June 2004 the UK Life Operations have paid dividends of £133 million from shareholders' funds to the Remaining Group. The pro forma net asset value of the UK Life Operations at 30 June 2004, after adjusting for these dividends, was £848 million.

In addition to the net asset value above, the value of the internally generated long term insurance business at 30 June 2004 was £469 million. The calculation of this value is consistent with past practice and represents the amount considered by the Directors, based on internal actuarial advice, to be the value of the shareholders' interest in the long term business funds not already recognised under the modified statutory principles of profit recognition. The value of long term business includes the shareholders' share of the net of tax future cash flows arising from the in force long term business policies. This has been calculated using a projection technique that is sensitive to the assumed investment returns and discount rate. The Group does not recognise this value in its accounts. The value of the internally generated long term insurance business, together with the net asset value, represents the embedded value of the UK Life Operations.

As of 30 June 2004, the Company had agreed, in certain circumstances, to make contingent loans of up to £1 billion, including up to £650 million in respect of the realistic solvency requirements to the UK Life Operations (the "**Contingent Loans**"). As at 31 December 2003 an estimated £146 million of this facility was utilised by the companies in the UK Life Operations to meet their capital requirements. This estimated figure was subsequently confirmed as £133 million and then the amount of the Contingent Loans utilised was increased by £35 million in May 2004 (as announced with our first quarter results) bringing the total estimated utilisation up to £168 million. The amount of the Contingent Loans drawn down (£235 million as at 30 June 2004) will be repaid at Completion and the Remaining Group will no longer be obliged to support the solvency position of the UK Life Operations. Further information on capital requirements can be found at paragraph 8 of Part V.

The financial information in this section has been extracted without material adjustment from the audited accounts of the Company for the year ended 31 December 2003 and the unaudited interim financial statements of Royal & SunAlliance for the six months ended 30 June 2004. Shareholders should read the whole of this Circular and not just rely upon the selected financial information in this section.

4. **INFORMATION ON RESOLUTION LIFE**

RLG has recently been established to act as an insurance holding company providing a run-off solution for blocks of UK life insurance policies.

The chairman of RLG is Sir Brian Williamson. Sir Brian is a non-executive director of HSBC Holdings plc, director on the Supervisory Board of Euronext NV, chairman of Electra Investment Trust plc and senior adviser to Fleming Family & Partners. He was a director of SIB (later the FSA) between 1986-98 and a Member of the Court of the Bank of Ireland from 1990-99. In 1995 he joined the International Advisory Board of NASDAQ, becoming chairman in 1996 and from 1995-98 he was a Governor-at-Large of the NASD in Washington. He was also previously chairman of Gerrard Group plc and chairman of The London International Financial Futures and Options Exchange.

The chief executive of RLG and Resolution Life is Clive Cowdery, who was previously chairman and chief executive of GE Insurance Holdings Limited.

RLG is a private company with investors including: FF&P Asset Management; The Prudential Assurance Company Limited; The Royal London Mutual Insurance Society Limited; The Standard Life Assurance Company; Foreign & Colonial Investment Trust Plc; Murray International Trust Plc; Nikko Principal Investments Limited; OZ Management, LLC and Perry Capital.

5. TERMS OF THE DISPOSAL

Under the terms of the Sale Agreement, Royal & SunAlliance has conditionally agreed to dispose of the UK Life Operations to Resolution Life for consideration comprising:

- £750 million in cash to be paid at Completion;
- £50 million of cash preference shares in the capital of RLG (“**Cash Preference Shares**”). The Cash Preference Shares are perpetual fixed cash coupon non-cumulative preference shares in RLG with a coupon of 8.75 per cent. per annum. Under the terms of the Cash Preference Shares, no dividend is payable to ordinary shareholders of RLG unless the annual Cash Preference Share dividend is paid; and
- £50 million of payment-in-kind (“**PIK**”) preference shares in the capital of RLG (“**PIK Preference Shares**”). The PIK Preference Shares are fixed PIK coupon non-cumulative preference shares in RLG with a coupon of 8.75 per cent. per annum and are subordinated to the Cash Preference Shares. The coupon will be satisfied by the issue of up to £26 million of further PIK Preference Shares; if the coupon is paid in full, Royal & SunAlliance would hold £76 million of PIK Preference Shares after five years. If the PIK Preference Shares have not been redeemed in connection with the misselling liabilities sharing mechanism outlined below, at the end of the five year period they will convert to Cash Preference Shares.

In addition, on Completion, Resolution Life will be required to procure the repayment by SALAC and RSALP of amounts outstanding under the Contingent Loans (£235 million drawn down as at 30 June 2004).

Royal & SunAlliance has agreed to share the cost of increases in misselling liabilities in the UK Life Operations (the “**Misselling Liabilities**”) if the costs of those liabilities exceed an agreed level. This may result in Royal & SunAlliance making cash payments to RLG, capped at £76 million. The amount of any payments will be calculated as a percentage of the difference between the agreed level and the actual value of the Misselling Liabilities that arise up to 31 December 2009 (or earlier, if agreed by both parties or if so demanded by the FSA). Under normal circumstances RLG will immediately use this cash to buy back the PIK Preference Shares from Royal & SunAlliance at their face value; Royal & SunAlliance would therefore receive a repayment of cash from RLG in return for the sale back of some or all of the PIK Preference Shares. PIK Preference Shares would convert to additional Cash Preference Shares if at the relevant time, RLG is unable for capital or contractual reasons to buy back the PIK Preference Shares.

The Disposal is conditional upon, *inter alia*, the approval of the FSA and the approval of Ordinary Shareholders at the EGM. If approval of the Disposal is not given by Ordinary Shareholders at the EGM and at that time Resolution Life has not committed a material breach of its obligations under the Sale Agreement and the FSA has not stated that FSA Approval will not be given, the Company is required to pay Resolution Life the sum of £7,500,000 as a compensation payment.

Further details of the terms of the Disposal are set out in Part IV of this Circular.

6. FINANCIAL EFFECTS OF THE DISPOSAL

As noted above, the consideration receivable by Royal & SunAlliance for the Disposal comprises: £750 million in cash, £50 million of Cash Preference Shares and £50 million of PIK Preference Shares. This compares with the UK Life Operations' pro forma net asset value as at 30 June 2004 of £981 million, £848 million after adjusting for the repayment of dividends of £133 million as described in paragraph 3 above. The Disposal will also include a repayment of the Contingent Loans (£235 million as at 30 June 2004) as referred to above and a removal of the obligation of the Remaining Group to make loans to support the solvency of the UK Life Operations.

The Company estimates that the Disposal will involve in the region of £40 million costs to the Remaining Group in respect of transaction-related and separation costs. In addition, any profits of the UK Life Operations which accrue through to Completion will remain with the UK Life Operations. The Disposal will have only a marginal impact on earnings. After transaction and sale costs it is expected that there will be a loss on Completion.

A pro forma statement of net assets of the Remaining Group has been prepared for illustrative purposes only to show the effect of the Disposal as if it had occurred at 30 June 2004. This statement, together with a report from PricewaterhouseCoopers LLP, the Group's reporting accountants, is set out in Part III of this Circular.

7. CURRENT TRADING AND PROSPECTS

On 12 August 2004, the Group announced its interim results for the six months ended 30 June 2004. Current trading is in line with management expectations.

Your Board believes that its long standing strategy of focusing on general insurance is correct and that the prospects for the Remaining Group in the current financial year are satisfactory.

8. USE OF PROCEEDS

The Disposal completes the strategic exit of Royal & SunAlliance from life business to focus on general insurance and further strengthens its capital position. The net proceeds of the Disposal will be used to support the capital position of the Remaining Group and the writing of general insurance business and to help the Group prepare for future regulatory capital requirements.

The FSA continues to consult on the proposed regulatory changes that affect the Group and, in common with others in the industry, the Company continues to have active discussions with the FSA on these. It remains clear that regulatory capital requirements are set to increase over the next few years and the way in which these requirements are introduced and applied is of critical importance. The FSA has recently published PS04/16 (previously CP190) and PS04/20 (previously CP204) which deal with the Enhanced Capital Requirements and Insurance Groups Directive, respectively, and the Group has continued to develop its long term capital plans to ensure compliance with these proposed requirements. The Company remains confident that it will be compliant with these regulations on implementation. Under the current regulations it is the opinion of the Company that, even without the proceeds of the Disposal, the Group's regulatory capital position would remain in surplus for the 12 month period from the date of this document.

The Cash Preference Shares and the PIK Preference Shares will be held as investments as part of the general insurance investment portfolio of Royal & SunAlliance.

9. **EXTRAORDINARY GENERAL MEETING**

Shareholder approval for the Disposal will be sought at an Extraordinary General Meeting of the Company to be held at 9.00 a.m. on Thursday 9 September 2004 at the offices of Allen & Overy LLP, One New Change, London, EC4M 9QQ. A formal notice of the meeting and the resolution to be proposed are set out at the end of this Circular.

10. **ACTION TO BE TAKEN**

It is important that you complete and sign the enclosed Form of Proxy in accordance with the instructions printed thereon and return it to the Company's Registrars so as to be received as soon as possible and in any event not later than 9.00 a.m. on Tuesday 7 September 2004.

The completion and return of the Form of Proxy will not preclude you from attending the meeting and voting in person, if you so wish.

Qualifying CREST Ordinary Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this Circular.

11. **RECOMMENDATION**

Your Board has received financial advice from Goldman Sachs and Lehman Brothers in relation to the Disposal. In providing financial advice to the Board, Goldman Sachs and Lehman Brothers have relied upon the Board's commercial assessment of the Disposal.

The Board considers the Disposal to be in the best interests of shareholders as a whole and accordingly recommends Ordinary Shareholders to vote in favour of the resolution to be proposed at the Extraordinary General Meeting, as the Directors intend to do in respect of their own beneficial shareholdings.

Yours faithfully,



John Napier
Chairman

Royal & Sun Alliance Insurance Group plc

PART II
Financial Information on the UK Life Operations

Basis of Preparation

The financial information below has been extracted, without material adjustment, from the consolidation schedules used to prepare the audited consolidated accounts of the Company for the years ended 31 December 2001, 2002 and 2003. The financial information in this Part II does not constitute statutory accounts within the meaning of section 240 of the Act. The financial information has been prepared in accordance with UK GAAP and the Company's accounting policies.

The consolidated accounts of the Company for the year ended 31 December 2001 have been audited by PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, whose address is Southwark Towers, 32 London Bridge Street, London SE1 9SY and filed with the Registrar of Companies. The consolidated accounts of the Company for the two years ended 31 December 2002 and 2003 have been audited by PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, whose address is as stated above. Their reports on these accounts were unqualified and did not include statements under sections 237(2) and (3) of the Act.

Combined Profit and Loss Account
Technical Account – General Business⁽¹⁾
For the three financial years ended 31 December 2003

	2003 £m	2002 £m	2001 £m
Gross written premiums	2	6	13
Outward reinsurance premiums	(2)	(6)	(13)
Premiums written, net of reinsurance	—	—	—
Change in the gross provision for unearned premiums	1	2	1
Change in the provision for unearned premiums, reinsurers' share	(1)	(2)	(1)
Earned premiums, net of reinsurance	—	—	—
Allocated investment return transferred from the non-technical account	—	—	—
Claims paid			
Gross amount	(4)	(7)	(10)
Reinsurers' share	4	6	10
	—	(1)	—
Change in the provision for claims			
Gross amount	1	(11)	6
Reinsurers' share	(1)	12	(6)
	—	1	—
Unwind of discount in respect of claims outstanding	—	—	—
Claims incurred, net of reinsurance	—	—	—
Acquisition costs	—	—	—
Change in deferred acquisition costs	—	—	—
Administrative expenses	—	—	—
Reinsurance commissions and profit participation	—	—	—
Net operating expenses	—	—	—
Amortisation of goodwill in acquired claims provisions	—	—	—
Underwriting result	—	—	—
Unwind of discount in respect of claims outstanding	—	—	—
Balance on the technical account before change in the equalisation provisions	—	—	—
Change in the equalisation provisions	—	—	—
Balance on the Technical Account for General Business	—	—	—

Footnote:

- (1) The Company has agreed to use all reasonable endeavours to procure that the General Business of Phoenix is transferred to a member of the Remaining Group pursuant to a Scheme under Part VII of the Financial Services and Markets Act 2000 as soon as reasonably practicable after Completion.

Combined Profit and Loss Account
Technical Account – Long Term Business
For the three financial years ended 31 December 2003

	2003	2002	2001
	£m	£m	£m
Gross written premiums	999	1,329	1,815
Outward reinsurance premiums	(91)	(375)	(51)
Earned premiums, net of reinsurance	908	954	1,764
Investment income	1,203	1,114	1,667
Unrealised gains on investments	560	—	—
Total technical income	2,671	2,068	3,431
Claims paid			
Gross amount	(2,709)	(3,001)	(2,359)
Reinsurers' share	38	46	22
	(2,671)	(2,955)	(2,337)
Change in the provision for claims			
Gross amount	(2)	17	(10)
Reinsurers' share	—	—	—
	(2)	17	(10)
Claims incurred, net of reinsurance	(2,673)	(2,938)	(2,347)
Change in long term business provision			
Gross amount	2,156	266	1,333
Reinsurers' share	(705)	497	(209)
	1,451	763	1,124
Change in technical provisions for linked liabilities, net of reinsurance	(248)	1,250	570
Change in other technical provisions, net of reinsurance	1,203	2,013	1,694
Acquisition costs	(36)	(115)	(162)
Change in deferred acquisition costs	(34)	(22)	(62)
Administrative expenses	(148)	(118)	(98)
Net operating expenses	(218)	(255)	(322)
Investment expenses and charges	(52)	(52)	(47)
Unrealised losses on investments	—	(1,650)	(3,190)
Tax attributable to the long term business	(151)	23	165
Total technical charges	(1,891)	(2,859)	(4,047)
Technical income less charges	780	(791)	(616)
Allocated investment return transferred to the non-technical account	—	—	—
Transfers from the fund for future appropriations	(394)	866	716
Balance on the Technical Account for Long Term Business	386	75	100

Combined Profit and Loss Account**Non-Technical Account**

For the three financial years ended 31 December 2003

	2003 £m	2002 £m	2001 £m
Balance on the General Business Technical Account	—	—	—
Balance on the Long Term Business Technical Account	386	75	100
Tax credit attributable to balance on the Long Term Business Technical Account	166	41	51
Balance on the Long Term Business Technical Account gross of tax	552	116	151
Investment income	32	(6)	—
Allocated investment return transferred from the Long Term Business Technical Account	—	—	—
Investment expenses and charges	(4)	1	5
Unrealised losses on investments	(26)	(3)	(2)
Allocated investment return transferred to the General Business Technical Account	—	—	—
Other charges	(1)	(1)	—
Amortisation of goodwill	—	—	—
Total operating profit	553	107	154
Analysis of profit on ordinary activities before exceptional items and tax			
General business result	—	—	—
Long term business result	108	116	151
Other activities (including associated undertakings)	13	10	—
Operating result (based on longer term investment return)	121	126	151
Amortisation and impairment of goodwill	—	—	—
Exceptional gain on UK long term insurance business	444	—	—
Operating profit (based on longer term investment return)	565	126	151
Short term investment fluctuations	(12)	(19)	3
Profit on ordinary activities before exceptional items and tax	553	107	154
Profit on disposal of subsidiaries	—	15	(6)
Profit on ordinary activities before tax	553	122	148
Tax on profit on ordinary activities	(157)	(44)	(51)
Profit on ordinary activities after tax	396	78	97
Attributable to equity minority interests	—	—	—
Profit for the financial year attributable to shareholders	396	78	97
Dividends	(1)	(109)	(21)
Transfer to retained profits	395	(31)	76

Combined Balance Sheet

As at 31 December 2003

Assets

	2003 £m
Intangible assets	—
Investments	
Land and buildings	1,992
Interests in associated undertakings	—
Other financial investments	
Shares and other variable yield securities and units in unit trusts	2,697
Debt securities and other fixed income securities	15,245
Loans and deposits with credit institutions	145
	18,087
Value of long term business	—
Deposits with ceding undertakings	9
Total investments	20,088
Assets held to cover linked liabilities	3,806
Reinsurers' share of technical provisions⁽¹⁾	
Provision for unearned premiums	4
Long term business provision	120
Claims outstanding	39
Technical provisions for linked liabilities	6
	169
Debtors	
Debtors arising out of direct insurance operations	5
Debtors arising out of reinsurance operations	2
Other debtors	230
	237
Other assets	
Tangible assets	—
Cash at bank and in hand	66
	66
Prepayments and accrued income	
Accrued interest and rent	237
Deferred acquisition costs – long term	14
Deferred acquisition costs – general	—
Other prepayments and accrued income	—
	251
Total assets	24,617

Footnote:

(1) Included in the "Reinsurers' share of technical provisions" above is £4 million of "Provision for unearned premiums" and £38 million of "Claims outstanding" in respect of General Business within Phoenix.

Combined Balance Sheet
As at 31 December 2003
Liabilities

	2003 £m
Capital and reserves	
Called up share capital	113
Share premium account	52
Other reserves	—
Capital redemption reserve	—
Profit and loss account	782
<hr/>	
Equity shareholders	947
Non-equity shareholders	—
Shareholders' funds	947
Equity minority interests in subsidiary undertakings	—
Subordinated liabilities	
Dated loan capital/intra group subordinated debt	—
<hr/>	
Total capital, reserves and dated loan capital	947
Fund for future appropriations	1,859
Technical provisions⁽¹⁾	
Provision for unearned premiums	4
Long term business provision	17,053
Claims outstanding	149
Equalisation provisions	—
	17,206
Technical provisions for linked liabilities	3,804
Provisions for other risks and charges	123
Deposits received from reinsurers	—
Creditors	
Creditors arising out of direct insurance operations	8
Creditors arising out of reinsurance operations	8
Debenture loans	—
Amounts owed to credit institutions	—
Other creditors including taxation and social security	617
Proposed dividend	—
	633
Accruals and deferred income	45
<hr/>	
Total liabilities	24,617

Footnote:

(1) Included in the "Technical provisions" above is £4 million of "Provision for unearned premiums" and £38 million of "Claims outstanding" in respect of General Business within Phoenix.

PART III
Pro Forma Financial Information

The following is an unaudited pro forma statement of consolidated net assets of the Remaining Group, prepared in accordance with the notes set out below. The unaudited pro forma statement of consolidated net assets has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the Remaining Group following the Disposal. Its purpose is to illustrate the effect on the consolidated net assets of the Company as if the Disposal had been effected on 30 June 2004.

The consolidated net assets of the Company at 30 June 2004 have been extracted, without material adjustment, from the unaudited consolidated interim financial statements of the Company for the period ended 30 June 2004. The consolidated net assets of the UK Life Operations at 30 June 2004 have been extracted, without material adjustment, from the consolidation schedules used to prepare the interim financial information for the UK Life Operations for the period ended 30 June 2004.

The proceeds of the disposal receivable by the Group consist of £750 million in cash and £100 million in preference shares as described in paragraph 5 of Part I of this Circular.

	<i>Adjustments</i>			<i>Pro forma Remaining Group £m</i>
	<i>(1)RSAIG consolidated net assets at 30/06/2004 £m</i>	<i>(2)UK life combined net assets at 30/06/2004 £m</i>	<i>Other adjustments £m</i>	
Intangible assets	190	—	—	190
Investments	14,351	(521)	100 ⁽³⁾	13,930
Reinsurers' share of technical provisions				
Provision for unearned premiums	492	(4)	4 ⁽⁷⁾	492
Claims outstanding	3,664	(67)	67 ⁽⁷⁾	3,664
	4,156	(71)	71 ⁽⁷⁾	4,156
Debtors	4,636	(462)	(235) ⁽⁴⁾	3,939
Other assets	436	(2)	1,105 ⁽⁵⁾	1,539
Prepayments and accrued income	941	(19)	—	922
Long term business policyholders' assets	27,852	(22,563)	—	5,289
Total assets	52,562	(23,638)	1,041	29,965
Technical provisions				
Provision for unearned premiums	3,247	(4)	4 ⁽⁷⁾	3,247
Claims outstanding	13,907	(67)	67 ⁽⁷⁾	13,907
Equalisation provisions	335	—	—	335
	17,489	(71)	71 ⁽⁷⁾	17,489
Borrowings	402	—	—	402
Provisions for other risks and charges	186	—	—	186
Deposits received from insurers	321	—	—	321
Creditors	1,850	(11)	—	1,839
Accruals and deferred income	562	(12)	—	550
Long term business policyholders' liabilities	27,852	(22,563)	—	5,289
Total liabilities	48,662	(22,657)	71	26,076
Dated loan capital debt	749	—	—	749
Net assets	3,151	(981)	970	3,140
Total capital, reserves and dated loan capital	3,900	(981) ⁽⁶⁾	970	3,889

Footnotes:

- (1) The consolidated net assets of the Company have been extracted, without material adjustment, from the unaudited interim results of the Company for the period ended 30 June 2004.
- (2) The consolidated net assets of the UK Life Operations at 30 June 2004 have been extracted, without material adjustment, from consolidation schedules used to prepare the interim financial information for the UK Life Operations for the period ended 30 June 2004.
- (3) The pro forma financial information has been adjusted to take into account:
 - (a) the consideration of £50 million payable in Cash Preference Shares; and
 - (b) the consideration of £50 million payable in PIK Preference Shares which form part of the proceeds of the Disposal receivable by the Remaining Group.
- (4) Contingent Loans of £235 million owed by the UK Life Operations to the Remaining Group will become immediately payable on Completion.
- (5) The pro forma financial information has been adjusted to take into account:
 - (a) the consideration of £750 million in cash;
 - (b) transaction costs of £13 million. In addition the Company estimates that there may be approximately a further £27 million of transaction related and separation costs which have not been adjusted for in the pro forma above;
 - (c) the repayment of £235 million of Contingent Loans owed by the UK Life Operations to the Remaining Group; and
 - (d) dividends of £133 million paid on 28 and 29 July 2004 by the UK Life Operations to the Remaining Group.
- (6) The UK Life Operations' pro forma net asset value as at 30 June 2004 of £981 million is £848 million after adjusting for the payment of dividends of £133 million.
- (7) These amounts represent the General Business of Phoenix, which General Business is intended to be transferred back to the Remaining Group as referred to in paragraph 8 of Part IV of this Circular.
- (8) No adjustment has been made to take account of trading or changes in the financial position of the Group since 30 June 2004.

The Directors
Royal & Sun Alliance Insurance Group plc
30 Berkeley Square
London W1J 6EW

The Directors
Goldman Sachs International
Peterborough Court
133 Fleet Street
London EC4A 2BB

The Directors
Lehman Brothers Europe Limited
25 Bank Street
London E14 5LE

The Directors
Lehman Brothers International (Europe)
25 Bank Street
London E14 5LE

18 August 2004

Dear Sirs

Royal & Sun Alliance Insurance Group plc (“the Company”)

We report on the unaudited pro forma statement of consolidated net assets set out in Part III of the Company’s disposal circular dated 18 August 2004. The pro forma net asset statement has been prepared, for illustrative purposes only, to provide information about how the proposed disposal (“**Disposal**”) of the UK Life Operations might have affected the consolidated net assets of the Company as at 30 June 2004 had the Disposal taken place at that date.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the pro forma net asset statement in accordance with paragraph 12.29 of the Listing Rules of the UK Listing Authority.

It is our responsibility to form an opinion, as required by the Listing Rules of the UK Listing Authority, on the pro forma net assets and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 ‘Reporting on pro forma financial information pursuant to the Listing Rules’ issued by the Auditing Practices Board. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma net asset statement with the directors of the Company.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

Opinion

In our opinion:

1. the pro forma net asset statement has been properly compiled on the basis stated;
2. such basis is consistent with the accounting policies of the Company; and
3. the adjustments are appropriate for the purposes of the pro forma net assets as disclosed pursuant to paragraph 12.29 of the Listing Rules of the UK Listing Authority.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART IV

Terms of the Disposal

1. Parties

The Sale Agreement was entered into on 30 July 2004 between the Company, Resolution Life and RLG for the disposal of the UK Life Operations. The Disposal is to be effected by the sale and purchase of the shares in the following companies: Bradford; SALAC; RSALP; Phoenix; Royal & Sun Alliance Life Insurance Services Limited; and Royal & Sun Alliance Pensions Trustee Services Limited.

2. Conditionality

The Sale Agreement is conditional upon the following (the “**Conditions**”):

- (a) the approval of Ordinary Shareholders at the EGM;
- (b) the FSA having given notice in writing that there is no objection to Resolution Life acquiring control of the insurance companies in the UK Life Operations or the three month period within which the FSA may serve a notice of objection having elapsed without the FSA having served any notice of objection (“**FSA Approval**”);
- (c) the financial assistance approval procedures for Phoenix and Bradford having been completed (see paragraph 9 below);
- (d) the Guernsey Financial Services Commission (“**GFSC**”) having given notice in writing of no objection to the change in control of RSALP and RSALI or the period within which the GFSC may serve a notice of objection having elapsed without the GFSC having served any notice of objection; and
- (e) the Direction des Assurances et de la Prévoyance Sociale of Morocco having consented in writing to the change in control of Phoenix.

3. Completion

Completion will take place on the fifth business day after the Conditions have been satisfied and/or waived (to the extent such waiver is permitted) or at such later time as the Company and Resolution Life may agree.

4. Consideration

The consideration payable by Resolution Life is as set out in paragraph 5 of Part I of this Circular.

5. Warranties and Indemnities

The Sale Agreement contains customary warranties from the Company in connection with the UK Life Operations concerning, amongst other matters: accounts; material contracts; intellectual property rights; IT systems; anti-trust; compliance; actuarial matters; information relating to mis-selling; properties; environment; employees; pensions and other employee benefits and taxation. These warranties are subject to certain disclosures.

The Company shall cease to have any liability under the warranties eighteen months after Completion (seven years after Completion in respect of the tax warranties) unless Resolution Life gives notice to the Company of a warranty claim before such date. Resolution Life shall have no right to recover for any breach of the warranties where the damages for any breach is less than £250,000 and Resolution Life will not be entitled to recover any sum under the warranties until the aggregate value of all claims under the warranties exceeds £10 million, in which case the Company will be liable only for the amount of such claims above that amount. The maximum liability of the Company to Resolution Life under the warranties is 50 per cent. of the cash consideration payable by Resolution Life.

The Sale Agreement also contains the following indemnities:

- (a) the Company indemnifies Resolution Life (acting as trustee for each company making up the UK Life Operations) against all losses where at Completion the UK Life Operations have any obligation to or in respect of a liability, obligation or undertaking of any member of the Remaining Group;
- (b) with effect from Completion, the Company shall indemnify Resolution Life against any losses suffered or incurred by the UK Life Operations to the extent arising from the General Business and not recoverable under the reinsurance agreement referred to at paragraph 10(b) below;
- (c) the Company indemnifies Resolution Life against certain employment and pension costs arising as a result of the Disposal;
- (d) the Company indemnifies Resolution Life against any obligations to repay grant aid given in respect of the regeneration of the offices at New Hall Place in Liverpool occupied by the UK Life Operations;
- (e) the Company indemnifies Resolution Life against any costs arising in respect of leasehold property previously occupied by the UK Life Operations; and
- (f) an indemnity in respect of Misselling Liabilities as set out in paragraph 5 of Part I of this Circular.

Apart from the Misselling Liabilities indemnity, the indemnities are not limited in time or amount.

6. Conduct between signing and Completion

The Company has agreed to use all reasonable endeavours to procure that up to Completion the UK Life Operations carry on their business in the ordinary course and do not do certain things without the prior written consent of Resolution Life. In addition to those undertakings, the Company has agreed to consult, and to procure that the UK Life Operations will consult, on a regular and frequent basis with Resolution Life up to Completion in respect of the operations of the UK Life Operations.

7. Compensation Payment

If approval of the Disposal is not given by Ordinary Shareholders at the EGM and at that time Resolution Life has not committed a material breach of its obligations under the Sale Agreement and the FSA has not stated that FSA Approval will not be given, the Company is required to pay Resolution Life the sum of £7,500,000 as a compensation payment.

8. Phoenix General Business

The Company has agreed to use all reasonable endeavours to procure that the General Business of Phoenix is transferred to a member of the Remaining Group pursuant to a Scheme under Part VII of the Financial Services and Markets Act 2000 as soon as reasonably practicable after Completion. Owing to the time scales involved in undertaking such a Scheme, it is not possible for it to be implemented prior to Completion. The Company has agreed to procure that RSAI (as reinsurer) and Phoenix (as reinsured) enter into the general reinsurance agreement (described in paragraph 10(b) below). The reinsurance agreement will pass the economic benefit and burden of the General Business of Phoenix to RSAI and the Scheme will effect the legal transfer of that General Business for no additional consideration. The Company has agreed to indemnify Resolution Life following Completion for any losses suffered by the UK Life Operations in respect of General Business, to the extent such losses are not covered by the general reinsurance agreement.

9. **Financial assistance approval**

The Company and Resolution Life have agreed to use their respective reasonable endeavours to procure that as soon as reasonably practical Phoenix and Bradford complete the financial assistance approval procedures set out in sections 155 to 158 of the Act in connection with the utilisation of moneys held by Phoenix and Bradford to fund the repayment of amounts outstanding under the Contingent Loans at Completion.

10. **Ancillary agreements**

The Company and Resolution Life have agreed in the Sale Agreement that the following agreements will, *inter alia*, be entered into at Completion:

- (a) a transitional services agreement between the Company, Resolution Life and RLG Services Limited (a subsidiary of RLG) concerning the temporary provision of services to the UK Life Operations by the Group;
- (b) a general reinsurance agreement between RSAI and Phoenix under which RSAI reinsures Phoenix in respect of the liabilities arising in respect of the General Business of Phoenix;
- (c) a trade mark licence between the Company and Resolution Life concerning the use by UK Life Operations of trade marks of the Group for 24 months following Completion;
- (d) a tax deed between the Company and Resolution Life concerning the tax affairs of the UK Life Operations; and
- (e) property documentation giving RLG Services the use of property at Linden House until 1 January 2007 and New Hall Place until 31 December 2005.

PART V
Additional Information

1. Responsibility

The Directors, whose names appear in paragraph 2 below, accept responsibility for the information contained in this Circular. To the best knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Directors

The Directors and their respective functions are as follows:

John Napier (Chairman)*
George Culmer (Chief Financial Officer)
Andy Haste (Group Chief Executive Officer)
Noel Harwerth*
Malcolm Le May*
Edward Lea*
John Maxwell*

*Non-executive Director

3. Directors' and others' interests

3.1 As at 16 August 2004 (being the latest practicable date prior to the publication of this Circular), the interests (all of which are beneficial unless otherwise stated) of the Directors and their immediate families in the share capital of the Company which have been notified to the Company pursuant to section 324 or 328 of the Act or which are required to be entered in the register maintained under section 325 of the Act or which are interests of a person connected (within the meaning of section 346 of the Act) with a Director and which would, if the connected person were a Director, be required to be disclosed as aforementioned and the existence of which is known to or could with reasonable diligence be ascertained by that Director, were as follows:

Director	Number of Ordinary Shares	Percentage of existing issued share capital	Total Options held
John Napier	260,000	0.00900	—
George Culmer	34,843	0.00121	481,012
Andy Haste	253,180	0.00876	4,800,570
Noel Harwerth	—	—	—
Malcolm Le May	—	—	—
Edward Lea	113,100	0.00391	—
John Maxwell	138,300	0.00479	—

Save as disclosed in this paragraph 3, none of the Directors has any interest, beneficial or non-beneficial, in the share capital of the Company or any of its subsidiaries.

3.2 No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Group and which was effected by any member of the Group during the current or immediately preceding financial year or during any earlier financial year and remains in any respect outstanding or unperformed.

3.3. Executive Directors

Andy Haste and George Culmer are the executive Directors of the Company. As announced on 12 August 2004, David Paige will join the Board as an executive Director, subject to the approval of the FSA.

Andy Haste

Andy Haste's terms of employment were described in the prospectus for the Company's Rights Issue. Since that date there has been an annual pay review and Andy Haste's base salary was increased to £700,000 per annum with pensions contribution of 25 per cent. of base salary, as of 1 January 2004. In addition, Andy Haste is now eligible to participate in the recently approved Royal & Sun Alliance Insurance Group plc Share Matching Plan (the "**Share Matching Plan**"), as set out below.

George Culmer

George Culmer is employed by RSAI, as Chief Financial Officer for the Company, under a service contract dated 2 January 2004. He took up this position with the Company on 2 May 2004. The contract is terminable on 12 months notice. George Culmer's normal retirement date under the contract is the day preceding his 62nd birthday. Under the contract, George Culmer is entitled to receive an annual base salary of £380,000, subject to annual review in April of each year. In addition, George Culmer is entitled to a car up to a list price of £50,000, pension contributions, medical and welfare benefits. Under George Culmer's contract, in his first month of employment or in April 2004 whichever is the earliest, he is entitled to a one off cash payment of £93,000 gross, as compensation for his loss of bonus with his previous employer. This sum was paid on 1 May 2004. George Culmer will not be eligible to participate in the Share Matching Plan until 2005, as he is a recent joiner, so did not earn a bonus for the 2003 financial year.

David Paige

David Paige will be employed by RSAI, as Group Risk Director for the Company, under the terms contained within an offer letter dated 10 August 2004. The offer is subject to both approval by the FSA and receipt by the Company of satisfactory references which fulfil the FSA's criteria of "fitness and propriety". David Paige's service contract will be terminable on 12 months' notice. David Paige's normal retirement date under the contract will be the day preceding his 62nd birthday. Under the contract, David Paige will be entitled to receive an annual base salary of £330,000, subject to annual review in April of each year. In addition, David Paige will be entitled to either a car up to a list price of £40,000, or a gross cash allowance of £14,400 per annum as an alternative. In place of participation in the Company pension scheme, he will be provided with a gross allowance of 17.5 per cent. of base salary. He is also entitled to medical and welfare benefits. As compensation for his loss of bonus with his previous employer for 2004 he is entitled to a guaranteed bonus of £165,000 gross (payable in April 2005) and a one off cash payment of £185,000 gross (payable with his first month's salary) to compensate him for loss of bonus shares and long term incentives with his previous employer. He will be eligible for participation in the Bonus Plan and Share Matching Plan, as described below, from 2005.

Executive Directors' incentive schemes

(i) Executive Incentive Plan (the "**Bonus Plan**")

The executive Directors are eligible to participate in the Bonus Plan. The on-target bonus is equivalent to 50 per cent. of base salary, upon satisfaction of financial and detailed personal performance targets set in accordance with the Bonus Plan. For the most senior executives the principal performance measure under the Bonus Plan is the Group's combined operating ratio as reflected in its targeted return on risk-based capital. If the Group exceeds all of its financial and key business performance targets in any year, a maximum bonus may be awarded of 100 per cent. of base salary.

(ii) Share Matching Plan

The new Share Matching Plan, approved by Ordinary Shareholders in May 2004, is intended to supplement the Bonus Plan (as described above) and the Executive Share Option Scheme (the

“**Option Scheme**”) (as described below). In 2004 and 2005, executives may receive Deferred Share Awards (the “**Deferred Awards**”) over Ordinary Shares which are equal in value to 33 per cent. of the annual cash bonus paid to them in those years. Only annual bonuses paid under the Bonus Plan will be counted for these purposes, and therefore the one-off compensatory payments made to George Culmer and David Paige (as referred to above) will not be counted when determining the value of any Deferred Awards granted to them under the Share Matching Plan in 2005. These Deferred Awards will vest on the third anniversary of grant provided the executive is still employed by a company in the Group. There are no additional performance criteria that apply to the Deferred Awards as they are linked directly to the achievement of financial and performance targets in the preceding financial year.

Executives may also receive Matching Share Awards (the “**Matching Awards**”) over Ordinary Shares of up to three times the number of Ordinary Shares under their Deferred Awards. Matching Awards will normally vest on the third anniversary of grant provided the executive is still employed by a company in the Group and to the extent that the applicable performance criteria have been satisfied. The performance criteria are based on the Company’s total shareholder return over a two year period, partly relative to the FTSE 100 companies and partly relative to a group of the Company’s major competitors. Full vesting of Matching Awards, at the maximum ratio of three matching shares to one deferred share, will only take place on the achievement of upper decile performance relative to the FTSE 100 companies, and first ranking performance relative to the group of the Company’s major competitors.

Andy Haste is eligible to participate in the Share Matching Plan and in June 2004 received a Deferred Award over 197,046 Ordinary Shares and a Matching Award, subject to performance criteria, over a maximum of 591,138 Ordinary Shares. .

(iii) Option Scheme

George Culmer and Andy Haste are also eligible to participate in the Option Scheme which is a shareholder approved long-term incentive plan. David Paige will be eligible to participate in the Option Scheme once he takes up his position with the Company. Option Scheme grants share options with an exercise price per share equal to the market value of a share at the date of grant which vest only upon the achievement by the Company of cumulative targets. On joining the Company, George Culmer was granted options over shares, at a value equal to one times his initial base salary. Under David Paige’s contract, at the first grant of options following his appointment, he will be granted options over shares which are equal in value to one times his initial base salary. Thereafter, the size of any grant of options under the Option Scheme will be based on personal performance. Grants under the Option Scheme are discretionary and subject to approval by the Group Remuneration Committee.

3.4. **Non-executive Directors**

The Company’s non-executive Directors are assessed by the Nominations Committee and their appointment is approved by the Board. Details of the non-executive Directors’ appointments are as set out below:

Non-executive Director	Fees (per annum)	Date of appointment
John Napier	£250,000*	9 January 2003
Noel Harwerth	£35,000	30 March 2004
Malcolm Le May	£35,000	30 March 2004
Edward Lea	£45,000	10 July 2003
John Maxwell	£45,000	10 July 2003

* John Napier received fees of £60,000 per annum from the date of his appointment until 17 March 2003 when he took over as Chairman.

The fee structure for non-executive Directors is £35,000 per annum, with an additional fee of £10,000 per annum for chairing the Audit & Compliance or Remuneration committees. Edward Lea chairs the Audit & Compliance Committee and John Maxwell chairs the Remuneration

Committee. With the exception of John Napier, whose fees were recommended on the date of his appointment, the Board adopted the above fee structure which was recommended by the Remuneration Committee on 2 June 1999.

3.5 Save as set out in paragraph 3.3 above and the service contract of Andy Haste as described in the prospectus for the Rights Issue, there are no existing service contracts between any executive Director and any member of the Group.

3.6 As at 13 August 2004 (being the latest practicable date prior to the publication of this Circular), insofar as is known to the Company, the following persons (other than as a Director) were interested, directly or indirectly, in three per cent. or more of the Company's capital:

Shareholder	Number of Ordinary Shares	Percentage of existing issued share capital
Brandes Investment Partners LLC	233,067,438	8.07
Fidelity Investments Limited	169,420,027	5.86
Schroder Investment Management	160,791,157	5.56
Barclays plc (and its subsidiaries)	122,045,082	4.22
Alliance Bernstein Investment Managers	111,371,323	3.85
Legal & General Group plc	109,305,994	3.78
Merrill Lynch Investment Managers	106,366,495	3.68

Save as set out in this paragraph, the Company is not aware of any person who is interested, directly or indirectly, in three per cent. or more of the issued share capital of the Company.

3.7 The Company is not aware of any person who exercises, or could exercise, directly or indirectly, jointly or severally, control over the Company.

4. Material Contracts

4.1 The following contracts are all of the contracts (not being contracts entered into in the ordinary course of business) which have either been entered into within the two years prior to the date of this Circular and are or may be material to the Remaining Group or have been entered into (other than contracts entered into in the ordinary course of business) at any time by members of the Remaining Group and contain provisions under which any member of the Remaining Group has an obligation or entitlement which is or may be material to the Remaining Group as at the date of this Circular:

- (a) the Sale Agreement as described in Part IV of this Circular; and
- (b) each of the contracts set out in paragraph 4.1 of Part IV of the Company's circular to shareholders in respect of the initial public offering of its Australian and New Zealand businesses dated 1 April 2003 and paragraph 7.1 of Part XII of the Company's Rights Issue prospectus, such contracts being displayed in accordance with paragraph 10 of this Part IV below.

4.2 The companies comprising the UK Life Operations have not entered into any contracts (other than contracts entered into in the ordinary course of business) within the two years prior to the date of this Circular which are or may be material to the UK Life Operations nor have the UK Life Operations entered into any contracts (other than contracts entered into in the ordinary course of business) at any time which contain provisions under which the UK Life Operations have any obligation or entitlement which is, or may be, material to the UK Life Operations as at the date of this Circular.

5. Pre-Sale Reorganisation

In order to prepare the UK Life Operations for the Disposal, an internal restructuring has taken place. Such internal restructuring comprised the following:

- (a) on 9 July 2004, Phoenix transferred its twenty five per cent. interest in Swinchan Holdings Limited to the Company (which already held the remaining seventy five per cent. interest) for market value consideration payable in cash;
- (b) on 28 July 2004:
 - (i) each of Sun Alliance Linked Life Insurance Limited, Sun Alliance Pensions Limited and Property Growth Assurance Company Limited declared a dividend of the full amount of their distributable reserves. Each such company satisfied such dividend by the assignment of the right to receive certain debts owed by RSAI; and
 - (ii) Royal & Sun Alliance Life Holdings Limited transferred the entire issued share capital of Sun Alliance Linked Life Insurance Limited and Sun Alliance Pensions Limited to RSALI and Royal Life Holdings Limited transferred the entire issued share capital of Royal Life (Unit Linked Assurances) Limited to RSALI. All the transfers were for market value consideration payable in cash; and
- (c) on 29 July 2004 Phoenix declared a dividend of the majority of its distributable reserves and satisfied such dividend partly in cash and partly by the assignment of the right to receive certain debts owed by RSAI.

6. **Litigation**

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

Save for the matters set out below, no member of the Remaining Group is or has been involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Circular, a significant effect on the Remaining Group's financial position and, so far as the Company is aware, no such proceedings are pending or threatened by or against any member of the Remaining Group:

(a) **World Trade Center**

The estimated cost of the insurance losses associated with the terrorist action of 11 September 2001 is a gross loss in excess of £1bn, reduced to £279m net of reinsurance. This was an unprecedented event, which still has many unresolved issues in respect of both the gross loss and consequent extent of the reinsurance recoveries. The loss estimate has been prepared on the basis of the information currently available as to the magnitude of the claims, including business interruption losses. Most major exposures have now been reserved at policy limits. The estimate of quantum continues to be based on the assumption that the industry position, that the destruction of the World Trade Center towers represents one occurrence rather than two, is correct. However, this is subject to ongoing litigation in the US and, as a consequence, there is uncertainty as to the eventual decision. The final cost may be different from the current estimate due to the uncertainties outlined in paragraph 7 below and it is not possible to reliably estimate the quantum. Nevertheless, the Directors believe their estimate of the gross and net loss is appropriate based on the information available to them and that there will be no material adverse effect on the Remaining Group's financial position.

(b) **Student Finance Corporation**

In early 2002, issues arose in connection with a series of credit risk insurance policies covering loans made to students in various post secondary trade schools, primarily truck driving schools. At 31 December 2003, the loan portfolio had a face value of approximately \$501m. In June and July 2002, Royal Indemnity Company (“Royal Indemnity”), a US subsidiary, filed lawsuits in Texas state court, seeking among other things rescission of these policies in response to a systematic pattern of alleged fraud, misrepresentation and cover up by various parties, which among other things concealed default rate of the loans. As Royal Indemnity’s lawsuits seek rescission of these policies, all the Group’s financial accounting entries associated with the transactions have been reversed. The ultimate outcome of the suit is uncertain.

The foregoing rescission actions gave rise to other related lawsuits filed in Delaware by MBIA Insurance Corporation (MBIA) and various banks, seeking to enforce the Royal Indemnity credit risk insurance policies. Plaintiffs in the Delaware actions were Wells Fargo Bank Minnesota, NA (Wells Fargo), in its capacity as trustee of a number of securitisations that were collateralised by student loans, MBIA which insured the obligations issued through these securitisations and PNC Bank and Wilmington Trust, both of which provided interim financing prior to securitisation. These actions are all pending in US district court, District of Delaware. Plaintiffs in the Delaware actions moved for summary judgement. On 30 September 2003, the Court granted summary judgement to MBIA and Wells Fargo. The Court then entered a Judgement on 10 October 2003, which was superseded by a corrected judgement entered on 27 October 2003. Royal Indemnity filed its notice of appeal from the judgement on 29 October 2003. On 26 March 2004, the Court granted summary judgement on similar terms to PNC Bank and Wilmington Trust. Royal Indemnity filed its notice of appeal from the judgement on 26 April 2004.

Calculated through 30 June 2004, the total amount awarded by the foregoing summary judgements was approximately \$512m (including, as of the calculation date, additional accrued claims, prejudgements interest and post-judgement interest).

The ultimate outcome of these lawsuits is necessarily uncertain. In the event Royal Indemnity’s lawsuits do not result in complete rescission of all applicable policies, any loss on the loan portfolio will be reduced to the extent of reinsurance available to Royal Indemnity, recoveries from the original borrowers on the defaulted loans, and reserves, if any. Any losses may be further offset by recoveries from other third parties. To that end, Royal Indemnity has filed recovery actions against certain trucking school entities. However, there can be no assurance that the outcome of these lawsuits, the availability of reinsurance recoveries, the extent and amount of recoveries from the borrower under the respective loan programmes and/or reserves, if any, among other factors, will be resolved in favour of Royal Indemnity.

Based on current knowledge of the circumstances, legal advice received and the range of other actions available to the Group to manage any insurance exposure, the Directors believe that the resolution of the legal proceedings in respect of these credit risk insurance policies will not have a material adverse effect on the Group’s financial position.

- 6.2 The UK Life Operations are not and have not been involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Circular, a significant effect on the UK Life Operations’ financial position and, so far as the Company is aware, no such proceedings are pending or threatened by or against the UK Life Operations.

7. Estimation Techniques, Uncertainties and Contingencies

7.1 Introduction

The following is a summary of the way in which estimation techniques, uncertainties and contingencies can affect the financial statements of insurance companies and the Group in particular.

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks.

The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The uncertainty in the financial statements principally arises in respect of the technical provisions of the company.

The technical provisions include the provision for unearned premiums and unexpired risks, the provision for outstanding claims and the long term business provision. The provisions for unearned premiums and unexpired risks represent the amount of income set aside by the company to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the balance sheet date. The provision for outstanding claims represents the company's estimate of the cost of settlement of claims that have occurred by the balance sheet date but have not yet been finally settled. The long term business provision covers similar liabilities to the above in respect of long term business.

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

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

7.2 Estimation Techniques

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

The Group employs a variety of statistical techniques and a number of different bases to determine these provisions. These include methods based upon the following:

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

In addition, the Group uses other methods such as the Bornhuetter-Ferguson method, which combines features of the above methods. The Group also uses bespoke methods for specialist classes of business.

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

Where possible the Group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

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

The general business claims provisions have been subject to annual independent review by external advisors. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisors who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. As an example, the Group's exposure to asbestos and environmental pollution is examined at least triennially on this basis. The results of these reviews are considered when establishing the appropriate levels of provisions for outstanding claims and unexpired periods of risk.

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

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

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

The longer term investment return is determined with the objective of ensuring that, in aggregate over time, the return recognised in operating profit does not exceed or fall below the actual returns achieved, as set out in the accounting policies. The pre tax returns are applied to an estimation of the value of investments after adjustment to reduce the effect of short term fluctuations.

7.3 **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;

- uncertainties 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. For certain classes of policy (e.g. term assurance) the value of the settlement of a claim may be specified under the policy terms while for other classes (e.g. motor insurance) the cost of a claim will be determined by an actual loss suffered by the policyholder.

There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the Group. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. There are many factors that will determine the level of uncertainty such as inflation, 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 technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates. The Group seeks to provide appropriate levels of claims provision and provision for unexpired risks taking the known facts and experience into account. However, by their nature the quantification of the provisions must remain very uncertain.

7.4 **Contingent liability**

As announced with the six months 2003 results, the Group commissioned an independent review of its general business claims provisions from Tillinghast, the consulting actuaries, during 2003. This review confirmed that the existing Group claims provisions were in a reasonable range, however, the Tillinghast estimate was some £800m higher. Following the review, more work was undertaken by internal and external actuaries in validating the claims position.

At 31 December 2003, the Group had increased its general business claims provisions as a result of this work. In addition, a contingent liability of £200m had been identified and remains outstanding at 30 June 2004 in respect of potential adverse claims development. This reflects the inherent uncertainty in determining some aspects of general business claims provisions, in particular very long tail business and claims dependant on court judgements.

7.5 **Asbestos and environmental claims**

The estimation of the provisions for the ultimate cost of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of business. 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 Group employs specialised techniques to determine provisions using the extensive knowledge of both internal asbestos and environmental pollution experts and external legal and professional advisors.

Factors contributing to this higher degree of uncertainty include:

- plaintiffs' expanding theories of liability, compounded by inconsistent court decisions and judicial interpretations;

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

The position in the US is particularly problematic, as plaintiffs have expanded their focus to defendants beyond the 'traditional' asbestos manufacturers and distributors. This has arisen as a consequence of the increase in the number of insureds seeking bankruptcy protection because of asbestos related litigation and the exhaustion of their policy limits. Plaintiffs, supported by lawyers remunerated on a contingent fee basis, are now seeking to draw in a wide cross section of defendants who previously only had peripheral or secondary involvement in asbestos litigation. This may include companies which have distributed or incorporated asbestos containing parts in their products or operated premises where asbestos was present. There are also increasing signs of attempts to reopen and reclassify into other insurance coverages previously settled claims, and the filing of claims under the non-aggregate premises or operation section of general liability policies. There are also indications that plaintiffs may seek damages by asserting that insurers had a duty to protect the public from the dangers of asbestos. Added to this, there is also the possibility, however remote, of federal legislation that would address asbestos related problems.

Against this background and in common with the industry generally, the Group in the US receives notifications and approaches from, and on behalf of, insureds who previously had peripheral or secondary involvement in asbestos litigation indicating that they may be seeking coverage under Group policies. Given the uncertainties outlined above as to the potential of loss suffered, the availability of coverage and the often long delay in reporting these issues it is difficult to predict the outcome of these notifications and approaches. The greatest difficulty is with estimating whether the Group has any liability as many of these are discharged at no cost to the Group or have been settled below the quantum sought, although there can be no certainty that this will always be the case. It is clear that there is unlikely to be any firm direction in case law or legislation which would allow for these issues to be resolved satisfactorily in the near term and no likelihood of the plaintiffs' bar in the US easing its aggressive stance with litigation. Management, therefore, expect that these notifications and approaches will continue to be received for some time to come.

7.6 **Financial enhancement products**

In the UK, US and Korea, the Group has exposures to financial enhancement products which provide surety to banks, lending institutions and credit facilities that insure principal and

interest repayment on debt securities. The Group no longer writes such business; however, the nature of such contracts is normally that the Group is on risk for more than one year and therefore liabilities remain for an extended period. During 2002 a reinsurance arrangement was entered into, for which a premium of £124m was ceded, which reduced the Group's exposure in relation to these products in the UK. This arrangement was commuted in July 2004 following a review of remaining exposures. Further information on financial enhancement products in the US is discussed below.

7.7 US financial enhancement products

Within the financial enhancement portfolio of Financial Structures Limited, a subsidiary of the US group, are a variety of credit default product exposures including collateralised debt obligations (CDO), credit enhancement and residual value insurance contracts for which the majority of premium has not been earned and losses are provided on an arising basis. These products are no longer written. Losses during 2004 amount to £21m. The ultimate loss estimates for the CDO products is £189m against which we have made payments of £26m and have established total provisions of £131m. The ultimate loss estimate over the life of the CDO products is based on a model that utilises S&P's historical average default patterns and recovery values. However, the ultimate losses from this business will depend upon the performance of underlying debt obligations.

7.8 Reinsurance

The Group is exposed to disputes on, and defects in, contract wordings and the possibility of default by its reinsurers, including from the credit risk taken in fronting arrangements. The Group monitors the financial strength of its reinsurers, including those to whom risks are no longer ceded. Allowance is made in the financial position for non recoverability due to reinsurer default by requiring operations to provide, in line with Group standards, having regard to companies on the Group's 'Watch List'. The 'Watch List' is the list of companies whom the directors believe will not be able to pay amounts due to the Group in full.

7.9 Rating agencies

The ability of the Group to write certain types of general insurance business is dependent on the maintenance of the appropriate credit ratings from the rating agencies. The Group has the objective of maintaining single 'A' ratings from Standard & Poor's (S&P) and from AM Best. At the present time the ratings are 'A-' from S&P and 'A-' from AM Best. The actions announced by the Group since 2002 are intended to improve its capital position and regain the target ratings. Any worsening in the ratings would have an adverse impact on the ability of the Group to write certain types of general insurance business.

7.10 Regulatory environment

The regulatory environment is subject to significant change over the next few years, in particular in respect of solvency requirements. This is in part attributable to the implementation of EU Directives but is also the natural response of the regulators to the challenging market conditions that have prevailed over the last few years. The Group continues to have discussions with the FSA on the regulatory capital position of its UK insurance subsidiaries, the progress of the actions announced on 7 November 2002 and 4 September 2003 to improve that position, the implementation of the EU Financial Conglomerates Directive and its interrelationship with the overall capital of the Group. In December 2003 the FSA granted a waiver, expiring in September 2004, in respect of the claims discounting provisions within Solvency 1. All waivers are for a limited period. The Directors currently expect to apply for a renewal when the waiver expires. There is however a risk that the waiver may not be renewed in which event other options may need to be considered to ameliorate the adverse solvency impact.

The changes that can be expected in the solvency requirements in the UK are generally anticipated to arise in 2004 through 2006, although it is possible that the FSA will bring

forward some developments. Inevitably, until the requirements are specified, there will be uncertainty as to the implications for Group solvency and the impact of such developments could materially increase our solvency requirements. The Directors believe that, following the actions announced, including the rights issue, recent revisions to the Group's debt position and strategic disposals, the Group will comply with the new regulatory requirements.

7.11 **US regulatory capital**

The consolidated US regulatory capital and surplus position as at 30 June 2004 was \$1,360m. Declines in regulatory capital could trigger action by the insurance regulators. There can be no certainty as to whether, in the light of the other uncertainties affecting the US based operations, or for other reasons, the regulatory position may deteriorate and, if this occurs, what action the US regulators might take.

7.12 **Strategic and operational review**

The programme of strategic and operational improvements is complex and involves a restructuring of, and the implementation of substantial changes to, a significant portion of the Group's operations. In addition, the programme contemplates actions being taken in a number of businesses and jurisdictions simultaneously.

Implementation of the planned improvements and realisation of the forecast benefits will be challenging within the timeframe contemplated by the Group. In addition, successful implementation of this programme will require a significant amount of management time and, thus, may affect or impair management's ability to run the business effectively during the period of implementation. This is particularly so in relation to our US operation where a relatively new management team is in place.

The restructuring plans in the US are complex and are subject to particular risks. Our US subsidiaries are subject to government regulation in their states of domicile and also in each of the jurisdictions in which they are licensed or authorised to do business. In the US, the conduct of insurance business is regulated at the state level and not by the federal government. The implementation of our restructuring plan in the US will be subject to the approval of insurance regulators in many jurisdictions applying differing insurance regulations. The outcome of such proceedings and approvals may lead to conflicting pronouncements and amendments to our restructuring plan that may have a material impact on our financial condition and business prospects.

Some events or transactions comprised in the restructuring plans may give rise to risks and/or liabilities which, individually or taken together, are sufficiently material to require the provision of additional capital, or the implementation of alternative transactions, to meet legal or regulatory obligations.

8. **Regulatory capital and risk-based capital**

The capital requirements of an insurance company are determined by its exposure to risk and the solvency criteria are set by applicable statutory requirements and established by management. We monitor our capital position on two different bases, regulatory solvency and our own risk-based capital model.

8.1 **Minimum regulatory solvency requirements under EU legislation**

UK minimum regulatory solvency requirements are currently set in accordance with relevant EU legislation.

For general insurers, the margin required is generally the largest of:

- (a) 18 per cent. of the first €50,000,000 of gross premiums for the year plus 16 per cent. of the remainder reduced by the ratio of gross reinsurance recoveries to gross claims insured during the three previous financial years (maximum reduction 50 per cent.);

- (b) 26 per cent. of the first €35,000,000 of average gross claims for the past three financial years (increased by 50 per cent. in the case of liability business) (or seven years depending on the type of risk) plus 23 per cent. of the remainder reduced by a reinsurance factor as under the premium basis in sub-paragraph (a) above, and
- (c) a fixed amount, referred to as the minimum guarantee fund, which in the case of most insurers is €3,000,000, subject to annual review by the European Commission and increases in line with the consumer prices index published by Eurostat.

In addition there are rules that may increase the margin required when the calculations above result in a lower margin than that required at the end of the previous year.

For long term (life) insurers, the EU minimum solvency margin is assessed by reference to capital at risk. The calculations required involve taking 4 per cent. of the mathematical reserves (the long term insurance technical provisions) and 0.3 per cent. of the capital at risk and adjusting them to take account of reinsurance cessions. However, the minimum guarantee fund must be at least €3,000,000 in the event that the formula produces a lesser figure.

The FSA requires that adequate reserves be maintained for each class of business underwritten both in respect of reported claims and those incurred but not reported. There are asset admissibility rules for determining acceptable types of asset that can be taken into account when determining whether the insurer has assets at least equal to its liabilities when calculating the solvency of the company. There are also limits on how much exposure an insurer can have to types of admissible assets and to certain counterparties.

The FSA's Enhanced Capital Requirements ("ECR")

Changes in the UK minimum solvency requirements will occur following the introduction of the FSA's new Integrated Prudential Sourcebook in 2004. It is not expected that the outcome of the EU solvency review of financial resources for insurers (known as "Solvency II") will be known for a considerable time. In any event, the FSA is proceeding with its own changes to the capital regime for insurers in the United Kingdom as described below.

In June 2004, the FSA published its Policy Statement PS04/16 which contains "near final" text of the rules governing future capital requirements for both life insurers and general insurers – see below.

The two main aspects of the FSA's proposals in respect of life insurers are:

- (a) the so-called "twin peaks" approach for with-profits business, under which a firm must hold the higher of:
 - (i) the current calculation of mathematical reserves plus the EU minimum capital requirement and a resilience capital requirement (the "regulatory peak"); and
 - (ii) a "realistic" present value of expected contractual liabilities and projected discretionary payments plus a risk capital margin (the "realistic peak"); and
- (b) a regime under which firms will be required to prepare individual capital assessments, on the basis of which the FSA will give individual guidance as to its assessment of whether capital greater than the larger of the two peaks in sub-paragraph (a) above should be held. The FSA currently propose to implement the new rules on 31 December 2004.

The two main aspects of the FSA's proposals regarding general insurers as set out in PS04/16 are:

- (a) a new enhanced capital requirement which the FSA expects to increase the regulatory capital which most firms will hold above the "minimum capital requirement" under

the EU legislation (see below). Initially, the ECR calculation will be disclosed in a private report to the FSA but the basis of reporting is likely to change as methodology develops within the UK and at the European level; and

- (b) a regime under which firms will be required to carry out individual capital assessments (“ICA”) each year, on the basis of which the FSA will give individual guidance to firms.

A firm’s ICA will, in any event, be required to be no lower than the minimum capital requirement set out in the EU legislation. The ICA will comprise capital charges based on:

- (i) credit risk;
- (ii) market risk;
- (iii) liquidity risk;
- (iv) operational risk; and
- (v) insurance risk.

The capital resources that will be available to meet the regulatory capital required under the FSA’s new rules will, in certain cases, be more flexible than those permitted under the EU legislation.

8.2 **Risk-based capital**

During 1998, Royal & SunAlliance adopted a new risk-based capital model for:

- determining our internal capital requirements;
- setting return targets for our regional operations; and
- establishing incentive plans for management.

This model seeks to compare our available capital to our internal assessment of capital requirements for our general and life insurance businesses. At any point in time, our risk-based capital position will show either a surplus or a shortfall of actual capital available compared to the requirement suggested by our model. Exact matching would be coincidental given, in particular, the short term volatility in investment market values that impacts capital. Our approach is to project the capital position forward to as to ensure that, prospectively, there is sufficient capital to meet business and regulatory requirements.

General Insurance

Our risk-based capital model is based predominantly on maintenance of sufficient capital to meet prospective general insurance business capital requirements, assessed as a percentage of prospective general insurance business net premiums written. It is designed to produce different capital requirements which will vary depending on the policies applied to the business, particularly investment and reinsurance policies. In employing our risk-based capital model and establishing current capital requirements, we use our reinsurance and investment policies as the basis of this calculation.

Life and asset accumulation business

In respect of the life insurance activities of Royal & SunAlliance, the capital requirement has been set equal to the actual capital invested in the life operations, less an element of the invested capital that has been deemed available to meet general insurance requirements.

The current risk-based capital model will be replaced during 2005 by the ICA model that is currently under development.

9. **Miscellaneous**

- 9.1 There has been no significant change in the financial or trading position of the Remaining Group since 30 June 2004, the end of the last financial period for which the last interim financial statements of the Group have been prepared.
- 9.2 Save for the payment of dividends of £133 million and the increase of £35 million of the Contingent Loans utilised as disclosed in paragraph 3 of Part I of this Circular there has been no significant change in the financial or trading position of the UK Life Operations since 31 December 2003, the end of the last financial period for which the last audited accounts of the UK Life Operations have been prepared.
- 9.3 PricewaterhouseCoopers LLP, Chartered Accountants, have given and have not withdrawn their written consent to the inclusion in this Circular of their name and report and the references to it in the form and context in which they appear.
- 9.4 Goldman Sachs and Lehman Brothers are acting as joint sponsors and financial advisers to the Company and have given and have not withdrawn their written consent to the inclusion in this Circular of their names and the references to them in the form and context in which they appear.
- 9.5 The registrars of the Company are Lloyds TSB Registrars of The Causeway, Worthing, West Sussex BN99 6DA.
- 9.6 The financial information contained in this Circular does not constitute statutory accounts within the meaning of section 240 of the Act. Statutory accounts of the Company and its subsidiaries for the three years ended 31 December 2003 have been delivered to the Registrar of Companies and the auditors gave reports under section 235 of the Act on such accounts which were not qualified and did not contain any such statement under section 237(2) or (3) of the Act.

10. **Documents available for inspection**

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the current registered office of the Company at 30 Berkeley Square, London W1J 6EW and at the offices of Allen & Overy LLP, One New Change, London EC4M 9QQ up to and including the conclusion of the EGM on 9 September 2004:

- (a) the memorandum and articles of association of the Company;
- (b) the audited consolidated accounts of the Company for the two financial years ended 31 December 2003;
- (c) the unaudited interim financial statements of the Company for the six months ended 30 June 2004;
- (d) the report by PricewaterhouseCoopers LLP set out in Part III of this Circular;
- (e) the service contracts referred to in paragraph 3 above;
- (f) the material contracts referred to in paragraph 4 above;
- (g) the written consents referred to in paragraphs 9.3 and 9.4 above; and
- (h) this Circular.

Dated: 18 August 2004

Royal & Sun Alliance Insurance Group plc

(Registered in England and Wales under number 2339826)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the Company will be held at the offices of Allen & Overy LLP, One New Change, London, EC4M 9QQ on Thursday 9 September 2004 at 9.00 a.m. for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an ordinary resolution:

ORDINARY RESOLUTION

THAT the disposal of the UK Life Operations of Royal & SunAlliance to Resolution Life Limited (the “**Disposal**”) as more particularly described in the circular sent to shareholders of Royal & Sun Alliance Insurance Group plc (the “**Company**”) dated 18 August 2004 (the “**Circular**”) on the terms and subject to the conditions of the sale agreement dated 30 July 2004 (described in the Circular) be and is hereby approved and that the directors (or any duly constituted committee thereof) of the Company be and are hereby authorised to make any non-material amendment, variation, waiver or extension to the terms or conditions of the Disposal which the directors consider reasonable and in the best interests of shareholders as a whole and to do all such other things as they may consider necessary, expedient or desirable in connection with the Disposal.

Registered office:
30 Berkeley Square
London
W1J 6EW

By order of the board:
J V Miller
Group Company Secretary
Dated: 18 August 2004

Notes:

- 1. Only holders of ordinary shares of 27.5 pence each are entitled to attend and vote at the Extraordinary General Meeting. A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company. A form of proxy is enclosed with this notice and instructions for completion are shown on the form. Forms of proxy need to be deposited with the Company’s registrars, Lloyds TSB Registrars, not less than 48 hours before the start of the Extraordinary General Meeting or, if the meeting is adjourned, not less than 48 hours (or such lesser period as the chairman may in his discretion determine) before the time of the adjourned meeting. Completion of a form of proxy does not preclude a member from attending and voting in person at the Extraordinary General Meeting.*
- 2. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for this Extraordinary General Meeting and any adjournment(s) thereof by using the procedures described in the CREST manual. CREST personal members or other CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.*

Any message, regardless of whether it relates to the appointment of a proxy or to an amendment to an instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer’s agent (CREST ID 7RA01) by 9.00 a.m. on Tuesday 7 September 2004.

- 3. You may, if you wish, register the appointment of a proxy electronically by logging on to the website www.sharevote.co.uk. You will need your Reference Number (this is the 24-digit number printed below your name and address on the accompanying Form of Proxy). Full details of the procedure are given on the website. Alternatively, if you have registered for a Shareview portfolio, log on to your portfolio at www.shareview.co.uk and click on “Company Meetings”. The proxy appointment and instructions must be received by Lloyds TSB Registrars by no later than 9.00 a.m. on 7 September 2004. Please note that any electronic communication that is found to contain a computer virus will not be accepted.*
- 4. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the Register of Members of the Company as at 9.00 a.m. on 7 September 2004 shall be entitled to attend or vote at the Extraordinary General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6.00 p.m. on 7 September 2004 shall be disregarded in determining the rights of any person to attend or vote at the Extraordinary General Meeting.*

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