ROYAL & SUNALLIANCE

Registered number: 71805

Phoenix Assurance plc

Report and Financial Statements for the year ended 31 December 2003

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Phoenix Assurance plc

Report and financial statements for the year ended 31 December 2003

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Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at New Hall Place, Old Hall Street, Liverpool L3 9UE, on 31st March 2004 at a.m./p.m. to transact the ordinary business of the Company.

By order of the directors

10th *March 2004*

Secretary

A member entitled to attend and vote at this Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote on his behalf. A proxy need not be a member of the Company.

Directors

Mr R Craine

Mr R E K Greenfield

Mr P N Hanby

Mr M R Kipling

Mrs F Matthews

Secretary

Miss J E Fox

Registered office

New Hall Place, Old Hall Street, Liverpool L3 9UE.

Auditors

PricewaterhouseCoopers LLP
8 Princes Parade, St Nicholas Place, Liverpool, L3 1QJ

Directors' report for the year ended 31 December 2003

Principal activities and review of business
The principal activity of the Company and its subsidiaries is the transaction of general and long term insurance business in the United Kingdom and overseas. The directors consider that the Company's activities will continue unchanged in the foreseeable future.

In August 2002, the Royal & Sun Alliance Insurance Group (the Group) announced its decision to close the Company to new business. This decision reflects the Group's strategy of focusing capital and resources in general insurance markets. As a consequence, and with effect from 6 September 2002, the Company's long term insurance products are no longer available to new customers. The Company continues to administer existing policies, and will only undertake new business in relation to contractual contributions to those policies. To ensure that a robust and cost effective service continues to be provided to those customers, an agreement was entered into with Unisys Ltd, effective from 1 May 2003, for the provision of policy administration services and related support functions.

During the year the directors considered the accounting policy on the recognition of the value of long term insurance business (VLTB). This was a response to both the Association of British Insurers revised Statement of Recommended Practice (SORP) issued in November 2003 and the International Financial Reporting Exposure Draft 5 (ED5) (although these would not have to be adopted until 2004 and 2005 respectively). The revised SORP recommends that the internally generated VLTB should not be recognised whilst the ED 5 places constraints on adopting a new accounting policy that recognises such value. As a result, the directors concluded that it would be more appropriate to make the change in the 2003 financial statements and to derecognise the internally generated VLTB. The consequence of this change is that the value of the shareholders' investment in the long term business funds is recognised as an asset only to the extent that it is attributable to shareholders under the modified statutory basis (MSB) principles of profit recognition. Under the previous policy, the value of the long term insurance funds included the amount attributable under the MSB principles plus the present value of future cash flows attributable to shareholders arising from in force long term business policies and the surplus held within the funds to meet solvency and future business development requirements.

Court approval for a funds transfer under S105 of the Financial Services and Markets Act 2000 was effective from 1 April 2003 in respect of the sale, on 1 October 2002, of the Group Risk business to Canada Life (Group UK) Limited.

Value of long term fund attributed to shareholders
During 2003, the attribution of accumulated surpluses in the non-participating fund of the Company was determined. As a result the surplus attributable to shareholders was transferred to shareholders' funds in accordance with the Company's accounting policies.

This has resulted in the recognition of an exceptional profit of **£380.4m** *(2002 £Nil)*. This profit is recognised in the balance on the long term business technical account gross of tax within the profit and loss account non-technical account.

After deduction of associated additional taxation, the net increase in shareholders' funds amounted to **£310.5m** *(2002 £nil)* - see note 2.

Business transacted
Net premium income of the Company for the year was **£78.6m** *(2002 negative £52.5m)* in respect of long term business. The 2002 net premium income was affected by the reassurance premium paid to Canada Life – see notes 1 and 3. As at 31 December 2003, the total long term business funds on a statutory solvency valuation basis amounted to **£942.8m** *(2002 £1,037.5m)*.

Valuation
A valuation of the long term insurance business of the Company in accordance with the Interim Prudential Sourcebook (insurance companies) issued by the FSA was made as at 31 December 2003 in respect of the year then ended. The result of the valuation showed a surplus, including investment reserve, of **£505.1m** *(2002 £442.4m)*, out of which **£12.8m** *(2002 £13.9m)* has been allocated to policyholders and **£30.0m** transferred to shareholders *(2002 £41.4m)*.

After making the allocation to policyholders and the transfer to shareholders, there is a surplus of **£462.3m** carried forward compared with £387.1m brought forward from the last valuation.

Result and dividends
The result of the Company for the year is shown in the profit and loss account on pages 10 to 12.

No dividend is recommended for the year *(2002 £30.0m)* resulting in a transfer to retained profits of **£358.8m** *(2002 £24.1m)*.

Directors' report for the year ended 31 December 2003 (continued)

Directors and their interests

Messrs A Kerr and P S Egan resigned as directors of the Company with effect from 30 April 2003. Messrs P N Hanby, M R Kipling, R Craine and Mrs F Matthews were appointed as directors of the Company with effect from 14 January 2003, 27 May 2003, 26 June 2003 and 26 February 2004 respectively.

The other director, whose name appears on page 2 served throughout the year.

None of the directors had any interests in the shares of the Company.

The interests of the directors in the ordinary shares of 27.5p each in Royal & Sun Alliance Insurance Group plc are disclosed in the financial statements of Royal & Sun Alliance Life Holdings Limited.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the next general meeting at which accounts are laid before the Company.

By order of the directors

J E Fox
Secretary
10th March 2004

Directors' responsibilities for financial statements

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

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2003. The directors also confirm that applicable accounting standards have been followed and that it is appropriate for the financial statements to have been prepared on the going concern basis.

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

Independent auditors' report to the members of Phoenix Assurance plc

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with the applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We have planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Liverpool, 10 March 2004

Accounting Policies

Accounting and disclosure requirements
The principal accounting policies of the Company as set out below comply with Section 255 of and Schedule 9A to the Companies Act 1985, applicable UK accounting standards and with the Statement of Recommended Practice ("SORP") issued by the Association of British Insurers in December 1998.

Change in accounting policies
During the year the directors considered the accounting policy on the recognition of the value of long term insurance business (VLTB). This was a response to both the Association of British Insurers revised SORP issued in November 2003 and the International Financial Reporting Exposure Draft 5 (ED5) (although these would not have to be adopted until 2004 and 2005 respectively). The revised SORP recommends that the internally generated VLTB should not be recognised whilst the ED 5 places constraints on adopting a new accounting policy that recognises such value. As a result, the directors concluded that it would be more appropriate to make the change in the 2003 financial statements and to derecognise the internally generated VLTB. The consequence of this change is that the value of the shareholders' investment in the long term business funds is recognised as an asset only to the extent that it is attributable to shareholders under the modified statutory basis (MSB) principles of profit recognition. Under the previous policy, the value of the long term insurance funds included the amount attributable under the MSB principles plus the present value of future cash flows attributable to shareholders arising from in force long term business policies and the surplus held within the funds to meet solvency and future business development requirements.

In accordance with Financial Reporting Standard 18 the previous year's figures have been restated. There is no impact of the new policy on the statement of total recognised gains and losses. However the impact on the technical account – long term business is to increase the unrealised loss on investments in 2002 by £73.4m with a corresponding increase in the transfers from the funds for future appropriations with no impact on the balance on the technical account. The impact on the balance sheet is to reduce the investment in subsidiary undertakings and funds for future appropriations by £73.4m at 31 December 2002 representing the value of the shareholders investment in the long term business funds of Royal & Sun Alliance Linked Insurances Limited not already recognised under the modified statutory principles of profit recognition.

Basis of accounting
The financial statements are prepared in accordance with the historical cost convention, modified by the revaluation of certain assets as permitted by the Companies Act 1985.

Translation of foreign currencies
Assets and liabilities denominated in foreign currencies are translated into sterling at rates ruling at the year end. Transactions denominated in foreign currencies are translated at the prevailing rate at the date of the transaction. For assets and liabilities within the long term funds, the resulting exchange adjustments are included within the technical account – long term business. For assets and liabilities held outside the long term funds, the resulting exchange adjustments are taken to the profit and loss account.

Group accounts
The Company is a wholly owned subsidiary of a UK holding company and, in accordance with Section 228 of the Companies Act 1985, consolidated accounts have not been prepared.

Subsidiary undertakings
Investments in subsidiaries and associated undertakings are included in the balance sheet at net asset value. The difference between cost and the net asset value of subsidiary and associated undertakings is included within unrealised gains/(losses).

Investment income
Interest, rents and dividends on investments, other than ordinary shares, are included on an accruals basis. Account is taken of dividend income on ordinary shares when the related investment is quoted 'ex-dividend'.

Taxation
Taxation in the non-technical account and long term business technical account is based on profits and income for the year as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior years.

The balance on the technical account - long term business is transferred to the non-technical account. Profits are shown in the non-technical account grossed up for tax at the effective rate of corporation tax applicable in the period. The amount of grossing up is included within the taxation on the profit or loss on ordinary activities in the non-technical account.

Deferred tax is provided in full and consists of the estimated taxation or relief from taxation which is expected to arise from material timing differences using rates based on tax rates and laws which have been substantively enacted by the balance sheet date. Credit is taken for relief for trading and other losses only to the extent that the directors anticipate that suitable profits will absorb such losses in future periods.

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

Accounting policies

Investments

Investments and assets held to cover linked liabilities are shown at market value, for which purpose unlisted investments, mortgages and loans are included at directors' valuation and properties at professional valuation. For listed securities the stock exchange values are used. Properties are valued annually at open market value.

The property valuations have been prepared on the basis of open market value at the balance sheet date in accordance with The Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual by a qualified valuation surveyor.

The Companies Act requires properties to be depreciated over their expected useful economic lives. The directors consider that depreciation of investment properties would not give a true and fair view. In accordance with Statement of Standard Accounting Practice 19 "Accounting for investment properties", no depreciation is provided on these properties on the basis that depreciation is already reflected in the annual valuations. The amounts attributed to this factor by the valuers cannot reasonably be separately identified or quantified.

It is the Company's practice to maintain properties occupied by the Company in a continual state of sound repair. Accordingly the directors consider that the economic lives of these properties and their residual values, based on prices prevailing at the time of acquisition or subsequent valuation, are such that any depreciation is insignificant and is thus not provided.

The treatment of realised and unrealised investment gains and losses is as follows:

(i) Realised gains and losses

Net realised gains, being net sale proceeds less costs of acquisition, are included within the profit and loss account within investment income. Net realised losses are included within investment expenses and charges.

(ii) Unrealised gains and losses

Net unrealised gains or losses are shown separately in the profit and loss account. Unrealised gains and losses on investments represent the difference between the carrying value at the year end and the carrying value at the previous year end or, in the case of investments purchased in the year, the cost of acquisition. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Long term insurance business

Earned premiums

Earned premiums comprise written premiums and are recognised when payment is due, except for linked premiums which are accounted for when the liability for the units is included in the technical provision for linked liabilities. Single premiums are those relating to products issued by the Company where there is a contractual obligation for the payment of only one premium. Annual premiums are those where there is a contractural obligation for the payment of premiums on a regular basis.

New business premiums

New business premiums are recognised when the policy liability is set up. New single premiums include recurrent single premium contracts including Department of Work and Pensions rebates and increments under group pension schemes.

Claims incurred

Claims arising on maturity are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or the date at which the policy ceases to be included in the long term business provision or the technical provision for linked liabilities. Reinsurance recoveries are credited to match relevant gross amounts. Claims paid include related internal and external claims handling costs.

Acquisition costs

Acquisition costs comprise direct and indirect costs of obtaining and processing new business. These costs are deferred as an explicit deferred acquisition cost asset, gross of tax relief and amortised over the period in which they are expected to be recovered out of margins in matching revenues from related policies. At the end of each accounting period, deferred acquisition costs are reviewed for recoverability, by category, against future margins from the related policies in force at the balance sheet date.

Long term business provision

The long term business provision is computed using statistical or mathematical methods, which are expected to give approximately the same result as if an individual liability was calculated for each long term contract. The computations are made by a Fellow of the Institute of Actuaries, who is employed by Royal & Sun Alliance Insurance plc, on the basis of recognised actuarial methods with due regard to the Actuarial principles laid down in UK law and by Actuarial best practice. 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 professional undertaking the valuation. Details of the main assumptions made and the methods used are given in note 14.

Accounting policies

Technical provision for linked liabilities
The technical provision for linked liabilities represents the repurchase value of units allocated to in-force policies at the balance sheet date, where the policy benefits are wholly or partly related to investments of any description, or to indices of the value of investments.

Linked liabilities are established by reference to the value of the underlying assets which are held to meet those liabilities. These assets are included, predominantly, at mid-market value.

Outstanding claims
The provision for outstanding claims comprises the estimated cost of claims reported and not settled at the balance sheet date.

Basis of profit recognition
The profits on long term business represent the transfer from the long term funds to shareholders following the actuarial valuation of liabilities, together with the movements in reserves attributable to shareholders held within the long term funds and the investment return attributable to the long term fund from investments held outside the long term fund. Profits are shown in the non-technical account grossed up for taxation at the effective rate of corporation tax applicable in the period.

Bonuses
Reversionary bonuses are recognised in the technical account - long term business when declared and are included in the movement in the long term business provision. Terminal bonuses are recognised in the technical account - long term business when payable and are included in claims paid.

Fund for future appropriations
The excess of assets over liabilities arising in relation to the participating fund that has not been allocated to policyholders is included in the fund for future appropriations.

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

<u>General insurance business</u>

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

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

Technical provisions
The provision for unearned premiums represents the proportion of premiums written relating to periods of insurance subsequent to the balance sheet date, calculated on a time apportionment basis.

The provision for claims outstanding, whether reported or not, comprises the estimated cost of claims incurred but not settled at the balance sheet date. It includes related expenses and a deduction for the expected value of salvage and other recoveries. The provision is determined using the best information available of claims settlement patterns, forecast inflation and settlement of claims.

Differences between the estimated cost and subsequent settlement of claims are dealt with in the technical account for the year in which the claims are settled or re-estimated.

Estimation techniques, uncertainties and contingencies

Introduction

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

The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The uncertainty in the financial statements principally arises in respect of the technical provisions of the Company. For companies which undertake long term insurance business these provisions are held within the long term business provision.

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

Estimation techniques

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, 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 United Kingdom. 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.

Uncertainties and contingencies

The degree of uncertainty arising under insurance contracts will vary by product type according to the relevant characteristics and features of the particular contract. In determining the appropriate level of provision, assumptions will have to be made on a number of factors such as discount rate, future investment returns, inflation, asset mix, taxation, mortality, morbidity and expenses.

The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement could vary substantially over time. The Company seeks to provide appropriate levels of provision taking the known facts and experience into account. However, by their nature the quantification of the provisions will always contain a degree of uncertainty.

Profit and loss account
for the year ended 31 December 2003

Technical account - general business

	Notes	2003 £m	2002 £m
Earned premiums, net of reinsurance			
Gross premiums written	1c	2.3	5.5
Outward reinsurance premiums		(2.3)	(5.5)
		-	-
Change in the gross provision for unearned premiums		0.6	1.6
Change in the provision for unearned premiums, Reinsurers' share		(0.6)	(1.6)
		-	-
Net earned premium		-	-
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(3.6)	(6.6)
Reinsurers' share		3.6	6.0
		-	(0.6)
Change in the provision for claims			
Gross amount		0.5	(10.9)
Reinsurers' share		(0.5)	11.4
		-	0.5
Net claims incurred		-	(0.1)
Balance on the technical account – general business		-	(0.1)

All figures relate to continuing operations.

The notes on pages 15 to 24 form part of these financial statements.

Phoenix Assurance plc

Profit and loss account
for the year ended 31 December 2003

Technical account - long term business

	Notes	2003 £m	2002 (restated) £m
Earned premiums, net of reinsurance			
Gross premiums written – continuing	1a, 3	82.2	102.5
Gross premiums written – discontinued	1a, 3	33.1	196.7
		115.3	299.2
Outward reinsurance premiums – continuing	1a, 3	(5.4)	(5.0)
Outward reinsurance premiums – discontinued	1a, 3	(31.3)	(346.7)
		(36.7)	(351.7)
Net earned premiums		78.6	(52.5)
Investment income	9	87.3	112.7
Unrealised gains on investments	9	0.3	-
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(160.9)	(269.3)
Reinsurers' share		38.5	47.3
		(122.4)	(222.0)
Change in the provision for claims			
Gross amount		(2.4)	0.2
Reinsurers' share		-	-
		(2.4)	0.2
Net claims incurred		(124.8)	(221.8)
Changes in other technical provisions, net of reinsurance			
Long term business provision	14		
Gross amount		607.3	(194.7)
Reinsurers' share		(505.1)	374.6
		102.2	179.9
Technical provision for linked liabilities			
Gross amount		(5.3)	28.0
Reinsurers' share		2.8	(12.5)
		(2.5)	15.5
Net changes in other technical provisions		99.7	195.4
Net operating expenses	4	(32.9)	(47.9)
Investment expenses and charges	9	(3.0)	(2.6)
Unrealised losses on investments	9	-	(122.8)
Reorganisation costs	5	(1.9)	(8.6)
Taxation attributable to long term business	6	(23.4)	(5.7)
Exceptional profit: Attribution of surplus to shareholders	2	380.4	-
Associated deferred taxation	6	(69.9)	-
		310.5	-
Transfers (to)/from the fund for future appropriations	13	(36.3)	198.0
Balance on technical account - long term business – continuing	3	354.1	44.2
- discontinued		-	-

The figures relate to both continuing and discontinued operations and are analysed in note 3.

The notes on pages 15 to 24 form part of these financial statements

Profit and loss account
for the year ended 31 December 2003

Non-technical account

	Notes	2003 £m	2002 £m
Balance on the general business technical account		-	(0.1)
Balance on the long term business technical account		354.1	44.2
Tax credit attributable to balance on the long term business technical account		151.8	19.3
		505.9	63.5
Gain on disposal of operations	3	-	14.7
Profit on ordinary activities before taxation		505.9	78.1
Taxation on profit on ordinary activities	6	(147.1)	(24.0)
Profit on ordinary activities after taxation		358.8	54.1
Dividends	7	-	(30.0)
Transfer to retained profits		358.8	24.1

The figures relate to both continuing and discontinued operations and are analysed in note 3.

Statement of total recognised gains and losses
for the year ended 31 December 2003

	2003 £m	2002 £m
Profit for the financial year	358.8	54.1
Unrealised gains on investment in group undertakings	0.1	-
Shareholders' recognised gains	358.9	54.1

Movements in shareholders' funds
for the year ended 31 December 2003

	Share capital/ premium £m	Revaluation reserve £m	Profit and loss account £m	Total 2003 £m	2002 £m
Shareholders' funds at 1 January	62.4	0.2	98.1	160.7	136.6
Shareholders' recognised gains		0.1	358.8	358.9	54.1
Dividends			-	-	(30.0)
Shareholders' funds at 31 December	62.4	0.3	456.9	519.6	160.7

The profit and loss account includes **£138.3m** *(2002 £97.7m)* which is distributable.

The notes on pages 15 to 24 form part of these financial statements.

Phoenix Assurance plc

Balance sheet
at 31 December 2003

	Notes	**2003 £m**	2002 (restated) £m
<u>Assets</u>			
Investments	10		
Land and buildings		**24.6**	30.7
Investments in subsidiary and associated undertakings and participating interests	17	**183.4**	194.9
Other financial investments		**1,495.3**	1,380.4
Deposits with ceding undertakings		**8.8**	12.9
		1,712.1	1,618.9
Assets held to cover linked liabilities		**18.5**	16.1
Reinsurers' share of technical provisions			
Provision for unearned premium		**4.1**	4.8
Long term business provision		**9.5**	514.6
Claims outstanding		**38.1**	43.5
Technical provision for linked liabilities		**44.1**	41.3
		95.8	604.2
Debtors	11		
Debtors arising out of direct insurance operations		**0.3**	15.1
Debtors arising out of reinsurance operations		**1.9**	1.7
Other debtors		**22.6**	70.3
		24.8	87.1
Other assets			
Cash at bank and in hand		**8.1**	88.9
Prepayments and accrued income			
Accrued interest and rent		**13.6**	17.3
Deferred acquisition costs – long term business		**6.0**	21.1
Deposits with ceding undertakings	16	**44.1**	58.5
		63.7	96.9
Total assets		**1,923.0**	2,512.1

The balance sheet includes assets totalling **£1,431.5m** (*2002 restated £1,554.5m)* representing the long term insurance funds.

The notes on pages 15 to 24 form part of these financial statements.

Balance sheet
at 31 December 2003

	Notes	2003 £m	2002 (restated) £m
Liabilities			
Capital and reserves (see page 12)			
Called up share capital	12	**15.9**	15.9
Share premium account		**46.5**	46.5
Revaluation reserve		**0.3**	0.2
Profit and loss account		**456.9**	98.1
Shareholders' funds – equity interests		**519.6**	160.7
Fund for future appropriations	13	**183.3**	527.4
Technical provisions			
Provision for unearned premium		**4.1**	4.8
Long term business provision	14	**918.9**	1,526.2
Claims outstanding		**47.2**	50.2
		970.2	1,581.2
Technical provision for linked liabilities		**62.6**	57.3
Provision for other risks and charges	22	**81.0**	13.5
Creditors			
Creditors arising out of reinsurance operations	15	**2.4**	22.2
Other creditors including taxation and social security	15	**59.4**	60.7
Proposed dividend	7	**-**	30.0
		61.8	112.9
Accruals and deferred income			
Property rent		**0.4**	0.6
Deferred income under financial reassurance		**44.1**	58.5
		44.5	59.1
Total liabilities		**1,923.0**	2,512.1

The notes on pages 15 to 24 form part of these financial statements.

The financial statements on pages 6 to 24 were approved by the directors on 10 March 2004 and were signed on their behalf by:

R Craine
Director
10 March 2004

R E K Greenfield
Director

Notes on the financial statements

1. Segmental information

Long term business

No geographical segmental information, as required by Statement of Standard Accounting Practice 25, is given as business is predominantly sourced in the United Kingdom.

1a Premiums written

	2003 Gross	2003 Reinsurance ceded	2003 Net	2002 Gross	2002 Reinsurance ceded	2002 Net
	£m	£m	£m	£m	£m	£m
Life						
Individual						
Non linked with profits	1.1	-	1.1	1.2	-	1.2
Non linked without profits	65.8	(4.9)	60.9	70.8	(4.9)	65.9
Linked without profits	0.6	-	0.6	0.7	-	0.7
Group						
Non linked without profits	12.7	(11.4)	1.3	80.7	(283.3)	(202.6)
Pensions						
Individual						
Non linked without profits	7.8	(0.1)	7.7	13.4	(0.1)	13.3
Group						
Non linked with profits	3.0	-	3.0	11.0	-	11.0
Non linked without profits	21.3	(20.3)	1.0	117.5	(63.4)	54.1
Annuity	3.0	-	3.0	3.9	-	3.9
Total premiums written	115.3	(36.7)	78.6	299.2	(351.7)	(52.5)
Periodic premiums	79.4	(5.4)	74.0	88.5	(5.0)	83.5
Single premiums	35.9	(31.3)	4.6	210.7	(346.7)	(136.0)
Total premiums written	115.3	(36.7)	78.6	299.2	(351.7)	(52.5)

The gross figures above include the following inward reinsurance premiums:

	2003	2002
	£m	£m
Life Individual		
Non linked with profits	0.8	1.0
Non linked without profits	52.2	56.8
Pensions Individual - non linked without profits	7.2	9.2
Pensions Group – non linked with profits	-	11.0
- non linked without profits	3.0	-
Total	63.2	78.0

Notes on the financial statements

1b New business premiums

	2003 Gross £m	2003 Reinsurance ceded £m	2003 Net £m	2002 Gross £m	2002 Reinsurance ceded £m	2002 Net £m
Life						
Individual						
Non linked without profits	0.3	-	0.3	4.1	-	4.1
Group						
Non linked without profits	11.4	(11.0)	0.4	79.2	(283.3)	(204.1)
Pensions						
Individual						
Non linked without profits	0.2	-	0.2	0.4	-	0.4
Group						
Non linked without profits	21.3	(20.3)	1.0	117.5	(63.4)	54.1
Non linked with profits				9.7	-	9.7
Annuity	3.0	-	3.0	3.9	-	3.9
Total new business annualised premiums	36.2	(31.3)	4.9	214.8	(346.7)	(131.9)
Periodic premiums	0.3	-	0.3	4.1	-	4.1
Single premiums	35.9	(31.3)	4.6	210.7	(346.7)	(136.0)
Total new business annualised premiums	36.2	(31.3)	4.9	214.8	(346.7)	(131.9)

Where regular premiums are received other than annually, the reported regular new business premiums are on an annualised basis.

The gross figures above include the following inward reinsurance premiums:

	2003 £m	2002 £m
Life individual		
Non linked without profits	-	0.7

Included within the 2002 reinsurance ceded above of £346.7m is £298.1m paid in connection with the disposal of the Group Risk business as described in note 3.

Notes on the financial statements

1c. General Business

Segmental analysis of business by geographical area

No geographical segmental information, as required by Statement of Standard Accounting Practice 25, is given as all business is sourced in Europe (excluding United Kingdom).

2003	**Motor (other) £m**	**Marine aviation & transport £m**	**Misc & pec loss £m**	**Total £m**
Gross premiums written	-	0.1	2.2	2.3
Gross premiums earned	-	0.1	2.9	3.0
Gross claims incurred	-	(2.2)	(0.8)	(3.0)
Gross operating expenses	-	-	(2.3)	(2.3)
Gross technical result	-	(2.1)	(0.2)	(2.3)
Reinsurance balance	-	2.1	0.2	2.3
Net technical result	-	-	-	-

2002	Motor (other) £m	Marine aviation & transport £m	Misc & pec loss £m	Total £m
Gross premiums written	-	(1.2)	6.7	5.5
Gross premiums earned	-	(1.2)	8.3	7.1
Gross claims incurred	(0.1)	(15.7)	(1.7)	(17.5)
Gross operating expenses	-	-	(3.5)	(3.5)
Gross technical result	(0.1)	(16.9)	3.1	(13.9)
Reinsurance balance	-	16.9	(3.1)	13.8
Net technical result	(0.1)	-	-	(0.1)

2. Value of long term fund attributed to shareholders

The attribution of the shareholders' interests in the long term fund was described in the directors' report on page 3. The impact on the technical account long term business is to increase the taxation attributable to long term business by **£69.9m** and to transfer **£380.4m** from fund for future appropriations. The net impact on the balance on the technical account long term business is an *exceptional profit of* **£310.5m**.

3. Continuing and discontinued business

The discontinued business relates to Group Risk business which was sold to Canada Life (Group) UK Limited (Canada Life) on 1 October 2002. However, prior to Court approval for a funds transfer under S105 of the Financial Services and Markets Act 2000, this business continued to be written by Phoenix and 100% reassured to Canada Life. Court approval was effective from 1 April 2003 and all funds were transferred to Canada Life. From this date the Group Risk business was written directly by Canada Life.

An analysis of continuing and discontinued business is detailed below.

Notes on the financial statements

3. Continuing and discontinued business *(continued)*

	2003			2002		
	Continuing £m	**Discontinued £m**	**Total £m**	Continuing (restated) £m	Discontinued £m	Total (restated) £m
Gross premiums written	**84.0**	**31.3**	**115.3**	102.5	196.7	299.2
Outward reinsurance premiums	**(5.4)**	**(31.3)**	**(36.7)**	(5.0)	(346.7)	(351.7)
Net current premiums	**78.6**	-	**78.6**	97.5	(150.0)	(52.5)
Investment Income	**87.3**	-	**87.3**	112.7	-	112.7
Net claims incurred	**(124.8)**	-	**(124.8)**	(139.2)	(82.6)	(221.8)
Net change in other technical provisions	**99.7**	-	**99.7**	145.9	49.5	195.4
Net operating expenses	**(34.8)**	-	**(34.8)**	(47.0)	(9.5)	(56.5)
Investment expenses and charges	**(3.0)**	-	**(3.0)**	(4.5)	1.9	(2.6)
Unrealised losses on investments	**0.3**	-	**0.3**	(122.8)	-	(122.8)
Taxation attributable to long term business	**(93.3)**	-	**(93.3)**	(5.7)	-	(5.7)
Transfers to/(from) fund for future appropriations	**344.1**	-	**344.1**	7.3	190.7	198.0
Balance on technical account long term business	**354.1**	-	**354.1**	44.2	-	44.2
Profit on ordinary activities before taxation	**505.9**	-	**505.9**	78.1	-	78.1

Due to the structure of the long term fund, it is not possible to separately identify investment income, unrealised gains, and the subsequent tax impact for the discontinued business. Accordingly, these items are shown wholly in the continuing business column.

4. Net operating expenses

	2003 £m	2002 £m
Acquisition costs	**(1.9)**	(32.0)
Change in deferred acquisition costs	**(15.1)**	(5.9)
Administrative expenses	**(17.3)**	(12.9)
Reinsurance commissions and profit participation	**1.4**	2.9
Net operating expenses	**(32.9)**	(47.9)

All operating expenses were recharged from a fellow group company, Royal & Sun Alliance Life Insurance Services Limited.

Following the decision to close to new business in 2002 and in order to ensure that a robust and cost effective service continued to be provided to our policyholders, an agreement was entered into with Unisys Limited, effective from 1 May 2003, for the provision of policy administration services and related support functions. The majority of the costs associated with this contract are wholly variable, being determined by in-force policy counts. This assures reducing maintenance costs over time at a lower level than has previously been reserved for.

In addition to the variable costs, there are certain transition costs payable in the early years of the contract. These transition costs were fully provided for within long term business provision at 31 December 2002. During 2003, as these costs are incurred, they are included in expenses, which has resulted in an increase in administrative expenses. There is, however, a corresponding release from long term business provision, which taken together, has an immaterial impact on the balance of the technical account - long term business.

Total direct commission accounted for by the Company during the year, excluding payments to employees, amounted to **£3.0m** *(2002 £15.79m).* Total reinsurance commissions and profit participation accounted for by the Company during the year amounted to net expenditure of **£0.7m** *(2002 £1.4m).*

Notes on the financial statements

5. Reorganisation costs

The amount shown in the technical account – long term business relates to costs arising from the decision to close to new business in 2002, together with the out-turn of provisions established prior to 2003 in respect of previous business improvement programmes. These costs arise from fundamental reorganisations of the business (see note 22).

6. Taxation

The charges for taxation in the technical account - long term business and the non-technical account comprise:

	Long term technical account		Non-technical account	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Current tax:				
UK corporation tax	**(20.0)**	(4.6)	**-**	(4.4)
Overseas taxation	**(0.1)**	(0.1)	**-**	(0.3)
(Under)/over provision in respect of prior year	**(2.8)**	(1.8)	**4.7**	-
Total current tax	**(22.9)**	(6.5)	**4.7**	(4.7)
Tax attributable to balance on the long term technical account	**-**	-	**(151.8)**	(19.3)
Deferred tax (see note 23)				
Attribution of surplus to shareholders (undiscounted)	**(87.8)**	-	**-**	-
Discount	**17.9**	-	**-**	-
Attribution of surplus to shareholders (discounted)	**(69.9)**	-	**-**	-
Timing differences	**(0.2)**	1.3	**-**	-
Movement in discount on time differences	**(0.3)**	(0.5)	**-**	-
	(70.4)	0.8	**-**	-
Total tax charge	**(93.3)**	(5.7)	**(147.1)**	(24.0)

The tax charge for UK corporation tax in the technical account – long term business is provided at rates between **20%** and **30%** *(2002 between 20% and 30%)* computed in accordance with the rules applicable to life insurance companies.

UK corporation tax for the current year in the non-technical account is less than *(2002 more than)* the standard rate of **30%** *(2002 30%)* due to the items set out in the reconciliation below.

	2003	2002
	£m	£m
Profit on ordinary activities before taxation	**505.9**	78.1
Tax charge at 30%	**(151.8)**	(23.5)
Factors affecting charge		
Difference between effective and standard tax rate on balance on long term business technical account	**-**	(0.2)
Adjustments to prior year provisions	**4.7**	(0.3)
Current tax charge for the year	**(147.1)**	(24.0)

7. Dividends

	2003	2002
	£m	£m
Proposed final dividend	**-**	30.0

8. Bonuses

The total amount of bonuses attributable to the year is **£12.8m** *(2002 £14.0m)*.

Notes on the financial statements

9. Investment return

	2003 £m	2002 (restated) £m
Attributable to long term business		
Income from investments		
Income from land and buildings	3.1	4.8
Income from other investments	68.0	85.4
Gains on the realisation of investments	16.2	22.5
Total investment income	87.3	112.7
Investment expenses and charges		
Investment management charges	(3.0)	(2.6)
	84.3	110.1
Unrealised gains/(losses) on investments	0.3	(122.8)
Investment return attributable to long term business	84.6	(12.7)

10. Investments

	2003 £m	2002 £m
Land and buildings		
Freehold	21.8	27.1
Long leasehold	2.8	3.6
	24.6	30.7
Of which group occupied	-	11.2
Other financial investments		
Shares and other variable yield securities and units in unit trusts	308.7	281.2
Debt securities and other fixed income securities		
British government securities	670.7	499.5
Other government securities	13.0	175.5
Corporate bonds	502.1	415.7
Loans secured by mortgages	0.3	0.3
Policy loans	0.5	0.8
Fixed term deposits	-	7.4
Total other financial investments	1,495.3	1,380.4
Deposits with ceding undertakings		
Reinsurance deposits	8.8	12.9

The historical cost of investments (including **£5.4m** *(2002 £4.9m)* for assets held to cover linked liabilities) is **£1,464.3m** *(2002 £1,368.9m)*. Included with shares and other variable yield securities and units in unit trusts are money market funds with a value of **£125.2m** (*2002 £95.8 m)*.

Listed investments included in the total investments are as follows:

	2003 £m	2002 £m
Shares and other variable yield securities and units in unit trusts	308.7	281.2
Debt securities and other fixed income securities	1,070.8	1,090.7
	1,379.5	1,371.9

Notes on the financial statements

11. Debtors

	2003 £m	2002 £m
Arising out of direct insurance operations		
Amounts due from policyholders	0.3	15.0
Amounts due from intermediaries	-	0.1
	0.3	15.1
Arising out of reinsurance operations		
Amounts due from reinsurers	1.9	1.7
Other debtors		
Amounts due from group companies	19.6	67.3
Amounts due from others	3.0	3.0
	22.6	70.3
Total	24.8	87.1

12. Share Capital

	2003 £m	2002 £m
Authorised		
474,480,450 ordinary shares of 1p each	4.7	4.7
61,020,782 deferred shares of 25p each	15.3	15.3
	20.0	20.0
Issued and fully paid		
61,020,782 ordinary shares of 1p each	0.6	0.6
61,020,782 deferred shares of 25p each	15.3	15.3
	15.9	15.9

The deferred shares do not entitle the holders to receive any dividend in respect of any accounting reference period of the Company unless, and until, there has been declared, and paid in respect of that period, a dividend of not less than £5 per ordinary share. Thereafter the holders of the deferred shares shall participate equally with the holders of such ordinary shares in the profits of the Company. The deferred shares do not entitle any holders to receive notice of, attend or vote at any general meeting of the Company.

On a return of assets on liquidation or otherwise, the assets to be returned shall be applied to the holders of deferred shares, after paying to the holders of the ordinary shares £5,000 per share. In paying to the holders of the deferred shares the amounts paid up thereon, and the balance of such assets shall belong to and be distributed among the holders of the ordinary shares in proportion to the amounts paid up on the ordinary shares held by them respectively.

13. Funds for future appropriations

	2003 £m
At 1 January as previously stated	600.8
Prior year adjustment (see "change in accounting policies" on page 6)	(73.4)
At 1 January as restated	527.4
Attribution of shareholders' interest in long term fund – see note 2	(380.4)
Transfer to FFA in respect of the current year	36.3
	(344.1)
At 31 December	183.3

Notes on the financial statements

14. Long term business provision

The long term business provision for non-profit non-linked business has been calculated using the gross premium method. In certain instances appropriate approximations or modifications have been made.

For single premium policies the provision is calculated as the present value of the benefits and future expenses.

The long term business provision for with profit non linked life business has been calculated using a net premium method plus an additional amount to make appropriate allowance for future reversionary bonuses.

The long term business provision for non profit pension business is the aggregate value in scheme accounts together with provisions for death-in-service benefits and investment performance guarantees.

The principal assumptions used are as follows:-

	Interest rate p.a.	Mortality table
Life with profit	**1.00%**	AM80/ AF80
Life with profit – Additional Bonus Reserve	**3.30%** *(2002 1.00%)*	AM80/AF80
Life non profit - Endowment Ass Whole Life	**3.30%** *(2002 3.10%)*	AM80/ AF80
Term Assurance	**3.30%** *(2002 3.10%)*	TM92/TF92
Pension annuities in payment	**4.70%** *(2002 4.30%)*	PMA92/PFA92 (c=2020)
Permanent Health Insurance	**4.20%** *(2002 3.90%)*	TM92/TF92

The mortality assumptions incorporate amendments to the basic assumptions above where appropriate.

The assumptions in the above table are unchanged from 31 December 2002 except where indicated.

The long term business provision for linked business has been computed as the present value of non-unit liabilities and expenses where not covered by future margins.

15. Creditors	**2003** **£m**	2002 £m
Arising from reinsurance operations		
Other	2.4	22.2
Other creditors including taxation and social security		
Corporation tax	**10.8**	10.1
Amounts due to group companies	**23.1**	26.4
Loans from group companies	**17.2**	18.1
Other	**8.3**	6.1
	59.4	60.7

16. Deposits with ceding undertakings

Under financial reassurance agreements entered into in previous years, the Company paid deposits to a fellow group subsidiary. The present value of future margins which are expected to finance the repayment of these deposits is included in the balance sheet under "Accruals and deferred income".

Notes on the financial statements

17. Investment in subsidiary undertakings

The Company owns the whole of the issued share capital of Royal & Sun Alliance Linked Insurances Limited, Clearfol Investment Limited (a property management company) and Property Growth Assurance Company Limited.

The figure for subsidiary undertakings in the balance sheet comprises:

	2003 £m	2002 (restated) £m
Shares at cost	235.7	235.7
Adjustment to net asset value	(52.3)	(40.8)
	183.4	194.9

18. Other participating interests

The Company has a 25% *(2002 25%)* holding in Swinchan Holdings Limited, which is registered in England and Wales. This is not accounted for as a subsidiary as the Company does not exert significant influence over it.

19. Directors' emoluments

All directors who are employed by the Group receive remuneration from Royal & Sun Alliance Insurance plc as employees of that company.

The directors' emoluments allocated to the Company in 2003 were **£81,895** *(2002 £456.296).*

The amount attributable to the highest paid director allocated to the Company, excluding pension fund contributions, was **£29,099** *(2002 £139,188).* At 31 December 2003 the highest paid director has an accrued pension allocated to the Company of **£Nil pa** *(2002 £20,983 pa).*

Retirement benefits are accruing for three directors under a defined benefit scheme.

	2003 £000	2002 £000
Aggregate pensions of former directors were:		
Other pensions	14.2	14.0

20. Auditors' remuneration

The remuneration of the auditors of the Company amounted to **£37,817** *(2002 £39,253).* The auditors of the Company also received fees of **£143,500** *(2002 £285,451)* of non-audit services.

21. Pension costs and other post-retirement benefits

All of the staff in the UK are employed by Royal & Sun Alliance Insurance plc and are members of either one of the defined benefit pension schemes or a defined contribution pension scheme, details of which are disclosed in the accounts of that company. Contributions are based on pension costs across the UK group as a whole.

22. Provision for other risks and charges

	Complaints and litigation costs		Reorganisation costs		Deferred taxation	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
At 1 January	0.1	-	7.8	2.0	5.6	6.4
Transfer from fellow subsidiary	-	0.1	-	-	-	-
Utilised	(0.1)	-	(5.1)	(2.8)	-	-
Charges to/(release) from:						
Technical account – long term business	0.4	-	1.9	8.6	70.4	(0.8)
At 31 December	0.4	0.1	4.6	7.8	76.0	5.6

Notes on the financial statements

22. Provision for other risks and charges *(continued)*

The reorganisation costs charge relates to the decision to close the Company to new business in 2002 (see note 5), and other previous business improvement programmes.

23. Deferred taxation

	2003	2002
	£m	£m
Unrealised investment gains	**13.2**	11.5
Other timing differences	**81.1**	(5.3)
	94.3	6.2
Discount	**(18.3)**	(0.6)
Deferred taxation provided	**76.0**	5.6

Deferred tax assets and liabilities are discounted at rates reflecting post-tax yields to maturity that can be obtained at the balance sheet date on government bonds with maturity dates and in currencies similar to those of the deferred tax assets and liabilities.

24. Capital commitments

The Company had no capital commitments at 31 December 2003 *(2002 £Nil).*

25. Financial commitments

The Company had no financial commitments under non-cancellable operating leases at 31 December 2003 *(2002 £Nil).*

26. Cash flow

The Company is a wholly owned subsidiary of Royal & Sun Alliance Insurance Group plc and the cash flows of the Company are included in the consolidated cash flow statement of Royal & Sun Alliance Insurance Group plc. The Company has thus taken advantage of the exemption permitted by Financial Reporting Standard 1 (revised) and has elected not to prepare its own cash flow statement.

27. Contingent liabilities

Other than in the normal course of business the Company had no material contingent liabilities at 31 December 2003 *(2002 £Nil).*

28. Related party transactions

Included in the balance sheet are investments in unit trusts of **£Nil** *(2002 £Nil)* managed by Royal & Sun Alliance Insurance Group plc subsidiaries.

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

The Company has entered into mutual guarantees with Royal & Sun Alliance Insurance plc and certain of its UK subsidiaries for the payment of general insurance business liabilities.

29. Parent companies

The Company's immediate parent company is Royal & Sun Alliance Life Holdings Limited, which is registered in England and Wales.

The parent of the smallest group for which consolidated accounts including Phoenix Assurance plc are drawn up is Royal & Sun Alliance Insurance plc, which is registered in England and Wales.

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