

**LIVERPOOL MARINE AND
GENERAL INSURANCE COMPANY LIMITED**

Report and Accounts

for the year ended 31 December 2003



Liverpool Marine and General Insurance Company Limited

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Liverpool Marine and General Insurance Company Limited

Directors

Directors

Non-Destructive Testers Limited

R O Hudson

Secretary

J E Fox

Registered Office

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

Auditors

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

Liverpool Marine and General Insurance Company Limited

Directors' Report

for the year ended 31 December 2003

Principal activity

The principal activity of the Company is the transaction of marine insurance business. The whole of the Company's net insurance account is reinsured with its parent company.

Review of the year and future developments

The Company ceased writing new business in 1993 and has no intention to recommence trading in the future. The revenue account comprises the running down of the existing book of business and is classified as discontinued.

Result and dividend

The profit for the year is shown in the profit and loss account on page 11. A dividend of £Nil (2002: £Nil) was paid during the year.

Shareholders Funds

A resolution was passed at an Extraordinary General Meeting of Liverpool Marine and General Insurance Company Limited on 16 December 2003 to increase the authorised share capital of the Company to £11,000,000 by the creation of an additional 10,000,000 ordinary shares of £1 each. These are to rank *pari passu* in all respects with the existing ordinary shares of £1 each in the capital of the Company.

On 22 December 2003 Sun Alliance and London Insurance plc subscribed to 2,000,000 fully paid shares of £1 each.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting of Royal & Sun Alliance Insurance Group plc.

Liverpool Marine and General Insurance Company Limited

Directors' Report (continued)

for the year ended 31 December 2003

Directors

R O Hudson and Non-Destructive Testers Limited served as directors throughout the year.

The directors did not have any interests in the shares of the Company.

The interests of R O Hudson in the ordinary shares of Royal & Sun Alliance Insurance Group plc are as follows:-

	Ordinary shares held at 1 January 2003 or on appointment (Note 1)	Ordinary shares acquired	Ordinary shares disposed	Ordinary shares held at 31 December 2003 (Note 1)
R O Hudson	33,910	31,859	-	65,769

Notes

1. Ordinary shares of 27.5p each.

In addition to the interests shown above, R O Hudson had a beneficial interest, as at 31st December 2003, in 12,371,801 (2002: 11,541,409) shares of 27.5p each in Royal & Sun Alliance Insurance Group plc held in the Royal & Sun Alliance ESOP Trust and 3,038,894 (2002: 697,200) shares of 27.5p each in Royal & Sun Alliance Insurance Group plc held in the Royal & Sun Alliance ESOP Trust No 2. All employees of the Group and certain option-holders have a beneficial interest in the shares held in these trusts with the exception of the executive directors of Royal & Sun Alliance Insurance Group plc who are excluded from the beneficiaries of the Royal & Sun Alliance ESOP Trust.

Options to subscribe for shares

	Held at 1 January 2003 or on appointment	During 2003			Rights Issue	Held at 31 December 2003
		Granted	Exercised	Lapsed		
R O Hudson	203,294	91,917	-	1,604	55,399	349,006

By order of the directors

J E Fox
Secretary
27th April 2004

Liverpool Marine and General Insurance Company Limited

Statement of directors' responsibilities

Directors' responsibilities

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

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

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

Liverpool Marine and General Insurance Company Limited

Auditors' report

Independent auditors' report to the members of Liverpool Marine and General Company Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and 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 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 in to 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.

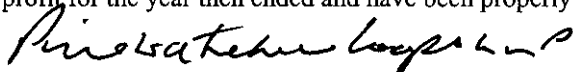
Basis of audit opinion

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 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 31st 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

Chartered Accountants and Registered Auditors

London

27 April

2004

Liverpool Marine and General Insurance Company Limited

Accounting policies

1. Accounting and disclosure requirements

The financial statements are prepared in accordance with applicable United Kingdom accounting standards, the Statement of Recommended Practice (SORP) issued by the Association of British Insurers in December 1998 and the provisions of section 255 of, and Schedule 9A to, the Companies Act 1985.

The financial statements have been prepared under the historical cost account rules modified to include the revaluation of investments.

2. Accounting policies

The financial statements are prepared in accordance with applicable UK accounting standards and the Statement of Recommended Practice issued by the Association of British Insurers in December 1998. The financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets).

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.

(a) General insurance business

(i) Underwriting results

The underwriting result is accounted for on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance. Premiums written are accounted for in the year in which the related risks commence and include estimates where the amounts are not determined at the balance sheet date. Premiums written exclude taxes and duties levied on premiums. The commission and other acquisition costs incurred in writing the business are deferred and amortised over the period in which the related premiums are earned.

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

The balance on the general business technical account is arrived at after taking account of changes in the equalisation provision.

(ii) Technical provisions

The provision for unearned premiums represents the proportion of premiums written relating to periods of insurance subsequent to the balance sheet date, calculated principally on a daily pro-rata basis.

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

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

Provision is made, based on information available at the balance sheet date, for any estimated future underwriting losses relating to unexpired risks, after taking into account future investment income on relevant technical provisions. The unexpired risk provision is assessed in aggregate for business classes which in the opinion of the directors are managed together.

Liverpool Marine and General Insurance Company Limited

Accounting policies (continued)

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

Reinsurance recoveries

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

(b) Investment return

Income from investments is included in the profit and loss account on an accruals basis. Dividend income on ordinary shares is recognised when the related investment goes 'ex-dividend'. Investment income is recorded net after deducting related tax charges on dividend income. Realised and unrealised gains and losses are dealt with in the non-technical account. Realised gains and losses represent net sale proceeds less the purchase price.

(c) Taxation

Taxation in the non-technical account is based on the profit and income for the year as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior years. UK tax in respect of overseas subsidiaries and principal associated undertakings is based on dividends received.

Deferred taxation is provided in full and consists of the estimated taxation or relief from taxation which is expected to arise from material timing differences using rates based on tax rates and laws that have been substantively enacted by the balance sheet date. 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 the foreseeable future.

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. The rates used are within the range of 1% to 4%.

(d) Investments

Investments are stated in the balance sheet at market values comprising stock exchange values for listed securities and directors' valuations for other investments. Profits and losses on the realisation of investments, the differences between market values and book values of the investments together with the related tax are taken to the non-technical account.

(e) Translation of foreign currencies

Assets and liabilities in foreign currencies and overseas revenue transactions are translated into sterling at rates ruling at the year end. The resulting exchange adjustments, including the differences arising from the translation of the technical provisions at the beginning of the year at year end rates are taken to the non-technical account.

(f) 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.

The technical provisions include the provision for unearned premiums and unexpired risks as well as the provision for outstanding claims. The provisions for unearned premiums and unexpired risks represents 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.

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

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

Estimation techniques

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

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 Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The 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.

Liverpool Marine and General Insurance Company Limited

Accounting policies (continued)

The general business claims provisions are 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. 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.

Uncertainties and contingencies

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

- uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss,
- uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring,
- 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 Company. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. There are many factors that will determine the level of uncertainty such as inflation, judicial trends, legislative changes and claims handling procedures.

There may also be complex technical issues that give rise to delays in notification arising from unresolved legal issues on policy coverage and the identity of the insureds. As a consequence, traditional techniques for estimating claims provisions cannot wholly be relied on and the Company employs specialised techniques to determine provisions using the extensive knowledge of both internal and external legal and professional advisors.

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 Company 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.

Liverpool Marine and General Insurance Company Limited

Profit and loss account for the year ended 31 December 2003

Technical account - General business

	Notes	2003 £000	2002 £000
Claims paid			
Gross amount		3	(2)
Reinsurers' share		(3)	2
		-	-
Change in the provision for claims			
Gross amount		(3)	2
Reinsurers' share		3	(2)
		-	-
Claims incurred, net of reinsurance		-	-
Net operating expenses	1	15	-
Balance on the technical account for general business		15	-

Non-technical account

	Notes	2003 £000	2002 £000
Balance on the technical account for general business		15	-
Investment Income			
Investment income		211	215
Unrealised gain on investments		-	118
		211	333
Investment Expenses and Charges			
Realised loss on investments		(23)	(114)
Unrealised loss on investments		(106)	-
Investment Return		(129)	219
Other Income		72	14
Profit on ordinary activities before taxation		169	233
Taxation on profit on ordinary activities	3	(29)	(66)
Profit on ordinary activities after taxation		140	167
Dividends (including dividends in respect of non-equity shares)		-	-
Retained profit for the year		140	167

All figures relate to discontinued operations.

The notes on pages 14 to 16 and the accounting policies on pages 7 to 10 form part of these accounts.

There have been no recognised gains or losses in either reporting year other than those recorded in the profit and loss account, accordingly no statement of total recognised gains and losses is presented.

Liverpool Marine and General Insurance Company Limited

Reconciliation of movements in shareholders' funds

for the year ended 31 December 2003


	Notes	2003 £000	2002 £000
Profit for the financial year		140	167
Issue of share capital		2,000	-
Opening shareholders' funds		530	363
Closing shareholders' funds		2,670	530

Liverpool Marine and General Insurance Company Limited

Balance sheet as at 31 December 2003

	Notes	2003 £000	2002 £000
Assets			
Investments			
Listed debt securities and other fixed income securities	5	5,117	3,035
Reinsurers' share of technical provisions			
Claims outstanding		959	951
Debtors			
Due from parent undertaking and fellow subsidiary undertakings		4,182	-
Prepayments and accrued income			
Accrued interest		34	32
Total assets		<u>10,292</u>	<u>4,018</u>
Liabilities			
Capital and reserves			
Called up share capital	6	2,300	300
Profit and loss account	4	370	230
Equity shareholders' funds		<u>2,670</u>	<u>530</u>
Technical provisions			
Claims outstanding		959	951
Creditors			
Amounts owed to parent undertakings and fellow subsidiary undertakings		6,568	2,471
Other creditors including taxation and social security		95	66
Total liabilities		<u>10,292</u>	<u>4,018</u>

The accounts on pages 7 to 16 were approved today by the directors and signed on their behalf by:-


Director
27th April 2004

Liverpool Marine and General Insurance Company Limited

Notes on the accounts

1. Net operating expenses: technical account - general business

Net operating expenses of £15k due to reinsurance pipeline premiums written off.

2. Employees and staff costs

There are no employees of the Company.

3. Taxation

	2003 £000	2002 £000
Current tax		
The charge for UK taxation in the profit & loss account comprises:		
UK corporation tax	29	66
Adjustments in respect of prior years		
Total current tax	29	66
Deferred tax	-	-
Origination and reversal of timing differences	-	-
Movement in discount	-	-
Total deferred tax	-	-
Tax charge	29	66

UK corporation tax for the current year is based on a rate of 30% (2002: 30%)

Factors affecting the current tax charge

The current tax charge for the year is less than (2002 less than) 30% due to the items set out in the reconciliation below.

	2003 £000	2002 £000
Profit on ordinary activities before tax	169	233
Tax at 30%	51	70
<i>Factors affecting charge</i>		
Disallowed expenditure	-	-
Tax exempt income and investment gains	(22)	(4)
Adjustment to prior year provisions	-	-
Other timing differences	-	-
Current tax charge for the period	29	66

Liverpool Marine and General Insurance Company Limited
Notes on the accounts (continued)

4. Reserves

Reserves and reserve movements are as follows:

	Profit and loss account	
	2003	2002
	£000	£000
Balance at 1 January	230	63
Retained profit for the year	140	167
Balance at 31 December	370	230

No future investment income has been netted off reserves.

5. Investments

The historical cost of listed debt securities and other fixed income investments is £5,211,000 (2002: £3,024,000).

The composition of the investment pool is 98% (2002 97%) British Government Stocks, 2% (2002 0%) Deposits maturing within 3 months and 0% (2002 3%) Current Accounts.

6. Share capital

	2003	2002
	£000	£000
Authorised		
11,000,000 (1,000,000 2002) shares of 100p each	11,000	1,000
Issued and fully paid		
2,300,000 (300,000 2002) shares of 100p each	2,300	300

10,000,000 new ordinary shares were authorised on 16 December 2003, of which 2,000,000 new shares were issued to Sun Alliance and London Insurance plc on the 22 December 2003.

7. Directors' emoluments

All the directors receive remuneration from Royal & Sun Alliance Insurance plc as employees of that company, and it is not appropriate, because of the non-executive nature of their services, to make an apportionment of their emoluments in respect of the Company.

8. Auditors' remuneration

The cost of auditing the Company's accounts in the UK is borne by a parent company, Royal & Sun Alliance Insurance plc.

9. Capital commitments

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

10. Contingent liabilities

The Company had no material contingent liabilities at 31 December 2003 (2002: £Nil).

Liverpool Marine and General Insurance Company Limited

Notes on the accounts (continued)

11. Cash flow statement

The Company's ultimate parent is Royal & Sun Alliance Insurance Group plc and the cash flows of the Company are included in the consolidated cash flow statement of Royal & Sun Alliance Insurance Group plc. The Company has thus taken advantage of the exemption permitted by FRS 1 (revised) and has elected not to prepare its own cash flow statement.

12. Related party transactions

Advantage has been taken of the exemption provided in FRS8 from disclosing details of transactions with Royal & Sun Alliance Insurance Group plc and its subsidiaries.

13. Parent companies

The Company's immediate parent company is Sun Alliance and London Insurance plc which is registered in England and Wales.

The parent of the smallest group for which accounts including Liverpool Marine and General Insurance Company Limited 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 company 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.