

SUN ALLIANCE AND LONDON INSURANCE PLC

Report and Accounts

for the year ended 31st December 2001



Sun Alliance and London Insurance plc
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Sun Alliance and London Insurance plc
Directors

Directors

S.W. Broughton

G.S. Pater

Secretary

J. Miller

Registered office

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

Sun Alliance and London Insurance plc

Directors' Report

for the year ended 31st December 2001

Activities

The principal activity of the Company is the transaction of insurance business.

Euro currency

The impact the introduction of the Euro has had on the Company is minimal. However system and product changes required to achieve Euro capability by 1st January 1999 were successfully implemented and work to change over to the Euro by 2002 remains on target. The incremental costs of the current Euro projects, including future costs, will be borne by a parent company. Plans are also being developed to address the possible extended scope of the Euro, including the UK's potential entry.

Directors

The directors whose names appear on page 2 served throughout the year.

Mr P. Spencer resigned from the Company on 31st March 2002.

None of the directors had an interest in the shares of the Company. The interests of Mr Spencer in the ordinary shares of 27.5p each in Royal & Sun Alliance Insurance Group plc are disclosed in the accounts of that company.


The interests of the other directors in the ordinary shares in Royal & Sun Alliance Insurance Group plc are as follows:

| | Ordinary shares held at 1st January 2001 | Ordinary shares acquired | Ordinary shares disposed | Ordinary shares held at 31st December 2001 |
|----------------|---|-----------------------------|-----------------------------|---|
| S.W. Broughton | 23,413 | 1,372 | - | 24,785 |
| G.S. Pater | 39,443 | 49 | - | 39,492 |

In addition to the interests shown above, Mr Broughton and Mr Pater had a beneficial interest, as at 31st December 2001, in 11,543,076 shares of 27.5p each in Royal & Sun Alliance Insurance Group plc held in the Royal & Sun Alliance ESOP Trust and all the directors had a beneficial interest, as at 31st December 2001, in 697,200 shares of 27.5p each in the Royal & Sun Alliance Insurance Group plc held in the Royal & Sun Alliance ESOP Trust No 2. All employees of the Group 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.

| | Held at 1st January 2001 | Options to subscribe for shares | | Held at 31st December 2001 |
|----------------|-----------------------------|---------------------------------|--------------------------|-------------------------------|
| | | Granted | During 2001 Exercised | |
| S.W. Broughton | 165,619 | 52,761 | - | 218,380 |
| G.S. Pater | 134,026 | 41,608 | - | 175,634 |

By order of the directors


J. Miller
Secretary
3 May 2002

Sun Alliance and London Insurance plc
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 2001. 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.

Independent auditor's report to the members of Sun Alliance and London Insurance plc

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.

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 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London

14 June 2002

Financial Statements

The financial statements are prepared in accordance with applicable UK 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 accounting rules. The Company's accounting policies are set out on pages 6 to 9.

General insurance business

(i) Technical account

General business is accounted for on an annual basis. Premiums written are accounted for in the year in which the related risks commence and include estimates where the amounts are 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 equalisation provisions.

(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 appropriate 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.

Equalisation provisions are established in accordance with the requirements of legislation and are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date.

Exchange

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 insurance funds at the beginning of the year at year-end rates, are taken to reserves.

Tangible assets and depreciation

Tangible assets comprise fixtures, fittings and equipment (including computers and motor vehicles) which are capitalised and depreciated over periods not exceeding their estimated useful lives (between three and ten years) after taking into account residual value.

Sun Alliance and London Insurance plc

Accounting Policies (continued)

Operating leases

Payments under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

Pensions costs

The cost of providing pensions for the Company's employees is accounted for over the employees' working lives on a systematic basis as advised by qualified actuaries.

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'. Realised and unrealised gains and losses are dealt with in the non-technical account. Realised gains and losses represent the net sale proceeds less the purchase price.

Taxation

Taxation in the non-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.

Deferred taxation is calculated on the liability method and consists of the estimated taxation, or relief from taxation, which is expected to arise in the foreseeable future from material timing differences using expected future rates of tax where applicable. Credit is taken for relief for trading losses only to the extent that the directors anticipate that profits will absorb such losses in the foreseeable future.

Investments

Investments 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.

Investments in subsidiaries are included at net asset value.

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.

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.

Sun Alliance and London Insurance plc

Profit and Loss Account

for the year ended 31st December 2001

Technical account - general business

| | Notes | 2001 £m | 2000 £m |
|--|-------|------------|------------|
| Gross premiums written | 1 | 37.6 | 37.7 |
| Outward reinsurance premiums | | (16.0) | (13.7) |
| Net premiums written | | 21.6 | 24.0 |
| Change in the gross provision for unearned premiums | | 4.2 | (3.8) |
| Change in the provision for unearned premiums, reinsurers' share | | (0.9) | 2.9 |
| Change in the net provision for unearned premiums | | 3.3 | (0.9) |
| Earned premiums, net of reinsurance | | 24.9 | 23.1 |
| Claims paid: | | | |
| Gross amount | | (49.7) | (39.2) |
| Reinsurers' share | | 34.2 | 17.5 |
| | | (15.5) | (21.7) |
| Change in the provision for claims: | | | |
| Gross amount | | (2.7) | 10.6 |
| Reinsurers' share | | 4.8 | (6.8) |
| | | 2.1 | 3.8 |
| Claims incurred, net of reinsurance | | (13.4) | (17.9) |
| Net operating expenses | 2 | (8.8) | (9.2) |
| Balance on the technical account for general business | | 2.7 | (4.0) |

The notes on pages 14 to 19 form part of these accounts.

Sun Alliance and London Insurance plc

Profit and Loss Account

for the year ended 31st December 2001

Non-technical account

| | Notes | 2001 £m | 2000 £m |
|--|-------|---------------|---------------|
| Balance on the technical account for general business | | 2.7 | (4.0) |
| Investment income | 4 | 77.6 | 59.0 |
| Investment expenses and charges | | (0.5) | (0.6) |
| Unrealised losses on investments | | (101.9) | (49.8) |
| Profit (loss) before taxation | | (22.1) | 4.6 |
| Taxation on profit (loss) on ordinary activities | | (24.1) | (16.4) |
| Profit (loss) on ordinary activities after taxation | | (46.2) | (11.8) |

Statement of total recognised gains and losses

| | 2001 £m | 2000 £m |
|--|---------------|------------|
| Profit (loss) for the financial year | (46.2) | (11.8) |
| Foreign exchange gains (losses) | (0.8) | 0.1 |
| Unrealised appreciation of investments in subsidiaries | (28.7) | 20.2 |
| Total recognised gains arising in the year | (75.7) | 8.5 |

Reconciliation of movements in shareholders' funds

| | 2001 £m | 2000 £m |
|---|--------------|--------------|
| Shareholders' funds at 1st January | 767.6 | 759.1 |
| Total recognised gains (losses) | (75.7) | 8.5 |
| Shareholders' funds at 31st December | 691.9 | 767.6 |

The notes on pages 14 to 19 form part of these accounts.

Sun Alliance and London Insurance plc

Balance Sheet as at 31st December 2001

| | Notes | 2001 £m | 2000 £m |
|--|-------|----------------|----------------|
| Assets | | | |
| Investments | | | |
| Investments in subsidiary undertakings | 15 | 1,048.7 | 1,077.4 |
| Other financial investments | 9 | 260.5 | 372.6 |
| Deposits with ceding undertakings | | 0.7 | 0.8 |
| | | 1,309.9 | 1,450.8 |
| Reinsurers' share of technical provisions | | | |
| Provision for unearned premiums | | 4.2 | 5.5 |
| Claims outstanding | | 21.2 | 15.7 |
| | | 25.4 | 21.2 |
| Debtors | | | |
| Debtors arising out of direct insurance operations | 10 | 8.3 | 12.1 |
| Debtors arising out of reinsurance operations | 11 | 6.3 | 9.4 |
| Other debtors | 12 | 443.1 | 383.7 |
| | | 457.7 | 405.2 |
| Other assets | | | |
| Tangible assets | 13 | 0.1 | 0.1 |
| Cash at bank and in hand | | 1.2 | 2.4 |
| | | 1.3 | 2.5 |
| Prepayments and accrued income | | | |
| Accrued interest and rent | | 0.6 | 0.7 |
| Deferred acquisition costs | | 1.3 | 2.4 |
| | | 1.9 | 3.1 |
| Total assets | | 1,796.2 | 1,882.8 |

Sun Alliance and London Insurance plc

Balance Sheet

as at 31st December 2001

| | Notes | 2001 £m | 2000 £m |
|--|-------|----------------|----------------|
| Liabilities | | | |
| Capital and reserves | | | |
| Called up share capital | 7 | 201.8 | 201.8 |
| Share premium account | | 270.3 | 270.3 |
| Revaluation reserve | 8 | 74.1 | 102.8 |
| Profit and loss account | 8 | 145.7 | 192.7 |
| Equity shareholders' funds | | 691.9 | 767.6 |
| Technical provisions | | | |
| Provision for unearned premiums | | 10.0 | 14.9 |
| Claims outstanding | | 57.8 | 54.7 |
| | | 67.8 | 69.6 |
| Creditors | | | |
| Creditors arising out of direct insurance operations | | 1.6 | 3.9 |
| Creditors arising out of reinsurance operations | | 7.2 | 12.0 |
| Other creditors including taxation and social security | 14 | 1,025.4 | 1,029.2 |
| | | 1,034.2 | 1,045.1 |
| Accruals and deferred income | | 2.3 | 0.5 |
| Total liabilities | | 1,796.2 | 1,882.8 |

The notes on pages 14 to 19 form part of these accounts.

The accounts on pages 6 to 19 were approved by the directors on 30 May 2002 and were signed on their behalf by:


Director

Sun Alliance and London Insurance plc

Notes on the Accounts

1 Segmental information

| | Gross Premiums Written £m | Gross premiums earned £m | Gross claims incurred £m | Gross operating expenses £m | Reinsurance Balance £m | Net technical result £m |
|-----------------------------------|------------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|------------------------------|----------------------------------|
| 2001 | | | | | | |
| Accident and health | 2.3 | 2.6 | (5.0) | (1.1) | (0.3) | (3.8) |
| Motor (third party liability) | 3.1 | 2.9 | (0.8) | (0.9) | (1.0) | 0.2 |
| Motor (other) | 7.3 | 8.4 | (0.8) | (2.3) | (0.7) | 4.6 |
| Marine, aviation and transport | 2.0 | 2.9 | (35.9) | (0.6) | 34.1 | 0.5 |
| Fire and other damage to property | 7.5 | 7.7 | (2.4) | (2.4) | (3.3) | (0.4) |
| Inwards reinsurances | 15.4 | 17.3 | (7.5) | (4.2) | (4.0) | 1.6 |
| Total | 37.6 | 41.8 | (52.4) | (11.5) | 24.8 | 2.7 |
| 2000 | | | | | | |
| Accident and health | 4.8 | 4.4 | (4.9) | (1.2) | 1.2 | (0.5) |
| Motor (third party liability) | 0.7 | 0.6 | (0.6) | (0.2) | 0.1 | (0.1) |
| Motor (other) | 8.9 | 8.4 | (7.3) | (2.3) | 0.7 | (0.5) |
| Marine, aviation and transport | 3.1 | 3.0 | (1.8) | (0.8) | (0.3) | 0.1 |
| Fire and other damage to property | 8.3 | 7.5 | (2.4) | (2.4) | (1.8) | 0.9 |
| Inwards reinsurances | 11.9 | 10.0 | (11.6) | (4.8) | 2.5 | (3.9) |
| Total | 37.7 | 33.9 | (28.6) | (11.7) | 2.4 | (4.0) |

Net premiums written can be analysed as follows:

| | Net premiums written 2001 £m | Net premiums written 2000 £m |
|--------------|--|--|
| Hong Kong | 9.6 | 8.4 |
| Singapore | 11.9 | 9.3 |
| Germany | 1.3 | 1.3 |
| Others | (1.2) | 5.0 |
| Total | 21.6 | 24.0 |

2. Net operating expenses

Technical account – general business

| | 2001 £m | 2000 £m |
|--------------------------------------|------------|------------|
| Acquisition costs | 1.9 | 2.0 |
| Change in deferred acquisition costs | 0.9 | (0.4) |
| Administrative expenses | 6.0 | 7.6 |
| Net operating expenses | 8.8 | 9.2 |

Sun Alliance and London Insurance plc

Notes on the Accounts (continued)

3. Employees and staff costs

The average monthly number of persons employed during the year was:

| | 2001 | 2000 |
|----------------|------|------|
| United Kingdom | - | - |
| Overseas | 26 | 26 |
| | 26 | 26 |

Staff costs amounted to:

| | 2001 £m | 2000 £m |
|-----------------------|------------|------------|
| Wages and salaries | 2.3 | 1.9 |
| Social security costs | 0.1 | 0.1 |
| Pension costs | 0.1 | 0.1 |
| | 2.5 | 2.1 |

4. Investment income

| | 2001 £m | 2000 £m |
|-------------------------------|------------|------------|
| Income from other investments | 8.4 | 6.5 |
| Realised investment gains | 69.2 | 52.5 |
| | 77.6 | 59.0 |

5. Taxation

The charges (credits) for taxation comprise:-

| | 2001 £m | 2000 £m |
|--|------------|------------|
| United Kingdom taxation: | | |
| Corporation tax | 23.8 | 15.8 |
| Over/Under provided in respect of prior period | 0.2 | 0.5 |
| Double taxation relief | | (0.5) |
| | 24.0 | 15.8 |
| Overseas Tax | 0.1 | 0.6 |
| | 24.1 | 16.4 |

United Kingdom corporation tax has been calculated at 30% (2000 30%) in the non-technical account.

The potential liability for deferred taxation on unrealised appreciation of investments which is not expected to be payable in the foreseeable future and for which, therefore, no provision has been made is estimated to amount to £52m (2000 £82m).

6. Pension costs

The majority of the Company's staff are employed in Singapore; the pension costs disclosed in note 3 relate to contributions made by the Company into the Singapore government sponsored scheme, which is contribution based.

7. Share capital

| | 2001 £m | 2000 £m |
|---|------------|------------|
| Ordinary share capital: | | |
| Authorised: | | |
| 900,000,000 (2000 900,000,000) shares of 25p each | 225.0 | 225.0 |
| Issued and fully paid: | | |
| 807,390,126 (2000 807,390,126) shares of 25p each | 201.8 | 201.8 |

Sun Alliance and London Insurance plc

Notes on the Accounts (continued)

8. Reserves

| | Profit and loss account | | Revaluation reserve | |
|---|-------------------------|------------|---------------------|------------|
| | 2001 £m | 2000 £m | 2001 £m | 2000 £m |
| Balance at 1st January | 192.7 | 204.4 | 102.8 | 82.6 |
| Profit and loss account transfer | (46.2) | (11.8) | - | - |
| Foreign exchange gains and losses | (0.8) | 0.1 | - | - |
| Unrealised appreciation (depreciation) of investments in subsidiaries | - | - | (28.7) | 20.2 |
| Balance at 31st December | 145.7 | 192.7 | 74.1 | 102.8 |

9. Investments

| | 2001 £m | 2000 £m |
|--|------------|------------|
| Investments in subsidiary undertakings | 1,048.7 | 1,077.4 |

Other financial investments:

| | 2001 £m | 2000 £m |
|---|------------|------------|
| Shares and other variable yield securities and units in unit trusts | 213.7 | 333.1 |
| Debt securities and other fixed income securities | 19.8 | 19.4 |
| Other loans | 0.1 | 0.1 |
| Deposits with credit institutions | 26.9 | 20.0 |
| | 260.5 | 372.6 |

Included above are listed investments:

| | 2001 £m | 2000 £m |
|---|------------|------------|
| Shares and other variable yield securities and units in unit trusts | 213.7 | 333.1 |
| Debt securities and other fixed income securities | 19.8 | 19.4 |

The historical cost of investments is £1,062.6m (2000 £1,072.8m)

10. Debtors arising out of direct insurance operations

| | 2001 £m | 2000 £m |
|-------------------------|------------|------------|
| Due from policyholders | 0.1 | 0.1 |
| Due from intermediaries | 8.2 | 12.0 |
| | 8.3 | 12.1 |

11. Debtors arising out of reinsurance operations

| | 2001 £m | 2000 £m |
|---------------------------|------------|------------|
| Due from external debtors | 6.3 | 9.4 |

12. Other debtors

| | 2001 £m | 2000 £m |
|---|------------|------------|
| Due from external debtors | 2.5 | 7.6 |
| Due from parent company and fellow subsidiary | 440.6 | 376.1 |
| | 443.1 | 383.7 |

Sun Alliance and London Insurance plc

Notes on the Accounts (continued)

13. Tangible assets

| | Total £m |
|---|-------------|
| Cost | |
| Balance at 1st January 2001 | 0.4 |
| Purchases | - |
| Disposals | - |
| Balance at 31st December 2001 | 0.4 |
| Depreciation | |
| Balance at 1st January 2001 | 0.3 |
| Charged to technical account | - |
| Disposals | - |
| Balance at 31st December 2001 | 0.3 |
| Net book value at 31st December 2001 | 0.1 |
| Net book value at 31st December 2000 | 0.1 |

Tangible assets comprise computers and office equipment.

14. Other creditors including taxation and social security

| | 2001 £m | 2000 £m |
|---------------------------|----------------|----------------|
| Due to external creditors | 28.9 | 25.0 |
| Due to subsidiaries | 996.5 | 1,004.2 |
| | 1,025.4 | 1,029.2 |

15. Subsidiaries

| | 2001 £m | 2000 £m |
|-------------------------------|---------------|----------------|
| Shares at cost | 974.6 | 974.6 |
| Adjustment to net asset value | 74.1 | 102.8 |
| | 1048.7 | 1,077.4 |

A list of subsidiaries appears on page 19.

16. Auditors' remuneration

The costs of auditing the Company's accounts are borne by the parent company.

17. Directors remuneration

The directors did not receive any emoluments during the year. They were employed by Royal & Sun Alliance Insurance plc and were remunerated for their services to the Group as a whole. It is not possible to apportion their remuneration in respect of the Company.

18. Contingent liabilities

At 31st December 2001 the Company had no material contingent liabilities.

19. Cash flow

The Company is a wholly owned subsidiary of Royal & Sun Alliance Insurance 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.

Sun Alliance and London Insurance plc

Notes on the Accounts (continued)

20. Transactions with related parties

The Company is exempt from the disclosure requirements of Financial Reporting Standard 8 as it is a wholly owned subsidiary.

21. Parent companies

The Company's immediate parent company is Royal & Sun Alliance Insurance plc which is registered in England and Wales, and is the parent undertaking of the smallest group to consolidate these financial statements.

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.

Sun Alliance and London Insurance plc

Subsidiaries

| Name and country of incorporation and of principal operations | Percentage of ordinary shares held | |
|--|------------------------------------|-------------------------|
| | By Parent Company | Through Subsidiaries |
| United Kingdom | % | % |
| <i>(registered in England unless indicated)</i> | | |
| Acrecrest Ltd | 100.0 | |
| Beacon Insurance Company Ltd | 100.0 | |
| Bradford Insurance Company Ltd | | 100.0 |
| Elders Insurance Company Ltd | 100.0 | |
| Fortress Insurance Company Ltd | 100.0 | |
| Guildhall Insurance Co. Ltd. | 100.0 | |
| Legal Protection Group Holdings Ltd | | 100.0 |
| Liverpool Marine & General Insurance Company Ltd | 100.0 | |
| London Guarantee & Reinsurance Co. Ltd. | 100.0 | |
| National Vulcan Engineering Insurance Group Ltd | | 100.0 |
| Phoenix Metropolitan Investments Ltd | 100.0 | |
| Property Growth (Holdings) Ltd | 100.0 | |
| Sun Alliance Insurance International Ltd | 100.0 | |
| Sun Alliance Insurance UK Ltd | 100.0 | |
| Sun Alliance Management Services Ltd | 100.0 | |
| The Century Insurance Co. Ltd. <i>(registered in Scotland)</i> | 100.0 | |
| The Northern Maritime Insurance Company Ltd | 100.0 | |
| The Union Marine and General Insurance Company Ltd | 100.0 | |