Registered number: 894616

Sun Alliance and London Assurance Company Limited

(A member of the Resolution Life Group)

Report and Financial Statements for the year ended 31 December 2004

23/03/2005

Sun Alliance and London Assurance Company Limited

Report and financial statements for the year ended 31 December 2004

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Directors

Mr C A Cowdery

Mr R Craine

Mr A B Davidson (appointed 26 January 2005)

Mr D G R Ferguson (appointed 26 January 2005)

Mr R E K Greenfield

Mr M R Kipling

Mrs F Matthews

Mr B J Meehan

Secretary

Ms J J Wilman

Registered office

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

Auditors

Ernst & Young LLP
1 More London Place, London, SE1 2AF

Directors' report for the year ended 31 December 2004

Principal activities and review of business
The principal activity of the Company is the transaction of ordinary 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 Company was closed to new business. 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.

In common with the Life Insurance industry, the Company has experienced a large number of complaints in respect of mortgage endowment business. A systematic review process has been established to deal with these complaints. During 2004, the cost incurred by the Company in respect of these complaints, including the cost of redress and management expenses, was **£12.5m** *(2003 £19.9m)*. See also note 21 on page 22.

The Company continues to be in discussion with the Financial Services Authority in relation to the treatment of guaranteed annuity options and the potential effect on holders of policies not subject to such options (see note 21). These discussions have not been concluded and could result in financial consequences for the Company, including the provision of further financial support under the contingent loan agreement (see note 22) and changes to the calculation of policyholders liabilities. Based on the information currently available, the directors consider that they have made appropriate provisions for such costs and they do not believe that any further costs will have a material adverse effect on the Company's financial position.

Sale of the Company to Resolution Life Group
On 30 July 2004 Royal & SunAlliance announced the sale of its UK Life operations, which included the Company, to the Resolution Life Group. Following Royal & SunAlliance shareholder and Financial Services Authority (FSA) approval, the sale was completed on 30 September 2004.

Business transacted
Net premium income of the Company for the year was **£265.0m** *(2003 £308.4m)* and at 31 December 2004 the total long term business funds on a statutory solvency valuation basis amounted to **£7,977.9m** *(2003 £7,835.5m)*.

Valuation
A valuation of the long term insurance business of the Company in accordance with the Integrated Prudential Sourcebook (insurance companies) issued by the Financial Services Authority was made as at 31 December 2004 in respect of the year then ended. The result of the valuation showed a surplus of **£68.6m** *(2003 £86.7m)*, out of which **£61.6m** *(2003 £78.0m)* has been allocated to policyholders and **£6.5m** *(2003 £8.2m)* to shareholders. The allocation to shareholders has been transferred to the non technical account where it has been grossed up for taxation as **£9.3m** *(2003 £11.8m)*.

Result and dividends

The result of the Company for the year is shown in the profit and loss account on pages 11 and 12.

No dividend is recommended for the year *(2003 £Nil)* resulting in a transfer to retained profits of **£15.7m** *(2003 £19.5m)*.

Directors' report for the year ended 31 December 2004 *(continued)*

Directors and their interests

Mrs F Matthews was appointed as a director of the Company with effect from 26 February 2004. Messrs C A Cowdery and B J Meehan were appointed as directors of the Company with effect from 30 September 2004. Messrs A B Davidson and D G R Ferguson were appointed as directors of the Company with effect from 26 January 2005. Mr P N Hanby resigned as a director of the Company with effect from 1 April 2004.

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

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

Post balance sheet event

In March 2005, in consultation with the FSA, the Company revised its subordinated loan agreements with its immediate parent company (RLG with-profits Holdings Ltd) in order to ensure that the arrangements qualified as upper tier 2 capital under the solvency regulations and hence provide greater support for solvency capital requirements. Note 22 provides the detail of the revisions made to the arrangements.

Auditors

With effect from 30 September 2004 PricewaterhouseCoopers LLP resigned as auditors of the Company and on the same date Ernst & Young LLP were appointed in their place. Ernst & Young LLP will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

By order of the directors

J J Wilman
Secretary
23 March 2005

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 2004. 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. In arriving at this conclusion, the directors have had due regard to the ongoing support available to the Company provided through the subordinated loan agreements as described in note 22.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the independent auditors to the members of Sun Alliance and London Assurance Company Limited

We have audited the Sun Alliance and London Assurance Company Limited financial statements for the period ended 31 December 2004 which comprise the profit and loss account, the movements in shareholders' funds, the balance sheet, and the related notes 1 to 24 including the accounting policies and estimation techniques and uncertainties. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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 with the Company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 as at 31 December 2004 and of the profit of the Company for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
23 March 2005

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 November 2003.

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 monetary 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 non-technical account.

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 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.

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. Investments in subsidiaries and associated undertakings are included in the balance sheet at net asset value.

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 contractual 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.

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'.

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. Also included in claims paid are payments made in respect of the review of pension transfer and opt-out, and mortgage endowment business.

Accounting Policies

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.

Taxation

Taxation in the technical account - long term business and the non-technical account is based upon the taxation rules applicable to life insurance companies.

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.

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

Realised gains and losses on investment disposals represent net sale proceeds less costs of acquisition. Net realised gains 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 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.

Accounting Policies

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 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. Details of the main assumptions made and the methods used are given in note 10.

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.

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 with profits business that has not been allocated to shareholders or 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.

Estimation techniques and uncertainties

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 Resolution Life 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.

Uncertainties

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.

Sun Alliance and London Assurance Company Limited

Profit and loss account
for the year ended 31 December 2004

Technical account - long term business

	Notes	2004 £m	2003 £m
Earned premiums, net of reinsurance			
Gross premiums written	1a	**367.0**	451.1
Outward reinsurance premiums	1a	**(102.0)**	(142.7)
Net earned premiums		**265.0**	308.4
Investment income	6	**563.4**	542.8
Unrealised gains on investments	6	**84.1**	-
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		**(1,025.7)**	(1,157.9)
Reinsurers' share		**206.0**	244.9
		(819.7)	(913.0)
Change in the provision for claims			
Gross amount		**(4.7)**	4.8
Reinsurers' share		**1.3**	(0.5)
		(3.4)	4.3
Net claims incurred		**(823.1)**	(908.7)
Changes in other technical provisions, net of reinsurance			
Long term business provision	10		
Gross amount		**(61.6)**	665.1
Reinsurers' share		**(61.3)**	(319.7)
		(122.9)	345.4
Technical provision for linked liabilities			
Gross amount		**(54.5)**	(66.8)
Reinsurers' share		**54.5**	66.5
		-	(0.3)
Net changes in other technical provisions		**(122.9)**	345.1
Net operating expenses	2	**(33.0)**	(40.0)
Investment expenses and charges	6	**(34.2)**	(23.0)
Unrealised losses on investments	6	**-**	(116.5)
Reorganisation costs	3	**(0.1)**	(0.1)
Taxation attributable to long term business	4	**(21.7)**	(11.7)
Transfers from/(to) the fund for future appropriations		**138.2**	(76.8)
Balance on technical account – long term business		**15.7**	19.5

All figures relate to continuing operations.

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

Profit and loss account
for the year ended 31 December 2004

Non-technical account

	Notes	2004 £m	2003 £m
Balance on the long term business technical account		15.7	19.5
Tax credit attributable to balance on the long term Business technical account		6.7	2.4
Profit on ordinary activities before taxation		**22.4**	21.9
Taxation on profit on ordinary activities	4	**(6.7)**	(2.4)
Profit on ordinary activities after taxation		**15.7**	19.5
Dividends		-	-
Transfer to retained profits		**15.7**	19.5

All figures relate to continuing operations.

There have been no recognised gains or losses in either reporting year other than those reported in the profit and loss account, and accordingly a statement of total recognised gains and losses has not been presented.

Movements in shareholders' funds
for the year ended 31 December 2004

	Share Capital £m	Profit & loss account £m	Total 2004 £m	2003 £m
Shareholders' funds at 1 January	81.0	212.3	**293.3**	273.8
Shareholders' recognised gains relating to the year	-	15.7	**15.7**	19.5
Shareholders' funds at 31 December	**81.0**	**228.0**	**309.0**	293.3

The profit and loss account includes **£227.2m** *(2003 £205.5m)* which is realised.

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

Balance sheet
at 31 December 2004

	Notes	2004 £m	2003 £m
Assets			
Investments			
Land and buildings	7	**625.4**	981.3
Investments in subsidiary undertakings	13	**1.2**	1.2
Other financial investments	7	**7,927.3**	7,553.4
		8,553.9	8,535.9
Assets held to cover linked liabilities		**3.5**	3.6
Reinsurers' share of technical provisions			
Long term business provision	10	**765.0**	826.3
Claims outstanding		**2.2**	0.9
Technical provision for linked liabilities		**835.1**	780.6
		1,602.3	1,607.8
Debtors	8		
Debtors arising out of direct insurance operations		**4.7**	3.3
Debtors arising out of reinsurance operations		**8.3**	3.7
Other debtors		**16.3**	66.5
		29.3	73.5
Other assets			
Cash at bank and in hand		**16.8**	34.6
Prepayments and accrued income			
Accrued interest and rent		**86.3**	102.2
Other prepayments		**3.3**	-
		89.6	102.2
Total assets		**10,295.4**	10,357.6

The balance sheet includes assets (net of reinsurance) totalling **£7,930.4m** *(2003 £7,945.7m)* representing the long term insurance funds.

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

Sun Alliance and London Assurance Company Limited

Balance sheet
at 31 December 2004

	Notes	2004 £m	2003 £m
Liabilities			
Capital and reserves (see page 12)			
Called up share capital	9	**81.0**	81.0
Profit and loss account		**228.0**	212.3
Shareholders' funds – equity interests		**309.0**	293.3
Subordinated debt	22	**211.4**	-
Total capital, reserves and subordinated debt		**520.4**	293.3
Fund for future appropriations		**71.8**	210.0
Technical provisions			
Long term business provision	10	**8,620.1**	8,558.5
Claims outstanding		**45.7**	41.0
		8,665.8	8,599.5
Technical provision for linked liabilities		**838.6**	784.1
Provision for other risks and charges	17	**14.8**	14.6
Creditors			
Creditors arising out of direct insurance operations	11	**3.0**	2.4
Creditors arising out of reinsurance operations	11	**3.2**	4.1
Amounts owed to credit institutions	12	**-**	14.6
Other creditors including taxation and social security	11	**169.0**	422.4
		175.2	443.5
Accruals and deferred income			
Property rent		**8.8**	12.6
Total liabilities		**10,295.4**	10,357.6

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

The accounts on pages 7 to 24 were approved by the directors on 23 March 2005 and were signed on their behalf by:

R Craine
Finance Director
23 March 2005

Notes on the financial statements

1. Segmental analysis

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

	2004 Gross	2004 Reinsurance ceded	2004 Net	2003 Gross	2003 Reinsurance ceded	2003 Net
	£m	£m	£m	£m	£m	£m
Life						
Individual						
Non linked with profits	124.1	(5.8)	118.3	148.5	(18.1)	130.4
Non linked without profits	46.4	(39.9)	6.5	49.2	(42.5)	6.7
Unit linked	1.2	(1.2)	-	1.1	(1.1)	-
Group						
Non linked without profits	(0.5)	-	(0.5)	(1.7)	-	(1.7)
Pensions						
Individual						
Non linked with profits	45.8	(6.3)	39.5	62.4	(12.6)	49.8
Non linked without profits	1.1	(0.9)	0.2	1.3	(1.1)	0.2
Unit linked	39.9	(39.9)	-	56.7	(56.7)	-
Group						
Non linked with profits	8.2	(3.7)	4.5	10.3	(5.1)	5.2
Unit linked	4.3	(4.3)	-	5.5	(5.5)	-
Annuity	96.5	-	96.5	117.8	-	117.8
Total premiums written	367.0	(102.0)	265.0	451.1	(142.7)	308.4
Periodic premiums	239.0	(84.9)	154.1	286.1	(116.8)	169.3
Single premiums	128.0	(17.1)	110.9	165.0	(25.9)	139.1
Total premiums written	367.0	(102.0)	265.0	451.1	(142.7)	308.4

Notes on the financial statements

1b New business premiums

	2004 Gross £m	2004 Reinsurance ceded £m	2004 Net £m	2003 Gross £m	2003 Reinsurance ceded £m	2003 Net £m
Life						
Individual						
Non linked with profits	**0.2**	**(0.2)**	-	-	-	-
Group contracts						
Non linked without profits	**(0.5)**	-	**(0.5)**	(1.7)	-	(1.7)
Pensions						
Individual						
Non linked with profits	**16.8**	**(2.1)**	**14.7**	26.4	(4.8)	21.6
Unit linked	**15.9**	**(15.9)**	-	24.2	(24.2)	-
Group contracts						
Non linked with profits	**0.4**	**(0.1)**	**0.3**	1.8	(0.3)	1.5
Unit linked	**0.6**	**(0.6)**	-	0.8	(0.8)	-
Annuity	**96.5**	-	**96.5**	117.8	-	117.8
Total new business annualised premiums	**129.9**	**(18.9)**	**111.0**	169.3	(30.1)	139.2
Periodic premiums	**1.9**	**(1.9)**	-	4.3	(4.2)	0.1
Single premiums	**128.0**	**(17.0)**	**111.0**	165.0	(25.9)	139.1
Total new business annualised premiums	**129.9**	**(18.9)**	**111.0**	169.3	(30.1)	139.2

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

2. Net operating expenses

	2004 £m	2003 £m
Acquisition costs	**(5.0)**	(1.7)
Administrative expenses	**(32.5)**	(43.2)
Reinsurance commissions and profit participation	**4.5**	4.9
Net operating expenses	**(33.0)**	(40.0)

All operating expenses were recharged from fellow group companies, Resolution Life Services Limited and Royal & SunAlliance 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.

In addition to the variable costs, there are certain transition costs payable in the early years of the Unisys contract. As these costs are incurred they are included in expenses and there is a corresponding release from long-term business provision, which taken together, have 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 **£7.1m** *(2003 £5.6m)*. Total reinsurance commissions accounted for by the Company during the year amounted to net income of **£4.5m** *(2003 £4.9m)*.

Notes on the financial statements

3. 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 and other previous business improvement programmes (see note 17).

4. 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	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
Current tax:				
UK corporation tax	**(25.9)**	(15.7)	-	-
Double taxation relief	-	0.1	-	-
Overseas taxation	-	(0.4)	-	-
Over/(under) provision in respect of prior year	**7.7**	0.5	-	-
Total current tax	**(18.2)**	(15.5)	-	-
Tax attributable to balance on the long term technical account	-	-	**(6.7)**	(2.4)
Deferred tax				
Timing differences	**(2.9)**	6.8	-	-
Movement in discount	**(0.6)**	(3.0)	-	-
	(3.5)	3.8	-	-
Total tax charge	**(21.7)**	(11.7)	**(6.7)**	(2.4)

The tax charge for UK corporation tax in the technical account – long term business is provided at rates between **20%** and **30%** *(2003 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 the standard rate of **30%.** For 2003 it was less than 30% due to the items set out in the reconciliation below.

	2004	2003
	£m	£m
Profit on ordinary activities before taxation	**22.4**	21.9
Tax at 30%	**(6.7)**	(6.6)
Factors affecting charge		
Difference between effective and standard tax rate on balance on long term business technical account	-	4.2
Current tax charge for the year	**(6.7)**	(2.4)

The deferred taxation on the balance sheet comprises:

	2004	2003
	£m	£m
Unrealised investment gains	**19.0**	17.4
Other timing differences	**(3.1)**	(4.4)
	15.9	13.0
Discount	**(2.6)**	(3.2)
Deferred taxation provided (see note 17)	**13.3**	9.8

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.

Notes on the financial statements

5. Bonuses

The total amount of bonuses attributable to policyholders for the year is **£61.6m** *(2003 £78.0m)*.

6. Investment return

	2004 £m	2003 £m
Attributable to long term business		
Income from investments		
Income from land and buildings	**60.8**	74.8
Income from other investments	**373.7**	356.9
Gains on the realisation of investments	**128.9**	111.1
Total investment income	**563.4**	542.8
Unrealised gains on investments	**84.1**	-
Investment expenses and charges		
Investment management expenses	**(11.5)**	(11.1)
Interest payable	**(22.7)**	(11.9)
	(34.2)	(23.0)
Unrealised losses on investments	**-**	(116.5)
Investment return attributable to long term business	**613.3**	403.3

7. Investments

	2004 £m	2003 £m
Land and buildings		
Freehold	**602.4**	930.9
Long leasehold	**23.0**	50.4
Total land and buildings	**625.4**	981.3
Of which group occupied	**-**	50.0
Other financial investments		
Shares and other variable yield securities and units in unit trusts	**698.4**	990.5
Debt securities and other fixed income securities:		
British government securities	**3,662.6**	2,245.8
Other government securities	**48.8**	987.8
Corporate bonds	**3,374.4**	3,247.5
Loans secured by mortgages	**5.9**	8.7
Policy loans	**4.1**	4.5
Deposits with credit institutions	**133.1**	68.6
Total other financial investments	**7,927.3**	7,553.4

The historical cost of investments (including **£1.2m** *(2003 £1.7m)* for assets held to cover linked liabilities) is **£7,912.3m** *(2003 £7,925.3m)*.

	2004 £m	2003 £m
Listed investments included in the total investments are as follows:		
Shares and other variable yield securities and units in unit trusts	**698.0**	995.9
Debt securities and other fixed income securities	**6,637.6**	5,945.8
	7,335.6	6,941.7

Included within shares and other variable yield securities are money market funds with value of **£73.7m** *(2003 £356.2m)* which are listed.

Notes on the financial statements

8. Debtors	**2004 £m**	2003 £m
Arising out of direct insurance operations		
Amounts due from policyholders	**4.7**	3.3
Arising out of reinsurance operations		
Amounts due from group companies	**8.3**	3.7
Other debtors		
Amounts due from group companies	**-**	32.7
Other	**16.3**	33.8
	16.3	66.5
Total	**29.3**	73.5

9. Share capital	**2004 £m**	2003 £m
Authorised		
251,000,000 ordinary shares of £1 each	**251.0**	251.0

	2004 £m	2003 £m
Issued and fully paid		
81,000,000 ordinary shares of £1 each	**81.0**	81.0

10. Long term business provision

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

In respect of guaranteed annuity options, a provision has been established in accordance with the regulatory guidance, which assumes take-up rates of between 72% and 81%, where the policyholder has discretion to take any benefits as a cash lump-sum. The ultimate cost may be greater or smaller than is currently provided and will be dependent on actual take-up rates, the prevailing rates of interest and future mortality experience.

The calculation includes explicit provision for vested bonuses (including those vesting immediately following the current valuation). No explicit provision is made for future reversionary or terminal bonuses (except on certain accumulating with-profits contracts) .

The principal assumptions used are shown below. Assumptions are unchanged from 31 December 2003 except where indicated.

Interest rates

	Interest rate p.a.	
Life with profit	**2.5% to 3.3%**	*(2003 2.75% to 3.5%)*
Pension with profit	**4.2% to 4.6%**	*(2003 4.15% to 4.9%)*
Pension annuities in payment	**4.65%**	*(2003 5.5%)*

Interest rates reflect yields on investments, primarily yields on fixed interest securities. A reduction in yields would tend to lead to a reduction in interest rates and an increase in the long term business provision.

Notes on the financial statements

10. Long term business provision ***(continued)***

Mortality

The mortality assumptions are proportions of the published tables shown below. The mortality tables used are unchanged from 31 December 2003.

	Mortality table
Life with profit	**AM80/AF80**
Pension with profit (in deferment)	**AM80/AF80**
Pension annuities in payment	**PMA92/PFA92 (c=2020)**

Specimen proportions for male lives used at 31 December 2004 *(31 December 2003)* are shown below:

	Age		
	40	**50**	**60**
Life with profit	60% *(63%)*	60% *(63%)*	60% *(63%)*
Pension with profit (in deferment)	37% *(39%)*	37% (39%)	37% (39%)

	Age		
	60	**70**	**80**
Pension annuities in payment	55.8% *(56.9%)*	55.8% *(56.9%)*	74.6% *(75.6%)*

Mortality assumptions take account of both the Company's own and wider industry experience. A lighter mortality assumption would tend to increase the long term business provision for annuity and pension with profit contracts but reduce it for life with profit contracts.

Persistency

The calculation for participating life and pension business only makes allowance for policyholders surrendering their policies or voluntarily discontinuing premiums before the end of the policy term. The assumed rates of surrender and voluntary premium discontinuance depend on the length of time a policy has been in force and the length of time from the valuation date. Specimen assumed surrender rates as at the valuation date are shown below. The rates for each policy year reduce as the length of time from the valuation date increases.

	Policy Year										
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11+**
Mortgage Endowments	2.1%	2.1%	2.1%	2.1%	2.1%	2.8%	2.8%	2.8%	4.2%	5.6%	4.2%
Personal Pension (regular premium)	9.8%	10.5%	7.0%	4.2%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.1%
Personal Pension (single premium)	2.0%	1.9%	1.3%	1.2%	1.3%	1.0%	1.1%	1.0%	1.1%	1.0%	1.1%

Equivalent initial rate assumptions at 31 December 2003 were:

	Policy Year										
	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11+*
Mortgage Endowments	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Personal Pension (regular premium)	*8.0%*	*8.0%*	*8.0%*	*3.5%*	*3.0%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.0%*
Personal Pension (single premium)	*5.0%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.0%*

An increase in the rates of policy surrender would tend to reduce the long term business provision.

Notes on the financial statements

11. Creditors

	2004 £m	2003 £m
Arising out of direct insurance operations		
Other	**3.0**	2.4
Arising out of reinsurance operations		
Amounts due to group companies	**1.3**	3.7
Other	**1.9**	0.4
	3.2	4.1
Other creditors including taxation and social security		
Amounts due to group companies	**1.6**	242.6
Corporation tax	**8.3**	*0.9*
Other	**159.1**	178.9
	169.0	422.4

12. Amounts owed to credit institutions

	2004 £m	2003 £m
Bank loans and overdrafts repayable on demand and within one year	**-**	14.6

In previous years unpresented cheques were disclosed under "amounts owed to credit institutions". In 2004 these amounts, totalling £14.9m, are included within "other creditors including taxation and social security".

13. *Investments in subsidiary undertakings*

The Company owns the whole of the issued share capital of Imbercourt Limited and Sun Alliance Pensions Life & Investment Services Limited, both of which are registered in England and Wales.

14. Directors' emoluments

Prior to the sale of the Company to Resolution Life Group, the directors were remunerated by Royal & Sun Alliance through Royal & Sun Alliance Life Insurance Services Limited. After the sale of the Company, the directors were remunerated by Resolution Life Group through Resolution Life Services Limited.

The directors' emoluments allocated to the Company in 2004 were **£404,554** *(2003 £253,890).*

The amount attributable to the highest paid director allocated to the Company, excluding pension fund contributions, was **£122,378** *(2003 £90,213).* At 31 December 2004 the highest paid director has an accrued pension allocated to the Company of **£15,183 pa** *(2003: £Nil).*

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

Annual bonuses are accruing in the year in which they are paid.

15. Auditors' remuneration

The remuneration of the auditors of the Company amounted to **£130,000** *(2003 £151,030).* The auditors of the Company also received fees of **£90,000** *(2003 £167,534)* in respect of non-audit services. Amounts shown for 2003 are in respect of the Company's former auditors, PricewaterhouseCoopers LLP.

16. Pension costs and other post-retirement benefits

All of the staff are employed by Resolution Life Group (the Group) which does not currently operate any pension schemes for its employees. However the Group made contributions during the period into pension schemes of Royal and SunAlliance Insurance Group (RSA) on behalf of its ex RSA UK Life Companies employees.

17. *Provision for other risks and charges*	Complaints and litigation costs 2004 £m	2003 £m	Reorganisation costs 2004 £m	2003 £m	Deferred taxation 2004 £m	2003 £m
At 1 January	**3.0**	1.3	**1.8**	3.2	**9.8**	13.6
Utilised	**(1.3)**	(1.0)	**(1.8)**	(1.5)	-	-
Charges to/(release) from:						
Technical account – long term business	**(0.3)**	2.7	**0.1**	0.1	**3.5**	(3.8)
At 31 December	**1.4**	3.0	**0.1**	1.8	**13.3**	9.8

The reorganisation costs charge relates to the decision to close the Company to new business in 2003 (see note 3) and other previous business improvements programmes.

18. *Capital commitments*

The Company had no capital commitments at 31 December 2004 *(2003 £Nil).*

19. Operating leases

Annual commitments under non-cancellable operating leases were repayable as follows:

	Land and Buildings 2004 £m	2003 £m
Operating leases which expire:		
One year or less	-	-
Between two and five years	-	0.2
After five years	**0.1**	0.3
	0.1	0.5

20. Cash flow

The Company is a wholly owned subsidiary of RLG With Profit Holdings Limited and the cash flows of the Company are included in the consolidated cash flow statement of Resolution Life Limited. 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.

21. Contingent liabilities

In common with the Life Insurance industry, the Company has experienced a large number of complaints in respect of mortgage endowment business. A provision has been established, but the ultimate redress cost may be greater or smaller than is currently provided and will be dependent on the level of complaints and the period over which the policies were written.

The Company continues to hold discussions with the Financial Services Authority in relation to the treatment of guaranteed annuity options. These discussions have yet to be concluded and it is possible that the final outcome may have financial consequences, including changes in the calculation of policyholder liabilities and the provision of support from parent companies. However, the directors do not believe that any consequences will result in a materially adverse effect on the Company's financial position.

Other than disclosed in this note, the Company had no other material contingent liabilities at 31 December 2004 *(2003 £Nil).*

Notes on the financial statements

22. Contingent and subordinated loans

At 31 December 2003, the Company had a contingent loan agreement with Royal Insurance Holdings plc (RIH). Under this agreement, loans could be provided up to £500.0m to support its statutory solvency position or £400.0m to support its realistic solvency position. Loans were drawn-down if the anticipated surplus of the Company was within a £50.0m margin of breaching either the statutory or realistic solvency requirements. Such loans were subsequently repayable on demand to the extent that this £50.0m margin was exceeded by the lesser of the surplus on the statutory or realistic solvency basis. Any amounts not immediately repayable would be repaid out of future surpluses arising in the Company's long-term fund. The 2003 year-end realistic balance sheet analysis indicated that it was expected that the loans would be repaid over time. As at 31 December 2003, £240.0m had been drawn-down under the agreement with RIH. Based on the above criteria, £146.0m had been utilised under these arrangements. Consequently, £240.0m was included in amounts due to group companies, within other creditors including taxation and social security, of which £94.0m was repayable on demand.

Following the acquisition of the Company by the Resolution Life Group on 30 September 2004, the contingent loan from RIH was repaid. At that time, contingent loan agreements were established between the Company, Royal & Sun Alliance Life & Pensions Ltd (RSALP), a fellow subsidiary, and RLG With Profit Holdings Limited (RLGWPH), the immediate parent company of both the Company and RSALP, in order to provide continuing support for the Companies' statutory and realistic solvency positions.

On 24 December 2004, revisions were made to the subordinated loan agreements with RLGWPH which allowed them to qualify as lower tier 2 capital under the amended capital regulations that came into effect on 31 December 2004. The following agreements were established:

Required subordinated loan agreements
Under these agreements, a loan facility with RLGWPH was established for the Company and RSALP of £79.0m and £35.0m respectively, solely for the purpose of the future financing of the Long Term Business Fund. Interest accrued under the Required subordinated loan agreement at LIBOR plus 3%. Such loans, together with related interest, were only repayable with at least 5 years notice to the extent that the assets of the Long Term Business Fund of the Company would be sufficient to meet all regulatory requirements and enable the fair treatment of customers and with written agreement from the FSA.

Solvency subordinated loan agreements
Under these agreements, a loan facility with RLGWPH was established for the Company and RSALP, whereby support was provided where it was anticipated that the companies had insufficient capital to meet the "Capital Test". The Capital Test required sufficient capital to: meet their Individual Capital Assessment (ICA), as calculated under PRU 2.3; have free assets of at least £50.0m, as calculated under the statutory solvency basis; and have working capital of at least £50.0m, as calculated under the realistic balance sheet basis. Such loans were repayable with at least 5 years notice to the extent that the Capital Test was met. Interest accrued under the Solvency subordinated loan agreements at LIBOR plus 2%, but was only payable to the extent that the companies' Capital Resources remained above their Capital Resource requirements. The amount advanced to the Company and RSALP under the Solvency subordinated loan agreements was limited to such an amount as would cause the aggregate of such loans advanced to the Company and RSALP and any amounts advanced to the Company and RSALP under the Required subordinated loan agreement to equal no more than £265.0m.

At 31 December 2004, the Company had drawn down **£79.0m** under the Required subordinated loan agreement and **£130.0m** under the Solvency subordinated loan agreement, which with accrued interest had accumulated to £211.4m. Of the total of £209.0m drawn down under the Company's two subordinated loan agreements with RLGWPH only £130.0m was allowable for solvency capital purposes. As a result of the restriction of the subordinated loans for solvency capital purposes, the Capital Test set out in the Solvency subordinated loan agreement was not met as at 31 December 2004. The Company did, nevertheless, meet its overall solvency capital requirements.

In March 2005, in consultation with the FSA, the Company and RSALP revised the subordinated loan agreements with RLGWPH, in order to ensure that the arrangements qualified as upper tier 2 capital under the solvency regulations and hence provide the greatest support for solvency capital requirements. The revised arrangements established a subordinated loan agreement between the companies and RLGWPH and an internal capital support memorandum between the companies' shareholder's and long-term funds.

Notes on the financial statements

22. Contingent and subordinated loans *(continued)*

Subordinated loan agreement

Under these agreements, the Company and RSALP each have a loan facility from RLGWPH, whereby support is provided where it is anticipated that the companies have insufficient capital to meet the "Capital Test". The Capital Test requires there to be sufficient capital to meet both the Individual Capital Assessment (ICA), as calculated under PRU 2.3 and have an excess of available capital resources equal to at least £50.0m under both the statutory and realistic solvency regulations, as shown on Form 2, line 42, of the returns to the FSA, if Form 2 was to be prepared on the date concerned. The loans are repayable at the companies' discretion, giving at least 6 months notice to the lender, to the extent that the Capital Test is met and with the prior consent of the FSA. The amount available to the Company under the subordinated loan agreement is limited to such amount as would cause the aggregate of the loan and any loans advanced under the RSALP agreement to equal no more than £265.0m. At the date of commencement of these loan agreements, the Company and RSALP had drawn-down £209.0m and £35.0m respectively, which with accrued interest had accumulated to £213.9m and £35.9m respectively. Interest is due under these loan agreements at LIBOR plus 2%, but is only payable at the Company's discretion, giving 30 days notice to the lender.

Internal capital support memorandum

Under this memorandum, the Company has agreed with RLGWPH and with the FSA to establish memoranda accounts within the shareholder's (SH) and long-term (LTF) funds to provide support to the LTF. The amount credited to the SH memorandum account at the commencement date was £213.9m. Assets are transferred from the SH memorandum account to the LTF memoranda accounts when the Company becomes aware that the value of assets comprised in the LTF have fallen (or are likely to fall) below the "Threshold Amount". The Threshold Amount is £25.0m in excess of the requirements under both the statutory and realistic solvency regulations. The amount transferred from the SH memorandum account to the LTF memoranda at commencement date was £94.7m. Assets are repayable to the SH memorandum account from the LTF memoranda accounts to the extent that the assets comprised in the LTF are greater than the Threshold Amount, subject to receipt by the Company of permission in writing of the FSA.

23. Related party transactions

Advantage has been taken of the exemption provided in Financial Reporting Standard 8 from disclosing details of transactions with Resolution Life Group Limited and its subsidiaries.

24. Parent companies

The Company's immediate parent company is RLG With Profit Holdings Limited, which is registered in England and Wales.

The parent of the smallest group for which consolidated accounts, including Sun Alliance and London Assurance Company Limited, are drawn up is Resolution Life Limited, which is registered in England and Wales.

The Company's ultimate parent company and controlling party is Resolution Life Group Limited, 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 Juxon House, 100 St Paul's Churchyard, London EC4M 8BU.