

Registered number: 1565099

Royal & Sun Alliance Life & Pensions Limited

Report and Financial Statements for the year ended 31 December 2002



Royal & Sun Alliance Life & Pensions Limited

Report and financial statements for the year ended 31 December 2002

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Royal & Sun Alliance Life & Pensions Limited

Directors

Mr P S Egan

Mr R E K Greenfield

Mr P N Hanby (appointed 14 January 2003)

Mr A Kerr

Secretary

Miss J E Fox

Registered office

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

Royal & Sun Alliance Life & Pensions Limited

Directors' report for the year ended 31 December 2002

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.

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

During the year a fine was levied by the Financial Services Authority in respect of administration procedures relating to the review of pension transfer and opt-out business, which together with related costs amounted to £0.3m.

Following an assessment of mortgage endowment sales practices, the Financial Services Authority have advised that their findings have been referred to its enforcement division. There is a potential, therefore, that a fine may be levied in relation to these sales practices. Quantification of any fine that might be levied is not possible, but is not likely to have a material impact on the financial statements.

The Company continues to be in discussion with the Financial Services Authority in relation to the sale of regulated life products. These products include the sale of mortgage backed endowments, the treatment of life guaranteed annuity options and the potential effect on holders of policies not subject to such options (see note 26). The 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 27) 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.

The Company continues to have discussions with the Financial Services Authority in relation to its regulatory capital position including the implicit item. There is inevitable uncertainty arising from the outcome of these discussions, as there is from management actions taken to improve the position and other uncertainties described above. Together with uncertainties arising from the volatility of investment markets, this could lead to further action being necessary and financial consequences for the Company. There would be a number of different ways in which the Company could respond. Consequently, it is not possible to reliably estimate the extent or probability of these outcomes. Based on the information currently available, the directors do not believe that any consequences will result in a materially adverse effect on the Company's financial position.

Business transacted

Net premium income of the Company for the year was **£370.8m** (2001 *£817.7m*) and at 31 December 2002 the total long term business funds on a statutory solvency valuation basis amounted to **£9,144.1m** (2001 *£9,584.8m*).

Valuation

A valuation of the long term insurance business of the Company in accordance with the Interim Prudential Sourcebook (insurance companies) issued by the Financial Services Authority was made as at 31 December 2002 in respect of the year then ended. The result of the valuation showed a surplus of **£324.4m** (2001 *£441.6m*), out of which **£298.3m** (2001 *£406.2m*) has been allocated to policyholders and **£25.6m** (2001 *£34.9m*) to shareholders. The allocation to shareholders has been transferred to the non technical account where it has been grossed up for taxation as **£36.5m** (2001 *£49.9m*).

After making these allocations there is a surplus of **£0.5m** carried forward compared with £0.5m brought forward from the last valuation.

Royal & Sun Alliance Life & Pensions Limited

Directors' report for the year ended 31 December 2002(continued)

Result and dividend

The result of the Company for the year is shown in the profit and loss account on pages 10 and 11.

An interim dividend of **£7.0m** was paid in October 2002 (2001 *£Nil*). No final dividend is recommended for the year (2001 *£Nil*) resulting in a transfer to retained profits of **£19.0m** (2001 *£34.9m*).

Directors

Mr J J Keane resigned as a director of the Company with effect from 31 August 2002. Mr W J Bradburn resigned as a director of the Company with effect from 30 September 2002. Messrs G S Pater and M L Warr resigned as directors of the Company with effect from 31 October 2002.

The directors, other than Mr P N Hanby, whose names appear on page 2 served throughout the year.

Mr P N Hanby was appointed as a director of the Company with effect from 14 January 2003.

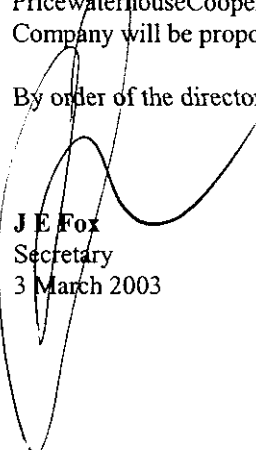
None of the directors had any interests in the shares of the Company.

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

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 6 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the next general meeting at which accounts are laid before the Company.

By order of the directors



J E Fox
Secretary
3 March 2003

Royal & Sun Alliance Life & Pensions Limited

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 2002. 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 contingent loan agreement as described in note 27.

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

Independent auditors' report to the members of Royal & Sun Alliance Life & Pensions 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 into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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


Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31 December 2002 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
Liverpool, 3 March 2003

Royal & Sun Alliance Life & Pensions Limited

Accounting Policies

Accounting and disclosure requirements

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

Change in accounting policies

The Company has adopted the requirements of Financial Reporting Standard 19 "Deferred Tax" in 2002. In accordance with Financial Reporting Standard 19 the present value of the deferred tax has been recognised in respect of all timing differences which have originated but not reversed by the balance sheet date and disclosed separately on the balance sheet. Prior to 1 January 2002 the Company's accounting policy was to provide only for deferred tax which was likely to be payable or recoverable on a discounted basis and to include it in the long term business provision, in deferred acquisition costs or in the assets held to cover linked liabilities. The prior year comparatives have been restated to comply with Financial Reporting Standard 19. There is no impact of the new policy on the Company's profit on ordinary activities after tax for 2002 (2001 £Nil), or on the statement of total recognised gains and losses. However, the impact on the fund for future appropriations is an increase of £46.6m as at 31 December 2001.

Basis of accounting

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

Translation of foreign currencies

Assets and liabilities in foreign currencies and overseas revenue transactions are translated into sterling at rates ruling at the year end. For assets and liabilities within the long term funds, the resulting exchange adjustments are included within the technical account - long term business. For assets and liabilities held outside the long term funds, the resulting exchange adjustments are taken to the profit and loss account.

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.

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 provisions 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 provisions 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 business.

Royal & Sun Alliance Life & Pensions Limited

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 that 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 the year end and the carrying value at the previous year end or, in the case of investments purchased in the year, the cost of acquisition.

Long term business provision

The long term business provision is computed using statistical or mathematical methods, which are expected to give approximately the same result as if an individual liability was calculated for each long term contract. The computations are made by a Fellow of the Institute of Actuaries, who is employed by Royal & Sun Alliance Insurance plc, on the basis of recognised actuarial methods, with due regard to the Actuarial principles laid down in the UK law and by Actuarial best practice. The methodology takes in account the risks and uncertainties of the particular classes of long term business written and the results are certified by the professional undertaking the valuation. Details of the main assumptions made and the methods used are given in note 13.

Royal & Sun Alliance Life & Pensions Limited

Accounting Policies

Technical provision for linked liabilities

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

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

Outstanding claims

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

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.

Tangible assets and depreciation

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

Operating Leases

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

Royal & Sun Alliance Life & Pensions Limited

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 statement principally arises in respect of the technical provisions of the Company. For companies which undertake long term insurance business these provisions are held within the long term business provision.

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

Estimation techniques

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

Uncertainties and contingencies

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

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

Royal & Sun Alliance Life & Pensions Limited

Profit and loss account

for the year ended 31 December 2002

Technical account - long term business

	Notes	2002 £m	2001 (restated) £m
Earned premiums, net of reinsurance			
Gross premiums written	1a	590.9	1,013.4
Outward reinsurance premiums	1a	(220.1)	(195.7)
Net earned premiums		370.8	817.7
Investment income	8	448.9	768.2
Other technical income, net of reinsurance	9	-	35.6
Claims incurred, net of reinsurance			
Claims paid			
gross amount		(1,057.1)	(929.9)
reinsurers' share		69.1	33.0
		(988.0)	(896.9)
Change in the provision for claims			
gross amount		13.4	(10.3)
reinsurers' share		-	-
		13.4	(10.3)
Net claims incurred		(974.6)	(907.2)
Changes in other technical provisions, net of reinsurance			
Long term business provision	13		
gross amount		398.4	521.6
reinsurers' share		72.2	2.6
		470.6	524.2
Technical provision for linked liabilities			
gross amount		72.0	109.8
reinsurers' share		(70.4)	(107.7)
		1.6	2.1
Net changes in other technical provisions		472.2	526.3
Net operating expenses	2	(77.0)	(116.2)
Investment expenses and charges	8	(18.2)	(14.4)
Unrealised losses on investments	8	(632.0)	(1,586.5)
Reorganisation costs	3	(16.3)	-
Other technical charges, net of reinsurance	9	(25.5)	-
Taxation attributable to the long term business	5	9.8	109.3
Transfer from the fund for future appropriations		468.2	402.1
Balance on technical account - long term business		26.3	34.9

All figures relate to continuing operations.

The notes on pages 14 to 22 form part of these financial statements.

Royal & Sun Alliance Life & Pensions Limited

Profit and loss account

for the year ended 31 December 2002

Non-technical account

	Notes	2002 £m	2001 £m
Balance on the long term business technical account		26.3	34.9
Tax credit attributable to balance on the long term business technical account		11.2	15.0
		37.5	49.9
Other charges	4	(0.3)	-
Profit on ordinary activities before taxation		37.2	49.9
Taxation on profit on ordinary activities	5	(11.2)	(15.0)
Profit on ordinary activities after taxation		26.0	34.9
Dividends	6	(7.0)	-
Transfer to retained profits		19.0	34.9

All figures relate to continuing operations.

There have been no recognised gains or losses in either reporting year other than those recorded 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 2002

	Share capital/ premium £m	Profit & loss account £m	Total 2002 £m	2001 £m
Shareholders' funds at 1 January	9.9	35.1	45.0	10.1
Shareholders' recognised gains	-	26.0	26.0	34.9
Dividends	-	(7.0)	(7.0)	-
Shareholders' funds at 31 December	9.9	54.1	64.0	45.0

The profit and loss account includes **£53.9m** (2001 £35.1m), which is distributable.

The notes on pages 14 to 22 form part of these financial statements.

Royal & Sun Alliance Life & Pensions Limited

Balance sheet at 31 December 2002

	Notes	2002 £m	2001 £m
Assets			
Investments			
	10		
Land and buildings		967.3	861.9
Other financial investments		8,902.0	9,869.7
		9,869.3	10,731.6
Assets held to cover linked liabilities			
		4.1	5.7
Reinsurers' share of technical provisions			
	13		
Long term business provision		128.1	55.9
Technical provision for linked liabilities		1,046.8	1,117.2
		1,174.9	1,173.1
Debtors			
	11		
Debtors arising out of direct insurance operations		1.1	2.5
Debtors arising out of reinsurance operations		22.5	3.2
Deferred taxation	21	38.3	-
Other debtors		66.9	111.0
		128.8	116.7
Other assets			
	19		
Tangible assets		2.3	4.8
Cash at bank and in hand		124.2	127.0
		126.5	131.8
Prepayments and accrued income			
	22		
Accrued interest and rent		125.1	107.6
Deferred acquisition costs		11.7	26.1
Deposits with ceding undertakings		4.4	6.4
		141.2	140.1
Total assets		11,444.8	12,299.0

The balance sheet includes assets totalling **£9,881.2m** (2001 restated £10,821.6m) representing the long term insurance funds.

The notes on pages 14 to 22 form part of these financial statements.

Royal & Sun Alliance Life & Pensions Limited

Balance sheet
at 31 December 2002

	Notes	2002 £m	2001 (restated) £m
Liabilities			
Capital and reserves (see page 11)			
Called up share capital	12	5.0	5.0
Share premium account		4.9	4.9
Profit and loss account		54.1	35.1
Shareholders' funds – equity interests		64.0	45.0
Fund for future appropriations		803.0	1,271.2
Technical provisions			
Long term business provision	13	9,202.1	9,600.5
Claims outstanding		44.4	57.8
		9,246.5	9,658.3
Technical provision for linked liabilities		1,050.9	1,122.9
Provision for other risks and charges	20	21.4	45.4
Creditors	14		
Creditors arising out of direct insurance operations		4.2	4.7
Creditors arising out of reinsurance operations		9.3	1.7
Amounts owed to credit institutions	15	25.0	25.0
Other creditors including taxation and social security		206.2	106.0
		244.7	137.4
Accruals and deferred income			
Property rent		9.9	12.4
Deferred income under financial reassurances	22	4.4	6.4
		14.3	18.8
Total liabilities		11,444.8	12,299.0

The notes on pages 14 to 22 form part of these financial statements.

The financial statements on pages 6 to 22 were approved by the directors on 3 March 2003 and were signed on their behalf by:



R E K Greenfield
Director
3 March 2003

Royal & Sun Alliance Life & Pensions Limited

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	Gross £m	2002 Reinsurance ceded £m	Net £m	Gross £m	2001 Reinsurance ceded £m	Net £m
	Life						
	Individual						
	Non linked with profits	184.0	(2.5)	181.5	642.5	(2.1)	640.4
	Non linked without profits	46.0	-	46.0	59.7	-	59.7
	Unit Linked	41.8	(34.7)	7.1	47.7	(40.6)	7.1
	Group						
	Non linked without profits	22.1	-	22.1	-	-	-
	Pensions						
	Individual						
	Non linked with profits	48.3	(1.0)	47.3	52.9	(1.3)	51.6
	Unit Linked	166.1	(166.1)	-	127.9	(127.9)	-
	Group						
	Non linked with profits	12.9	(1.4)	11.5	14.7	(0.1)	14.6
	Non linked without profits	0.5	-	0.5	0.8	-	0.8
	Unit Linked	14.4	(14.4)	-	23.7	(23.7)	-
	Annuity	54.8	-	54.8	43.5	-	43.5
	Total premiums written	590.9	(220.1)	370.8	1,013.4	(195.7)	817.7
	Periodic premiums	353.1	(82.0)	271.1	373.0	(78.6)	294.4
	Single premiums	237.8	(138.1)	99.7	640.4	(117.1)	523.3
	Total premiums written	590.9	(220.1)	370.8	1,013.4	(195.7)	817.7

The gross figures above include the following inward reinsurance premiums:

	2002 £m	2001 £m
Life Individual		
Non linked with profits	0.4	-
Non linked without profits	0.3	0.2
Unit linked	7.1	7.1
Pensions Individual		
Non linked with profits	13.5	24.9
Unit linked	63.8	80.5
Pensions Group		
Non linked with profits	3.7	5.7
Non linked without profits	0.5	0.9
Unit linked	10.4	15.6
Total	99.7	134.9

Royal & Sun Alliance Life & Pensions Limited

Notes on the financial statements

1b New business premiums	Gross £m	2002 Reinsurance ceded £m	Net £m	Gross £m	2001 Reinsurance ceded £m	Net £m
Life						
Individual						
Non linked with profits	2.5	-	2.5	437.5	-	437.5
Non linked without profits	2.8	-	2.8	14.4	-	14.4
Unit Linked	34.7	(34.7)	-	40.6	(40.6)	-
Group						
Non linked without profits	16.1	-	16.1	-	-	-
Pensions						
Individual						
Non linked with profits	26.0	-	26.0	35.9	(0.1)	35.8
Unit Linked	115.7	(115.7)	-	86.1	(86.1)	-
Group						
Non linked with profits	2.2	-	2.2	3.7	-	3.7
Non linked without profits	0.5	-	0.5	0.8	-	0.8
Unit linked	5.9	(5.9)	-	15.9	(15.9)	-
Annuity	54.8	-	54.8	43.5	-	43.5
Total new business annualised premiums	261.2	(156.3)	104.9	678.4	(142.7)	535.7
Periodic premiums	23.4	(18.2)	5.2	38.0	(25.6)	12.4
Single premiums	237.8	(138.1)	99.7	640.4	(117.1)	523.3
Total new business annualised premiums	261.2	(156.3)	104.9	678.4	(142.7)	535.7

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

The gross figures above include the following inward reinsurance premiums:

	2002 £m	2001 £m
Life Individual		
Non linked without profits	-	0.1
Pensions Individual		
Non linked with profits	6.5	22.4
Unit linked	28.0	47.9
Pensions Group		
Non linked with profits	0.7	1.4
Non linked without profits	0.5	0.8
Unit linked	2.6	5.7
Total	38.3	78.3

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2. Net operating expenses

	2002 £m	2001 (restated) £m
Acquisition costs	(39.8)	(73.5)
Change in deferred acquisition costs	(14.4)	(21.3)
Administrative expenses	(29.7)	(30.8)
Reinsurance commissions and profit participation	6.9	9.4
Net operation expenses	<u>(77.0)</u>	<u>(116.2)</u>

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

	2002 £m	2001 £m
Net operating expenses include:		
Depreciation	2.6	4.1

Total direct commission accounted for by the Company during the year, excluding payments to employees, amounted to £33.6m (2001 £46.1m). Total reinsurance commissions accounted for by the Company during the year amounted to net income of £3.8m (2001 £2.3m).

3. Reorganisation costs

As a result of the Royal and Sun Alliance Insurance Group's review of its UK Life operations in 2002 and the decision to close the company to new business, a fundamental reorganisation and restructure of the remaining business is taking place, resulting in the reorganisation costs charge to the technical account-long term business in 2002 (see note 20).

4. Other charges

The charge to the non technical account represents a fine levied by the Financial Services Authority in respect of administration procedures, which related to the review of pension transfer and opt-out business, together with related costs.

5. 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	
	2002 £m	2001 (restated) £m	2002 £m	2001 £m
Current tax:				
UK corporation tax	(64.4)	(34.0)	-	-
Double taxation relief	0.7	1.0	-	-
Overseas taxation	(0.1)	(3.6)	-	-
(Under)/over provision in respect of prior year	(0.7)	20.1	-	-
Total current tax	(64.5)	(16.5)	-	-
Tax attributable to long term business			(11.2)	(15.0)
Deferred tax (see note 20)				
Timing differences	105.5	172.7	-	-
Movement in discount	(31.2)	(46.9)	-	-
	74.3	125.8	-	-
Total tax credit/(charge)	9.8	109.3	(11.2)	(15.0)

The tax charge for UK corporation tax in the technical account - long term business is provided at rates between 20% and 30% (2001 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 at the standard rate of 30% (2001 at the standard rate of 30%).

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6. Dividends

	2002 £m	2001 £m
Interim dividend	7.0	-

7. Bonuses

The total amount of bonuses attributable to the year is **£298.3m** (2001 £406.2m).

8. Investment Return

	2002 £m	2001 £m
Attributable to long term business		
Income from investments		
Income from land and buildings	54.1	43.2
Income from other investments	428.6	405.7
(Losses)/gains on the realisation of investments	(33.8)	319.3
Total investment income	448.9	768.2
Investment expenses and charges		
Investment management charges	(16.3)	(14.3)
Loan interest	(1.9)	(0.1)
	(18.2)	(14.4)
Unrealised losses on investments	(632.0)	(1,586.5)
Investment return attributable to long term business	(201.3)	(832.7)

9. Other technical charges – net of reinsurance

The credit to other technical income-net of reinsurance of £35.6m in the 2001 technical account represents the reimbursement by the Company's immediate parent company, Royal Life Holdings Limited (RLH), for certain liabilities provided for by the Company in relation to pension transfer and opt-out business.

During 2002 these liabilities were reduced to £10.1m resulting in a credit of £25.5m within the movement in gross long term business provision. The charge to other technical charges – net of reinsurance, reflects the related payment to RLH, resulting in a net impact on the technical account of £nil.

10. Investments

	2002 £m	2001 £m
Land and buildings		
Freehold	816.0	705.2
Long leasehold	151.3	156.7
Total land and buildings	967.3	861.9
Of which group occupied	13.6	14.3

Other financial investments:

	2002 £m	2001 £m
Shares and other variable yield securities and units in unit trusts	2,086.7	4,140.5
Debt securities and other fixed income securities		
British government securities	2,357.0	1,699.9
Other government securities	991.8	720.9
Local authority securities	8.3	16.7
Corporate bonds	3,282.9	3,233.6
Preference shares	0.1	3.0
Loans secured by mortgages	18.0	25.6
Policy loans	4.3	5.0
Deposits with credit institutions	152.9	24.5
Total other financial investments	8,902.0	9,869.7

The historical cost of investments (including **£ 5.1m** (2001 £5.1m) for assets held to cover linked liabilities) is **£9,296.5m** (2001 £9,521.5m).

Royal & Sun Alliance Life & Pensions Limited

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10. Investments (continued)

	2002 £m	2001 £m
Listed investments included in the total investments are as follows:		
Shares and other variable yield securities and units in units trusts	2,081.9	4,123.1
Debt securities and other fixed income securities	6,267.7	5,474.4
	8,349.6	9,597.5

11. Debtors

	2002 £m	2001 £m
Debtors arising out of direct insurance operations		
Amounts due from policyholders	1.1	2.5
Debtors arising out of reinsurance operations		
Amounts due from group companies	22.5	3.2
Deferred taxation	38.3	-
Other debtors		
Taxation	19.8	10.3
Amounts due from group companies	35.7	89.7
Other	11.4	11.0
	66.9	111.0
Total	128.8	116.7

12. Share capital

	2002 £m	2001 £m
Authorised		
405,000,000 ordinary shares of £1 each	405.0	405.0
Issued and fully paid		
5,000,000 ordinary shares of £1 each	5.0	5.0

13. Long term business provision

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

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

The calculation includes explicit provision for vested bonuses (including those vesting following the current valuation). No explicit provision is made for future reversionary or terminal bonuses, although some implicit provision for future reversionary bonuses is made from margins in the net premium method.

The principal assumptions used are as follows:-

	Interest rate p.a.	Mortality table
Life with profit	3.5% (2001: 3.25%)	AM80/AF80
Pensions with profit	4.0% to 4.7% (2001: 3.85% to 4.6%)	AM80/AF80
Pension annuities in payment	5.2% (2001: 5.0%)	PMA92/PFA92 (c=2020)

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13. Long term business provision *(continued)*

The mortality assumptions incorporate amendments to the table shown above where appropriate.

The assumptions in the above table are unchanged from 31 December 2001, except where shown.

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

14. Creditors

	2002 £m	2001 £m
Arising from direct insurance operations		
Amounts due to policyholders	2.8	3.7
Amounts due to intermediaries	1.4	1.0
	<u>4.2</u>	<u>4.7</u>
Arising from reinsurance operations		
Amounts due to group companies	9.0	1.5
Other	0.3	0.2
	<u>9.3</u>	<u>1.7</u>
Other creditors including taxation and social security		
Amounts due to group companies (see note 27)	89.6	23.1
Corporation taxation	49.8	21.8
Other taxation creditors	0.8	0.8
Other	66.0	60.3
	<u>206.2</u>	<u>106.0</u>

15. Total borrowings

Bank borrowings were as follows :

	2002 £m	2001 £m
Bank loans and overdrafts repayable on demand or within one year	<u>25.0</u>	<u>25.0</u>

16. Directors' emoluments

All the directors receive remuneration from Royal & Sun Alliance Insurance plc as employees of that company.

The directors' emoluments allocated to the Company in 2002 were **£661,262** (2001 £422,977).

The amount attributable to the highest paid director allocated to the Company, excluding pension fund contributions, was **£201,711** (2001 £87,629). At 31 December 2002 the highest paid director has an accrued pension allocated to the Company of **£30,408pa** (2001 £35,473 pa).

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

17. Auditors' remuneration

The remuneration of the auditors of the Company amounted to **£102,763** (2001 £47,500). The auditors of the Company also received fees of **£691,116** (2001 £771,300) in respect of non-audit services.

18. Pension costs and other post-retirement benefits

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

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19. Tangible assets

2002
£m

Cost

At 1 January	67.8
Additions	0.3
Disposals	(0.3)
At 31 December	67.8

Depreciation

At 1 January	63.0
Charge for the year	2.6
Disposals	(0.1)
At 31 December	65.5
Net book value at 31 December 2002	2.3
Net book value at 31 December 2001	4.8

All tangible assets relate to fixtures, fittings, tools and equipment.

20. Movements in provision for other risks and charges	Litigation costs		Reorganisation costs		Deferred taxation	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 (restated) £m
At 1 January	-	-	9.4	11.0	36.0	161.8
Transfer from fellow subsidiary	1.3	-	-	-	-	-
Utilised	(3.6)	-	(6.1)	(1.6)	-	-
Charges to/(release) from:						
Technical account – long term business	4.1	-	16.3	-	(74.3)	(125.8)
Reclassification to debtors (see note 11)					38.3	-
At 31 December	1.8	-	19.6	9.4	-	36.0

The 2002 reorganisation costs charge relates to the decision to close the Company to new business (see note 3). The remaining provision relates to commitments on property leases, arising from previous business improvements programmes.

21. Deferred taxation	2002 £m	2001 (restated) £m
Unrealised investment gains	-	117.2
Other timing differences	(41.8)	(53.5)
	(41.8)	63.7
Discount	3.5	(27.7)
Deferred taxation (recoverable)/provided	(38.3)	36.0

Deferred tax assets that cannot be recovered against deferred tax liabilities have been recognised only to the extent that the directors believe that there will be suitable taxable profits to absorb them in the foreseeable future.

A deferred tax asset has not been recognised in respect of UK capital losses with an estimated value £11.2m, as it is not considered likely that suitable capital profits will arise to absorb these losses in the near 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.

22. Deposits with ceding undertakings

Under a financing reinsurance agreement the Company paid, in previous years, deposits to a fellow group subsidiary to finance the cost of writing new business on certain products. The present value of future margins which are expected to finance the repayment of these deposits is shown in the balance sheet under "Accruals and deferred income".

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23. Capital commitments

The Company had no capital commitments as at 31 December 2002 (2001 £Nil).

24. Operating Leases

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

	Land and buildings	
	2002 £m	2001 £m
Operating leases which expire:		
One year or less	-	0.1
Between two and five years	0.7	0.7
After five years	1.8	1.8
	<u>2.5</u>	<u>2.6</u>

25. Cash flow

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

26. Contingent liabilities

In common with the Life Insurance industry, the Company has experienced an increasing 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, following the Warren Glick opinions. 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.

In respect of guaranteed annuity options, a provision has been established in accordance with the regulatory guidance, which assumes a 95% take-up rate, 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.

Other than in the normal course of business the Company had no other material contingent liabilities at 31 December 2002 (2001 £Nil).

27. Contingent Loan

The Company has a contingent loan agreement with Royal Insurance Holdings plc, whereby loans of up to £500.0m will be provided in the event that the Company's statutory solvency margin, as calculated in accordance with FSA regulations, falls below £50.0m in excess of the required minimum margin. Such loans are subsequently repayable on demand to the extent that after repayment the Company's statutory solvency margin would be in excess of £50.0m. As at 31st December 2002 **£80.0m** (2001 £Nil) was outstanding under this agreement and is consequently included in Amounts due to group companies within Other creditors including taxation and social security, of which **£80.0m** (2001 £Nil) is repayable on demand.

28. Related party transactions

Included in the balance sheet are investments in unit trusts of £Nil (2001 £213.7m) managed by Royal & Sun Alliance Insurance Group plc subsidiaries.

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

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29. Parent companies

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

The parent of the smallest group for which consolidated accounts including Royal & Sun Alliance Life & Pensions 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 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.