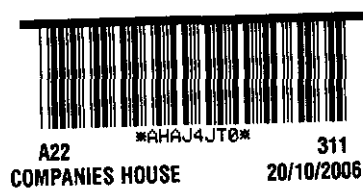


SUN ALLIANCE INSURANCE INTERNATIONAL LIMITED

Report and Accounts

for the year ended 31 December 2005



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Sun Alliance Insurance International Limited
Company Information

Directors

I A Craston

M G Culmer

M Harris

D P Cockrem

H M Maxwell

Secretary

Luke Thomas

Registered office

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

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Sun Alliance Insurance International Limited

Directors' Report

for the year ended 31 December 2005

Principal Activity

The Company is an intermediary holding company within the Royal & Sun Alliance Insurance Group and held a share in an investment pool during the year.

Review of the year and future developments

The Company did not trade during the year and consequently no Technical account has been prepared. The Company is not expected to trade in the foreseeable future.

Result and dividend

The profit for the year is shown in the Non-technical account on page 9. The directors do not recommend the payment of a dividend (2004: £nil).

Directors and their interests

The names of the current directors are listed on page 2. M G Culmer, M Harris, D P Cockrem and H M Maxwell were all appointed as directors of the Company on 22 December 2005. I A Craston served as a director throughout the year. P C Regan resigned as a director on 31 December 2005.

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

The interests in the ordinary shares of 27.5p each in Royal & Sun Alliance Insurance Group plc, together with the details of all share options to subscribe for shares in Royal & Sun Alliance Insurance Group plc, that are held by M G Culmer, who is also a director of that company during the year are disclosed in the financial statements of that company. The interests of M Harris, D P Cockrem and H M Maxwell in the ordinary shares of 27.5p each in Royal & Sun Alliance Group plc, together with details of all share options to subscribe for shares in Royal & Sun Alliance Insurance Group plc that are held by these directors, are disclosed in the financial statements of Royal & Sun Alliance Insurance plc. The interests in the ordinary shares of 27.5p each in Royal & Sun Alliance Insurance Group plc of I A Craston and P C Regan are as follows:-

| | Ordinary shares held at 1 January 2005 or on appointment (Note 1) | Ordinary shares acquired During the year | Ordinary shares disposed during the year | Ordinary shares held at 31 December 2005 (Note 1) |
|-------------|--|--|--|---|
| I A Craston | 9,153 | - | - | 9,153 |
| P C Regan | - | - | - | - |

Sun Alliance Insurance International Limited

Directors' Report (continued) for the year ended 31 December 2005

Notes

1 Ordinary shares of 27.5p each.

In addition to the interests shown above, M Harris, D P Cockrem, H M Maxwell, I A Craston and P C Regan had a beneficial interest, as at 31 December 2005, in 19,182,272 (2004: 12,369,290) shares of 27.5p each in Royal & Sun Alliance Insurance Group plc held in the Royal & Sun Alliance ESOP Trust and all directors had a beneficial interest, as at 31 December 2005, in 4,938,894 (2004: 3,038,894) shares of 27.5p each in the Royal & Sun Alliance Insurance Group plc held in the Royal & Sun Alliance ESOP Trust No 2.

The interests in options to subscribe for ordinary shares of Royal & Sun Alliance Insurance Group plc of I A Craston and P C Regan are as follows:

Options to subscribe for ordinary shares of 27.5p each

| | Held at 1 January 2005 or on appointment | Granted | During 2005 Exercised | Lapsed | Held at 31 December 2005 |
|-------------|--|---------|--------------------------|--------|-----------------------------|
| I A Craston | 276,547 | 30,000 | - | - | 306,547 |
| P C Regan | 645,402 | 451,250 | - | - | 1,096,652 |

Long-term incentive scheme interests held during 2005 in respect of the ordinary shares of 27.5p each of Royal & Sun Alliance Insurance Group plc as a result of Share Matching Plan awards for I A Craston and P C Regan are as follows :

| | | Share awards held at 1 January 2005 or on appointment | Share awards granted | During 2005 Share awards exercised | Share awards lapsed | Share awards held at 31 December 2005 |
|-------------|-----------------------|---|-------------------------|--|------------------------|--|
| I A Craston | Deferred share awards | 22,401 | 24,067 | - | - | 46,468 |
| | Matching share awards | 67,203 | 72,201 | - | - | 139,404 |
| P C Regan | Deferred share awards | - | 63,917 | - | - | 63,917 |
| | Matching share awards | - | 191,751 | - | - | 191,751 |

Details of the Share Matching Plan are contained in the report and accounts of Royal & Sun Alliance Insurance Group plc.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. The Company has in place an elective resolution under which it is not necessary to reappoint the auditors at each Annual General Meeting.

Financial Risk Management

The Company is a subsidiary of Royal & Sun Alliance Insurance Group plc and its management of risk is set at Group level. The Group's approach to financial risk, through its management of credit, market and liquidity risks, is set out below.

Disclosure of information to auditors

As far as the directors are aware there is no relevant audit information of which the company's auditors are unaware. The directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Credit risk

The primary sources of credit risk within the Group are investment and treasury activities and reinsurance counterparty risk. Within the investment management and treasury activities, a range of bank counterparty concentration and credit quality limits together with other controls are in place to ensure that exposure is managed within the Group risk appetite. New reinsurance cover is placed with reinsurers that are authorised as Approved Reinsurance Counterparties recommended by the Group Reinsurance Credit Committee under criteria approved by the Board Risk Committee. *Target credit profiles and single name limits* are set to manage and control the Group's reinsurance credit exposure within the Group's risk appetite. The overall risk appetite for credit risk within all of the Group's activity remains low.

Market risk

Market risk arises from the Group's investment portfolios. The Global Asset Management Committee is the management committee that oversees the Group's investment strategy under the oversight of the Investment Committee and operating within risk limits set by the Board Risk Committee. During 2005 the Group has introduced enhanced risk analytical techniques in line with the Group's capital model to improve the quantification and understanding of the risk exposures.

Liquidity risk

Liquidity risk is considered to be a low risk category. Group liquidity is managed by Group Treasury and each operation is required to maintain a minimum level of cash or cash equivalents or highly liquid assets that can be liquidated within a maximum stated period of time. Contingency funding plans are prepared and monitored to ensure that these minimum levels are met even in stress conditions.

By order of the directors



Luke Thomas
Secretary

13 October 2006

Statement of directors' responsibilities

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

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2005. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors have responsibility for ensuring that the Company keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. 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 Sun Alliance Insurance International Limited

We have audited the financial statements of Sun Alliance Insurance International Limited for the year ended 31 December 2005, which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom 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 International Standards on Auditing (UK and Ireland). 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 whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

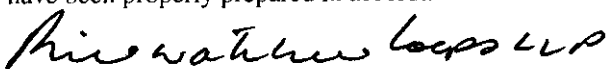
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs at 31 December 2005; and
- have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

13 October 2006

Sun Alliance Insurance International Limited

Profit & loss account for the year ended 31 December 2005

Non-technical account

| | Notes | 2005 £m | 2004 £m |
|--|-------|------------|--------------|
| Investment income | 1 | 0.6 | 0.4 |
| Administration expenses | | 0.2 | |
| Loss on disposal of subsidiaries and branches | | - | (2.3) |
| Realised losses on investments | | (0.1) | - |
| Unrealised losses on investments | | - | (0.1) |
| Profit/(Loss) on ordinary activities before tax | | 0.7 | (2.0) |
| Tax on profit/(loss) on ordinary activities | 2 | - | (0.1) |
| Profit/(Loss) on ordinary activities after tax | | 0.7 | (2.1) |

All figures relate to discontinued operations.

There is no material difference between the results for the current year and the previous year as described in the profit and loss account and the results on an unmodified historical cost basis. Accordingly, a note on the historical profits and losses for the year is not given.

The notes on pages 11 to 13 and the accounting policies on page 10 form part of these accounts.

Statement of total recognised gains and losses

| | 2005 £m | 2004 £m |
|---|------------|--------------|
| Profit/(Loss) for the financial year | 0.7 | (2.1) |
| Unrealised gain/(loss) on investment in subsidiaries | 1.2 | (0.1) |
| Shareholder recognised gains /(losses) arising in the year | 1.9 | (2.2) |

Reconciliation of movements in shareholder funds

| | Share Capital £m | Revaluation Reserve £m | Profit & loss account £m | 2005 £m | 2004 £m |
|--|------------------------|------------------------------|--------------------------------|--------------|--------------|
| Shareholder's funds at 1 January | 400.0 | 67.4 | 33.8 | 501.2 | 503.4 |
| Unrealised gain on investments in subsidiaries | - | 1.2 | - | 1.2 | (0.1) |
| Shareholder's recognised profits | - | - | 0.7 | 0.7 | (2.1) |
| Shareholder's funds at 31 December | 400.0 | 68.6 | 34.5 | 503.1 | 501.2 |

Sun Alliance Insurance International Limited

Balance sheet as at 31 December 2005

| | Notes | 2005 £m | 2004 £m |
|--|-------|--------------|--------------|
| Assets | | | |
| Investments | | | |
| Investments in group undertakings | 3 | 69.9 | 68.7 |
| Other financial investments | 4 | 4.3 | 4.1 |
| Debtors | | | |
| Amounts owed by group undertakings | | 494.4 | 494.3 |
| Total assets | | 568.6 | 567.1 |
| Liabilities | | | |
| Capital and reserves | | | |
| Called up share capital | 6 | 400.0 | 400.0 |
| Revaluation reserve | 5 | 68.6 | 67.4 |
| Profit and loss account | 5 | 34.5 | 33.8 |
| Equity shareholders' funds | | 503.1 | 501.2 |
| Creditors | | | |
| Amounts owed to group undertakings | | 65.5 | 65.8 |
| Other creditors including taxation and social security | | - | 0.1 |
| Total liabilities | | 568.6 | 567.1 |

The notes on pages 11 to 13 and the accounting policies on page 10 form part of these accounts.

The accounts on pages 8 to 13 were approved by the Board of Directors and are signed on its behalf by:

Hele M Maxwell

Director
13 October 2006

1 Accounting and disclosure requirements

The financial statements of the Company have been prepared in accordance with applicable UK Accounting Standards, the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005. The financial statements have been prepared under the historical cost convention on a going concern basis.

2 Accounting policies

A summary of the major accounting policies, which have been consistently applied throughout the year, is set out below:

(a) Investment return

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

(b) Taxation

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

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

Deferred tax balances are not discounted (previously, deferred tax balances were discounted at rates reflecting post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates and in currencies similar to those of the deferred tax assets and liabilities; the rates used were within the range of 1% to 4%).

(c) Investments

Investments in subsidiaries are included in the balance sheet at net asset value and unrealised gains and losses are dealt with in the revaluation reserve.

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

1 Investment income

| | 2005 £m | 2004 £m |
|--|------------|------------|
| Income from : Other investments (see note 4) | 0.6 | 0.4 |

2 Taxation

The tax on profit on ordinary activities charged in the profit and loss account is as follows:

| | 2005 £m | 2004 £m |
|--------------------|------------|------------|
| Current tax | | |
| UK corporation tax | - | 0.1 |
| Total current tax | - | 0.1 |
| Tax charge | - | 0.1 |

UK corporation tax for the current year is based on a rate of 30% (2004: 30%).

Factors affecting the current tax charge

The current tax charge for the year is less than (2004 less than) 30% due to the items set out in the reconciliation below.

| | 2005 £m | 2004 £m |
|---|------------|------------|
| Profit/(Loss) on ordinary activities before tax | 0.7 | (2.0) |
| Tax at 30% | 0.2 | (0.6) |
| <i>Factors affecting charge</i> | | |
| Tax exempt income and investment gains | - | 0.7 |
| Fiscal adjustments | 6.7 | - |
| Group relief received without payment | (12.0) | - |
| Adjustment to prior year provisions | 5.1 | - |
| Current tax charge for the period | 0 | 0.1 |

3 Subsidiaries

In the opinion of the directors the aggregate value of the Company's interests in subsidiaries is not less than the amount at which they are included in the balance sheet.

The Company's subsidiaries as at 31 December 2005, all of which are registered in England and Wales, were as follows: -

| | Company's interest in share capital | Principal Activity |
|---|-------------------------------------|--------------------|
| Directors & Officers Limited | 100% | Dormant |
| Hazard Management Limited. | 100% | Dormant |
| National Vulcan Engineering Insurance Group Limited | 100% | General Insurance |
| Sun Alliance Financial Risks Limited | 100% | Dormant |

Sun Alliance Insurance International Limited

Notes to the accounts (continued)

| | 2005 £m | 2004 £m |
|-------------------------|-------------|-------------|
| Net asset value: | | |
| At 1 January | 68.7 | 78.9 |
| Revaluation | 1.2 | (0.1) |
| Disposals | - | (10.1) |
| At 31 December | <u>69.9</u> | <u>68.7</u> |

The historical cost of investments in subsidiaries is £1,250,000 (2004: £1,250,000).

The financial statements contain information about Sun Alliance Insurance International Limited as an individual company and do not contain consolidated information as the parent of a group. The Company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it is a wholly-owned subsidiary of Royal & Sun Alliance Insurance Group plc which prepares group accounts.

4 Investments

The historical cost of investments is £4,392,911 (2004: £4,195,881).

Other financial investments:

| | 2005 £m | 2004 £m |
|--|------------|------------|
| Listed debt securities and other fixed income securities | 3.8 | 3.9 |
| Deposits with credit institutions | 0.5 | 0.2 |
| Investment pool | <u>4.3</u> | <u>4.1</u> |

5 Reserves

Reserves and reserve movements are as follows:

| | Revaluation reserve £m | Profit and loss account £m |
|--|------------------------------|----------------------------------|
| Balance at 1 January 2005 | 67.4 | 33.8 |
| Unrealised gain on value of investment | 1.2 | - |
| Retained profit for the year | - | 0.7 |
| Balance at 31 December 2005 | <u>68.6</u> | <u>34.5</u> |

6 Share capital

| | 2005 £m | 2004 £m |
|--|--------------|--------------|
| Authorised, issued and fully paid: 400,000,000 ordinary shares of £1 each | <u>400.0</u> | <u>400.0</u> |

7 Directors' emoluments and staff costs

All the directors receive remuneration from Royal & Sun Alliance Insurance plc as employees of that company, and it is not appropriate, because of the non-executive nature of their services, to make an apportionment of their emoluments in respect of the Company. None of the directors received any emoluments from the Company during the year (2004:£nil). The Company did not employ anyone during the year. All administrative duties are performed by employees of Royal & Sun Alliance Insurance plc at no cost to the Company.

8 Auditors' remuneration

The cost of auditing the Company's accounts is borne by a parent company.

9 Capital commitments

The Company had no capital commitments at 31 December 2005 (2004: £nil).

10 Contingent liabilities

The Company has entered into mutual guarantees with Royal & Sun Alliance Insurance Group plc and certain of its subsidiaries for the payment of general insurance business liabilities. This guarantee is not expected to be exercised in the foreseeable future. The Company has no other contingent liabilities as at 31 December 2005 (2004: £nil).

11 Cash flow statement

The Company's ultimate parent is Royal & Sun Alliance Insurance Group plc and the cash flows of the Company are included in the consolidated cash flow statement of Royal & Sun Alliance Insurance Group plc. The Company has thus taken advantage of the exemption permitted by FRS 1 (revised 1996) Cash Flow Statements and has elected not to prepare its own cash flow statement

12 Related party transactions

Advantage has been taken of the exemption provided in FRS 8 Related Party Disclosure from disclosing details of transactions with Royal & Sun Alliance Insurance Group plc and its subsidiaries.

13 Parent companies

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

The 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 9th Floor, One Plantation Place, 30 Fenchurch Street, London EC3M 3BD.