

8 MARCH 2007

## YEAR END RESULTS 2006

### Strong Group performance

- Net written premiums of £5.5bn up 3% on 2005
- Combined operating ratio (COR) of 93.3% - 0.8 points better than last year
- Operating result of £780m up 5%
- Profit before disposals and pension scheme change up 11% to £650m
- Underlying return on equity of 21%
- Loss after tax of £20m includes £499m from the write down and trading loss of the US operation

### Delivery against strategic objectives

- Strong performance from each region - underwriting result up 18% to £310m
- Driving profitable growth in our target markets - new business up 26%
- Ahead of target to deliver £130m expense savings by mid 2008
- US disposal complete - resolution of last remaining legacy issue
- US delisting and SEC deregistration complete

### Dividend

- New dividend policy - final dividend of 4.12p up 35% on 2005 (3.05p)

	12 Months 2006	12 Months 2005 (restated) <sup>(2)</sup>	Movement
<b>Total Group</b>			
Net written premiums	£5,484m	£5,300m	+3%
Underwriting result	£310m	£263m	+18%
Combined operating ratio	93.3%	94.1%	0.8pts
Operating result <sup>(1)</sup>	£780m	£743m	+5%
Profit before disposals and pension scheme change <sup>(1)</sup>	£650m	£588m	+11%
(Loss)/profit after tax <sup>(1)</sup>	£(20)m	£605m	-
	<b>31 December 2006</b>	<b>31 December 2005 (restated)<sup>(3)</sup></b>	
<b>Balance sheet</b>			
Shareholders' funds	£2,561m	£2,686m	-5%
Net asset value per share	82p	88p	-7%
Dividend for the year per ordinary share	5.87p	4.74p	+24%

### Andy Haste, Group CEO of Royal & Sun Alliance Insurance Group plc, commented:

"It has been a good twelve months for the Group. We have achieved another strong performance with an 18% increase in the underwriting result and continued delivery against our strategic objectives. The completion of our US disposal resolves the Group's last remaining legacy issue. Our portfolio of businesses is strong, we are growing profitably in our target trades and we are well positioned to continue delivering sustainable profitable performance. As it stands today, we expect the Group to deliver a combined operating ratio of better than 95% for 2007.

As a reflection of our confidence in the earnings of the Group and our capital strength, we are announcing a 35% increase in the final dividend to 4.12p, bringing the total dividend for the year to 5.87p up 24% on 2005. We plan to grow future dividends at least in line with inflation."

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<b>CONTENTS</b>	<b>PAGE</b>
CEO review	3
Operations review	4
Summary consolidated income statement – management basis	8
Summary consolidated balance sheet – management basis	9
Other information	10
Regional analysis of insurance operations	13
Estimation techniques, uncertainties and contingencies	16
Statutory information	19
Explanatory notes	23

**Important Disclaimer**

This document may contain “forward-looking statements” (as defined in the US Private Securities Litigation Reform Act of 1995) with respect to certain of the Company’s plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond the Company’s control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which the Company and its affiliates operate. As a result, the Company’s actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Company’s forward-looking statements. The Company undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation.

- (1) For a reconciliation of operating result and profit before disposals and pension scheme changes on a management basis to profit after tax on continuing business see page 8. For a reconciliation of the Group loss after tax see page 8.
- (2) Restated to exclude the US result as the US operation is disclosed as a discontinued operation, see note 2 on page 23.
- (3) Restated for the change in accounting treatment of the conversion of the perpetual notes from equity to debt in 2005, see note 3 on page 23.

## CEO REVIEW

The Group has delivered another strong result. Net written premiums increased by 3% on 2005 to £5.5bn. The underwriting result of £310m is up 18% on prior year demonstrating our disciplined approach to underwriting and claims and expense management. The combined operating ratio (COR) is 93.3%, 0.8 points better than last year (2005: 94.1%). The investment result of £556m is down 4% due to £39m of lower realised and unrealised gains. The operating result of £780m is up 5% primarily reflecting the improved underwriting result and lower central expenses, offset by a lower investment result. The underlying return on equity is strong at 21% while profit after tax from continuing operations is £479m compared with £635m in 2005, which included £216m from the change to the UK pension schemes and the disposal of our Japanese operation and our Rothschild investment. On a like for like basis, profit after tax from continuing operations is up 14% on last year.

### Business Performance

Set out below are the combined operating ratios for our main regions:

	12 Months 2006	12 Months 2005	Movement
	%	%	Points
UK Personal	91.6	95.6	4.0
UK Commercial	92.6	91.9	(0.7)
UK Total	92.3	93.1	0.8
International	94.0	94.7	0.7
Scandinavia	93.9	94.4	0.5
<b>Total Group</b>	<b>93.3</b>	<b>94.1</b>	<b>0.8</b>

The 3% increase in net written premiums to £5.5bn demonstrates the strength of our diversified portfolio with a disciplined approach in the UK, above market growth in Scandinavia and double digit growth in International. The UK remains our most competitive market and net written premiums of £2.6bn were in line with last year, demonstrating our commitment to underwriting discipline and maintaining technical price. In UK Commercial, retention is strong and we are targeting profitable growth with new business up 31% to £298m. In UK Personal, net written premiums increased by 2% to £848m and MORE THAN delivered another strong result, increasing new business by 28%.

International continues to deliver double digit growth with premiums increasing by 10% to £1.5bn. Premiums grew by 26% in Latin America and 15% in Canada reflecting a combination of organic growth, acquisitions and favourable exchange rate movements. In Canada, Johnson increased net written premiums by 25% to £260m while Commercial net written premiums grew by 28% to £181m. In Scandinavia, underlying premiums grew 6% to £1.4bn reflecting growth in both Personal and Commercial lines and double digit growth in the Baltics. Across the Group we continue to look for opportunities to deliver profitable growth in our target markets and the distribution deals and acquisitions completed this year will generate over £400m of premiums at full run rate.

Each of our main regions has consistently delivered a strong underwriting performance and the 2006 underwriting result increased by 18% to £310m with management actions on underwriting, claims and expense management and favourable weather more than offsetting rating and claims inflation. The result is also after strengthening our UK asbestos reserves by £39m and rebalancing our Scandinavian reserves. We continue to follow our prudent reserving policy and at the year end reserves were stronger than at the start of the year.

### US

On 4 March we completed the sale of our US operation to Arrowpoint Capital. This represents the resolution of our last remaining legacy issue and brings certainty and finality to the Group's exposure to the US operation. In the 2006 results, we have reclassified the business as 'held for sale' and it is shown as a discontinued operation in the income statement. The write down of the US operation and the trading loss for the year totals £484m before tax.

### Outlook

We have a strong portfolio of businesses in markets at different stages of development and at different stages in the cycle. In October, we announced a reorganisation of the Group with the UK business unchanged and our overseas businesses organised into International (Scandinavia, Canada and Other Europe) and Emerging Markets (Latin America, Asia and the Middle East and the Baltics).

This structure provides the best platform to continue driving the business forward. We have clear plans for each region and the balance of our portfolio enables us to move capacity to where we see the best opportunities for profitable growth. In 2007 we again expect strong results from each region with International representing an increased proportion of the Group's underwriting result largely driven by our Scandinavian business which we expect to deliver an improved combined operating ratio of 91-93% (90-92% under Danish IFRS). We are confident in our ability to deliver sustainable earnings and as it stands today, we expect the Group to deliver a combined operating ratio of better than 95% for 2007.

As a reflection of the Board's confidence in the future earnings of the Group and capital strength, we are announcing a 35% increase in the final dividend to 4.12p (2005: 3.05p). This brings the total dividend for the year to 5.87p, an increase of 24% on 2005. We will also be increasing the 2007 interim dividend by at least inflation plus 35% and thereafter we will grow dividends at least in line with inflation. The 2006 final dividend is subject to shareholder approval at the AGM.

**Andy Haste, Group CEO, Royal & Sun Alliance Insurance Group plc**

## OPERATIONS REVIEW

The 2006 results set out the financial performance of the Group's UK, International and Scandinavian businesses. The US operation has been reclassified as 'held for sale' and is shown as 'Discontinued operations' on one line in the income statement. In accordance with IFRS 5, the income statement comparatives have been restated and the balance sheet comparatives are as previously reported.

### Operating result

The operating result of £780m is up 5% primarily reflecting the improved underwriting result and lower central expenses, offset by the lower investment result. The underwriting result of £310m (2005: £263m) comprised £179m for the current year and £131m for the prior year. This result has been achieved in a competitive rating environment and also includes a £12m increase in subsidence costs. This has been offset by a £56m benefit from favourable weather, favourable large loss experience and the significant impact of management actions on underwriting, claims and expense management. We are ahead of our plan to deliver £130m of annualised expense savings by mid 2008 and by the year end, had realised £61m of savings against a one off cost of £51m.

#### - UK

The UK delivered a good performance with a 0.8 point improvement in the COR to 92.3% and a 4% increase in the underwriting result to £160m. In Personal, we have achieved mid single digit rate increases and in Commercial, rates were off about 4%. We are focused on driving strong retention and building momentum in our target trades to deliver profitable growth. New business increased by 31% to £559m, while net written premiums were in line with last year, demonstrating our commitment to disciplined risk selection and underwriting.

##### *Commercial*

In Commercial, our most competitive market, net written premiums were £1,770m (2005: £1,802m) reflecting our focus on disciplined underwriting, driving retention and targeting profitable new business. Retention remains strong at 84% and in our target segments we are building momentum: new business sales increased by 31% to £298m. In November, we acquired Martello Underwriting Limited a specialist provider of professional indemnity insurance delivering on our strategy of focusing on target trades. We expect this business to deliver premiums of around £40m in 2007.

Commercial delivered another strong result with a COR of 92.6% (2005: 91.9%) and an underwriting result of £95m (2005: £115m). Commercial property improved its COR by 2.7 points to 88.9%, motor delivered a COR of 91.5% and casualty a COR of 106.9%. The casualty COR includes £39m of asbestos reserve strengthening. Our marine business continued to perform strongly, delivering a COR of 91.7%.

##### *Personal*

Net written premiums for UK Personal were up 2% to £848m and new business was up 31% to £261m. The underwriting result of £65m was £26m higher than 2005 and includes the £10m one off commutation benefit announced at the half year. The COR improved by 4 points to 91.6%. This primarily reflects a strong household result with a COR of 80.9% driven by our continued positive rating, claims management actions and favourable weather partially offset by increased subsidence. In the competitive UK motor market, our business delivered a COR of 102.5% (2005: 102.9%).

MORE THAN delivered net written premiums of £441m, up 2% on 2005. New business sales in the year were up 28%, with average motor premiums 10% higher than 2005. MORE THAN achieved a COR of 88.7%, 3.7 points better than last year. The expense ratio was 22.0% compared with 24.1% in 2005, and we are on track to achieve our expense ratio target of sub 20% by the end of 2007.

Our Intermediated business has signed 11 new deals including PaymentsShield, which is expected to deliver premiums of over £200m in 2008. This is in line with our strategy of growing our affinity business by more than 50% by 2010.

#### - International

In International, net written premiums increased 10% on 2005 to £1,471m reflecting strong growth in Canada and Latin America, as well as favourable exchange movements. The underwriting result of £85m was up 35% on last year and the COR improved by 0.7 points to 94.0%.

Canadian net written premiums were £662m, an increase of 15% on 2005 reflecting a strong performance by Johnson, our direct personal business, and Commercial as well as favourable exchange. The Canadian business delivered a 2.8 point improvement in the COR to 92.0% and increased the underwriting result by 85% to £48m. This reflects the benefits of our disciplined risk selection, claims management and the delivery of cost savings. We continue to build our broker network, and in the quarter added 29 new brokers, bringing the total to 82 this year. Johnson has signed a number of new affinity deals giving it access to a potential 400,000 new customers.

In Latin America, net written premiums of £314m were up 26% on 2005, reflecting organic growth in Chile, Brazil and Argentina and our Chilean acquisition in 2005. The underwriting loss of £8m and the combined of 103.7% mostly reflects the integration costs associated with our acquisitions last year and higher reinsurance costs following the 2005 hurricanes.

Our European business delivered net written premiums of £392m (2005: £406m) and a COR of 92.8% compared with 92.0% in 2005. In Ireland, we acquired EGI Holdings Limited, a well established business with strong positions in a number of speciality lines. In Asia and the Middle East our business delivered another excellent result, more than doubling its underwriting result to £17m and improving its COR by 6.4 points to 83.1%.

#### - Scandinavia

In Scandinavia net written premiums were £1,394m up 5% on 2005 (£1,324m). Underlying growth was 6% after excluding the impact of foreign exchange and the move to net pricing. This reflects growth in both Personal and Commercial lines and strong double digit growth in the Baltics. The underwriting result of £75m is up 15% on last year reflecting the benefits of our disciplined underwriting, claims and expense management and positive rating. The COR improved by 0.5 points to 93.9%.

Commercial net written premiums were £637m, up 3% (2005: £621m) reflecting growth in Denmark and a particularly strong performance in Latvia and Lithuania. The COR was 82.4% and the underwriting result increased by 21% to £105m. In Sweden, net written premiums were £266m (2005: £280m) and we reported another excellent COR of 79.7%.

In Personal, net written premiums of £757m were up 8% on 2005 driven by strong Danish household sales, our relaunched personal accident product and the Baltics. The underwriting loss was £30m (2005: £22m loss) and the COR increased by 1.2 points to 103.7%. Since the arrival of Rickard Gustafson we have undertaken a detailed review of Scandinavian reserves. Following this review we have strengthened our Swedish personal accident and motor liability reserves, particularly for accident years 2001 and prior. This strengthening has been offset by more favourable recent experience on these lines following management actions, and the release of identified surplus in our Danish personal and commercial motor liability reserves. These adjustments have contributed to the £151m underwriting profit in Denmark (2005: £5m) and an underwriting loss of £78m in Sweden (2005: £57m profit). We do not expect any further material strengthening of our Swedish personal reserves.

In the Baltics, we continued to deliver strong net written premium growth, with premiums up 31% on 2005 to £114m.

#### - Rating movements

Rate movements achieved for risks renewing in December 2006 versus comparable risks renewing in December 2005 were as follows:

	Personal		Commercial		Property
	Motor	Household	Motor	Liability	
	%	%	%	%	%
UK	4	6	1	(9)	(4)
Scandinavia	2	5	-	5	1
Canada	(1)	2	(4)	(5)	(5)

#### - Other activities

The analysis of the other activities result is as follows:

	12 Months 2006 £m	12 Months 2005 £m	Movement
Central expenses	(74)	(82)	+10%
Investment expenses and charges	(25)	(24)	-4%
Non insurance derivatives	12	3	+300%
Associates	1	3	-67%
<b>Other activities</b>	<b>(86)</b>	<b>(100)</b>	<b>+14%</b>

The result from other activities for the year was a charge of £86m (2005: £100m). Central expenses of £74m include costs associated with regulatory and other projects of £16m (2005: £13m); underlying central expenses improved by 16% to £58m. The increase in non insurance derivatives reflects the gain on the expiration of two derivative contracts.

## - Investment result

The analysis of the investment results is as follows:

	<b>12 Months 2006 £m</b>	12 Months 2005 £m	Movement
Bonds	372	346	+8%
Equities	56	55	+2%
Cash and cash equivalents	63	55	+15%
Land and buildings	13	24	-46%
Other	12	18	-33%
<b>Investment income</b>	<b>516</b>	498	+4%
Realised gains	46	109	-58%
Unrealised gains/(losses), impairments and foreign exchange	36	12	+200%
Unwind of discount	(42)	(39)	-8%
<b>Investment result</b>	<b>556</b>	580	-4%

Investment income of £516m (2005: £498m) was 4% higher than prior year primarily reflecting a £0.2bn increase in the average size of the portfolio. The average yield remained in line with prior year at 4.0%. Total realised and unrealised gains of £82m (2005: £121m) includes the Rightmove IPO and the sale and leaseback of our Liverpool office.

The fixed interest portfolio continues to be concentrated on high quality short dated bonds. At the end of December, holdings of bonds rated AA or above stood at 83% of total bond exposure, while holdings in non investment grade bonds represented less than 1%. The continuing operations' investment portfolio was £12.8bn at the year end compared with £13bn at the start of the year reflecting the cash outflow and foreign exchange movements and we currently expect the total 2007 investment result will be broadly in line with 2006 (£556m).

As at 31 December 2006 unrealised gains in the balance sheet were £575m (31 December 2005: £541m).

## OTHER INFORMATION

### US

In September we announced the sale of the US operation to Arrowpoint Capital, a vehicle set up by the R&SA US management team. Following shareholder and the Delaware Insurance Commissioners' approval of the transaction we completed the sale of our US operation on 4 March. The US operation has been written down in accordance with IFRS 5 resulting in a charge to the income statement of £484m before tax. The income statement comparatives have been restated to show the US as discontinued in 2005. The balance sheet comparatives have not been restated. See note 2 on page 23. With the completion of the US disposal and in accordance with IFRS we will recycle the cumulative foreign exchange losses of around £20m from reserves through the income statement in our 2007 results. This will be shown outside the operating result and will have no impact on net assets.

### Regulatory capital position

The regulatory capital position of the Group under the Insurance Groups Directive (IGD) is set out below:

	<b>31 December 2006 Requirement £bn</b>	<b>31 December 2006 Surplus £bn</b>	31 December 2005 Surplus £bn
Insurance Groups Directive	1.4	1.3	1.0

The improvement in the IGD surplus from £1.0bn at 31 December 2005 to £1.3bn at 31 December 2006 is mainly attributable to the completion of the Yankee Bond exchange and tender offer during the second quarter and continuing operations' profits, offset by the dividend and write down of the US operation. The coverage over our IGD requirement has increased from 1.6 times at 31 December 2005 to 1.9 times at 31 December 2006. With the sale of the US operation complete, our IGD surplus is £1.2bn and the coverage over our IGD requirement increases to 2.0 times.

## Combined operating ratio

The combined operating ratio represents the sum of expense and commission costs expressed in relation to net written premiums and claim costs expressed in relation to net earned premiums. The calculation of the COR of 93.3% was based on net written premiums of £5,484m and net earned premiums of £5,292m.

## Net asset value per share

The net asset value per share at 31 December 2006 was 82p (2005 restated: 88p). At 2 March 2007 the net asset value per share was estimated to be unchanged at 82p.

The net asset value per share for 31 December 2006 was based on total shareholders' funds of £2,561m, adjusted by £125m for preference shares; and shares in issue at the period end of 2,964,836,634 (excludes those held in the ESOP trusts).

## Operating EPS

The operating earnings per share for the year ended 31 December 2006 was 15.7p compared with 13.7p at 31 December 2005. Operating earnings per share for the year ended 31 December 2006 was calculated on the operating result after interest, minority interests, preference dividends, and related tax of £461m; and the weighted average number of shares for the period of 2,929,452,684 (excludes those held in ESOP trusts).

## Dividend

The directors will recommend at the Annual General meeting, to be held on 21 May 2007, that a final dividend of 4.12p (2005: 3.05p) per share be paid. This, together with the interim dividend of 1.75p paid on 30 November 2006, will make a total distribution for the year of 5.87p (2005: 4.74p).

The final dividend will be payable on 1 June 2007 to shareholders on the register at the close of business on 16 March 2007. Shareholders will be offered a scrip dividend alternative. Scrip dividend mandates need to be received by Lloyds TSB Registrars before 9 May 2007.

## FURTHER INFORMATION

The full text of the above is available to the public at 1 Leadenhall Street, London EC3V 1PP. The text is also available on line at [www.royalsunalliance.com](http://www.royalsunalliance.com). A live audiocast of the analyst meeting, including the question and answer session, will be broadcast on the website at 9.30am today and an indexed version will be available by the end of the day. Copies of the slides to be presented during the conference call will be available on the site from 8.30am today.

In 2007 we will report under the new structure comprising: UK, International and Emerging Markets and will circulate the 2006 interim and full year results on this new basis. The interim 2007 results will be announced on 9 August 2007.

## MANAGEMENT BASIS OF REPORTING

The following analysis on pages 8 to 12 has been prepared on a non statutory basis as management believe that this is the most appropriate method of assessing the financial performance of the Group. The estimation techniques, uncertainties and contingencies are included on pages 16 to 18. Financial information on a statutory basis is included on pages 19 to 24.

The comparatives have been restated to reflect a change in accounting treatment on the conversion of the perpetual notes from equity to debt in 2005. A fair value adjustment has been made to the loan capital increasing its value at 31 December 2005 by £81m and recognising a related deferred tax asset of £24m. The effect is to reduce shareholders' funds by £57m at 31 December 2005. See note 3 on page 23.

## SUMMARY CONSOLIDATED INCOME STATEMENT

### MANAGEMENT BASIS

	12 Months 2006 £m	12 Months 2005 (restated)* £m
<b>Continuing operations</b>		
Net written premiums	5,484	5,300
Underwriting result	310	263
Investment income	516	498
Realised gains	46	109
Unrealised gains/(losses), impairments and foreign exchange	36	12
Unwind of discount	(42)	(39)
Investment result	556	580
Insurance result	866	843
Other activities	(86)	(100)
<b>Operating result</b>	<b>780</b>	<b>743</b>
Interest costs	(92)	(107)
Amortisation	(15)	(11)
Reorganisation costs	(23)	(37)
<b>Profit before disposals and pension scheme change</b>	<b>650</b>	<b>588</b>
Benefit on change in pension scheme design	-	180
(Loss)/profit on disposals	(1)	126
Profit before tax	649	894
Taxation	(170)	(259)
<b>Profit after tax from continuing operations</b>	<b>479</b>	<b>635</b>
<b>Discontinued operations</b>		
Loss before tax	(484)	(29)
Taxation	(15)	(1)
<b>Loss after tax from discontinued operations</b>	<b>(499)</b>	<b>(30)</b>
<b>(Loss)/profit after tax</b>	<b>(20)</b>	<b>605</b>

Earnings per share for profit from continuing operations attributable to the ordinary shareholders of the Company:

Basic	15.0p	19.9p
Diluted	14.8p	19.7p

Earnings per share for (loss)/profit attributable to the ordinary shareholders of the Company:

Basic	(2.1)p	18.9p
Diluted	(2.1)p	18.7p

\* The comparatives have been restated to show the US operation as discontinued.

## SUMMARY CONSOLIDATED BALANCE SHEET

### MANAGEMENT BASIS

	31 December 2006	31 December 2005 (restated)*
	£m	£m
<b>Assets</b>		
Goodwill and other intangible assets	552	450
Property and equipment	385	410
Investments		
Investment property	454	435
Investment in associated undertakings	27	29
Equity securities	1,620	1,683
Debt and fixed income securities	8,568	11,609
Other	269	241
Total investments	10,938	13,997
Reinsurers' share of insurance contract liabilities	1,927	4,406
Insurance and reinsurance debtors	2,225	2,547
Deferred acquisition costs	453	465
Other debtors and other assets	852	693
Cash and cash equivalents	1,831	1,617
Assets associated with continuing operations	19,163	24,585
Assets associated with discontinued operations	3,485	36
<b>Total assets</b>	<b>22,648</b>	<b>24,621</b>
<b>Equity, reserves and liabilities</b>		
<b>Equity and reserves</b>		
Shareholders' funds	2,561	2,686
Minority interests	331	391
<b>Total equity and reserves</b>	<b>2,892</b>	<b>3,077</b>
Loan capital	1,192	1,152
<b>Total equity, reserves and loan capital</b>	<b>4,084</b>	<b>4,229</b>
<b>Liabilities (excluding loan capital)</b>		
Insurance contract liabilities	12,790	17,204
Insurance and reinsurance liabilities	391	475
Borrowings	8	251
Provisions and other liabilities	1,781	2,462
	14,970	20,392
Liabilities associated with discontinued operations	3,594	-
<b>Total liabilities (excluding loan capital)</b>	<b>18,564</b>	<b>20,392</b>
<b>Total equity, reserves and liabilities</b>	<b>22,648</b>	<b>24,621</b>

Assets and liabilities associated with discontinued operations relate to the discontinued US business, see note 2 page 23.

These summary consolidated financial statements have been approved for issue by the Board of Directors on 7 March 2007.

\* The comparatives have been restated to reflect the fair value adjustment of the loan capital, see note 3 on page 23.

## OTHER INFORMATION

### MANAGEMENT BASIS

#### Movement in net assets

	Shareholders' funds £m	Minority interest £m	Loan capital £m	Net assets £m
<b>Balance at 1 January 2006 (as reported)</b>	<b>2,743</b>	<b>391</b>	<b>1,071</b>	<b>4,205</b>
Prior year adjustment	(57)	-	81	24
<b>Balance at 1 January 2006 (restated)</b>	<b>2,686</b>	<b>391</b>	<b>1,152</b>	<b>4,229</b>
Profit after tax from continuing operations	447	32	-	479
Loss after tax from discontinued operations	(499)	-	-	(499)
(Loss)/profit after tax	(52)	32	-	(20)
Exchange losses	(142)	(9)	(29)	(180)
Fair value gains net of tax	27	5	-	32
Pension fund actuarial gains/(losses) net of tax	157	(4)	-	153
New debt issue	-	-	74	74
Amortisation of loan capital	-	-	(5)	(5)
New share issue	67	-	-	67
Changes in shareholders' interests in subsidiaries	(46)	(75)	-	(121)
Share options	13	-	-	13
Prior year final dividend	(89)	(9)	-	(98)
Current year interim dividend	(51)	-	-	(51)
Preference dividend	(9)	-	-	(9)
<b>Balance at 31 December 2006</b>	<b>2,561</b>	<b>331</b>	<b>1,192</b>	<b>4,084</b>

Opening shareholders' funds have been restated by £57m to reflect the fair value adjustment to the loan capital net of deferred tax, see note 3 on page 23. The exchange loss in the year of £142m is primarily due to the effect of the movement in the US dollar and Canadian dollar against sterling on opening shareholders' funds. Changes in shareholders' interests in subsidiaries of £46m relate to Codan's share buy back and Codan's buyout of the Baltic minority interests.

#### Pension fund deficit

The table below shows the movement in the net position in the pension fund from 1 January 2006 to 31 December 2006.

	UK £m	Other £m	Continuing Group £m
<b>Pension fund at 1 January 2006</b>	<b>(211)</b>	<b>(28)</b>	<b>(239)</b>
Market movement	170	(2)	168
Deficit funding	60	-	60
Other movements	53	(18)	35
<b>Pension fund at 31 December 2006</b>	<b>72</b>	<b>(48)</b>	<b>24</b>

## Loss development tables

The table below presents the general insurance claims provisions net of reinsurance for the accident years 2001 and prior, through to 2006. The top half of the table shows the estimate of cumulative claims at the end of the initial accident year and how these have developed over time. The bottom half of the table shows the value of claims paid for each accident year in each subsequent year. The current year provision for each accident year is calculated as the estimate of cumulative claims at the end of the current year less the cumulative claims paid.

### Group

Prior year development in 2006 showed continued favourable experience in the 2002 to 2005 accident years, offset by reserve strengthening in the 2001 and prior accident years. The movement in the 2001 and prior years primarily reflects the strengthening of our UK Asbestos reserves by £169m and our long tail Scandinavia reserves by £260m. The positive run off in the years 2002 to 2005 comes from all main businesses and reflects the benefits of recent management actions as well as the release of surplus reserves within our Danish personal and commercial motor business. The loss development table below is presented on an undiscounted basis and the total discounting of £572m compares with £462m in 2005. The increase predominantly reflects the impact of the increase in UK Asbestos reserves. In Scandinavia certain long tail liabilities are settled by an annuity and the discounted value of these annuities is shown separately. At the year end the annuity reserves were £308m (2005: £296m).

	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	Total £m
Estimate of cumulative claims							
At end of accident year	7,178	2,380	2,171	2,043	2,164	2,132	
1 year later	7,435	2,328	2,058	1,919	2,074		
2 years later	7,559	2,335	1,985	1,773			
3 years later	7,902	2,317	1,886				
4 years later	7,961	2,241					
5 years later	8,398						
Claims paid							
1 year later	2,262	965	785	638	825		
2 years later	1,164	327	268	247			
3 years later	1,017	244	192				
4 years later	534	159					
5 years later	398						
Cumulative claims paid	5,375	1,695	1,245	885	825	-	
Current year provision before discounting	<b>3,023</b>	<b>546</b>	<b>641</b>	<b>888</b>	<b>1,249</b>	<b>2,132</b>	<b>8,479</b>
Exchange adjustment to closing rates							(132)
Discounting							(572)
Scandinavian annuity reserves							308
<b>Present value recognised in the balance sheet</b>							<b>8,083</b>

### Asbestos reserves

The technical provisions include £906m for asbestos in the UK. These provisions can be analysed by survival ratio. Survival ratio is an industry standard measure of a company's reserves, expressing recent year claims payments or notifications as a percentage of liabilities. The following table outlines the asbestos provisions as at 31 December 2006 analysed by risk and survival ratio:

	Total	UK risks written in the UK	US risks written in the UK
<b>Provisions in £m</b>			
Net of reinsurance	<b>906</b>	781	125
Net of discount	<b>472</b>	383	89
<b>Survival ratios</b> (Gross of discount) - On payment			
One year	<b>41</b>	52	17
Three year average	<b>35</b>	48	13
<b>Survival ratios</b> (Gross of discount) - On notifications			
One year	<b>49</b>	52	39
Three year average	<b>36</b>	40	22

## Cashflow – management basis

	12 Months 2006 £m	12 Months 2005 £m
Operating cashflow	817	766
Interest paid	(82)	(107)
Dividends	(96)	(138)
Pension deficit funding	(86)	(86)
Net repayment of debt	(169)	(86)
Corporate activity	(355)	97
<b>Cash surplus</b>	<b>29</b>	<b>446</b>
Funded by:		
Increase/(decrease) in cash and cash equivalents	443	(127)
(Sale)/purchase of other investments	(414)	573
	<b>29</b>	<b>446</b>

The Group's operating cashflow increased by 7% to £817m in 2006. During the year we serviced our debt and dividends, made our agreed deficit funding payment and repaid our senior debt of £233m. After acquisitions, distribution deals and Codan's buy out of minority interests in the Baltics and its share buyback the Group generated surplus cash of £29m in the year.

## REGIONAL ANALYSIS OF INSURANCE OPERATIONS

	Net written premiums	
	2006 £m	2005 £m
United Kingdom	2,618	2,632
International	1,471	1,337
Scandinavia	1,394	1,324
Group Re	1	7
<b>Total Group</b>	<b>5,484</b>	<b>5,300</b>

	Underwriting result		Investment result		Insurance result	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
United Kingdom	160	154	306	321	466	475
International	85	63	136	144	221	207
Scandinavia	75	65	114	115	189	180
Group Re	(10)	(19)	-	-	(10)	(19)
<b>Total Group</b>	<b>310</b>	<b>263</b>	<b>556</b>	<b>580</b>	<b>866</b>	<b>843</b>

	Operating ratios					
	2006			2005		
	Claims %	Expenses %	Combined %	Claims %	Expenses %	Combined %
United Kingdom	62.2	30.1	92.3	61.2	31.9	93.1
International	60.2	33.8	94.0	61.4	33.3	94.7
Scandinavia	75.5	18.4	93.9	74.4	20.0	94.4
<b>Total Group</b>	<b>65.2</b>	<b>28.1</b>	<b>93.3</b>	<b>64.9</b>	<b>29.2</b>	<b>94.1</b>

## INVESTMENT RESULT BY REGION

	UK	International	Scandinavia	Total Group
	£m	£m	£m	£m
Investment income	282	117	117	516
Realised gains	25	11	10	46
Unrealised gains/(losses), impairments and foreign exchange	20	8	8	36
Unwind of discount	(21)	-	(21)	(42)
<b>Investment result</b>	<b>306</b>	<b>136</b>	<b>114</b>	<b>556</b>

The investment result is reported on an actual basis for the Group in total. Within the Group, investment income is allocated to the regions based on technical reserves, working capital and the local regulatory capital requirements. Realised gains, unrealised gains and impairment losses are allocated with reference to the above amounts. The unwind of discount is attributed on an actual basis.

## UK INSURANCE OPERATIONS

	Net written premiums		Underwriting result		Operating ratio	
	2006	2005	2006	2005	2006	2005
	£m	£m	£m	£m	%	%
<b>Personal</b>						
Household	389	383	71	49	80.9	90.4
Motor	423	404	(13)	(11)	102.5	102.9
Other	36	43	7	1	81.8	88.9
<b>Total UK Personal</b>	<b>848</b>	<b>830</b>	<b>65</b>	<b>39</b>	<b>91.6</b>	<b>95.6</b>
<b>Commercial</b>						
Property	661	711	85	72	88.9	91.6
Casualty	330	348	(21)	12	106.9	96.8
Motor	592	599	20	37	91.5	88.9
Other	187	144	11	(6)	94.1	101.9
<b>Total UK Commercial</b>	<b>1,770</b>	<b>1,802</b>	<b>95</b>	<b>115</b>	<b>92.6</b>	<b>91.9</b>
<b>Total UK</b>	<b>2,618</b>	<b>2,632</b>	<b>160</b>	<b>154</b>	<b>92.3</b>	<b>93.1</b>

## INTERNATIONAL INSURANCE OPERATIONS

	Net written premiums		Underwriting result		Operating ratio	
	2006	2005	2006	2005	2006	2005
	£m	£m	£m	£m	%	%
<b>Personal</b>						
Canada	481	436	40	18	91.0	94.9
Europe	231	237	27	33	88.0	86.5
Latin America	161	109	-	(2)	101.2	100.4
Asia & Middle East	28	30	3	4	85.3	84.1
<b>Total Personal</b>	<b>901</b>	<b>812</b>	<b>70</b>	<b>53</b>	<b>91.9</b>	<b>92.8</b>
<b>Commercial</b>						
Canada	181	142	8	8	94.0	94.6
Europe	161	169	1	1	99.8	99.4
Latin America	153	140	(8)	(3)	106.4	102.1
Asia & Middle East	75	74	14	4	82.2	91.7
<b>Total Commercial</b>	<b>570</b>	<b>525</b>	<b>15</b>	<b>10</b>	<b>97.5</b>	<b>97.6</b>
<b>Total</b>						
Canada	662	578	48	26	92.0	94.8
Europe	392	406	28	34	92.8	92.0
Latin America	314	249	(8)	(5)	103.7	101.4
Asia & Middle East	103	104	17	8	83.1	89.5
<b>Total International</b>	<b>1,471</b>	<b>1,337</b>	<b>85</b>	<b>63</b>	<b>94.0</b>	<b>94.7</b>

## SCANDINAVIAN INSURANCE OPERATIONS

	Net written premiums		Underwriting result		Operating ratio	
	2006	2005	2006	2005	2006	2005
	£m	£m	£m	£m	%	%
<b>Personal</b>						
Denmark	212	207	99	(1)	52.6	99.5
Sweden	476	440	(130)	(23)	127.7	104.7
Other	69	56	1	2	92.6	92.4
<b>Total Personal</b>	<b>757</b>	<b>703</b>	<b>(30)</b>	<b>(22)</b>	<b>103.7</b>	<b>102.5</b>
<b>Commercial</b>						
Denmark	310	299	52	6	82.6	97.4
Sweden	266	280	52	80	79.7	72.4
Other	61	42	1	1	93.4	91.4
<b>Total Commercial</b>	<b>637</b>	<b>621</b>	<b>105</b>	<b>87</b>	<b>82.4</b>	<b>85.5</b>
<b>Total</b>						
Denmark	522	506	151	5	70.4	98.3
Sweden	742	720	(78)	57	110.0	91.7
Other	130	98	2	3	92.9	91.9
<b>Total Scandinavia</b>	<b>1,394</b>	<b>1,324</b>	<b>75</b>	<b>65</b>	<b>93.9</b>	<b>94.4</b>

## ESTIMATION TECHNIQUES, UNCERTAINTIES AND CONTINGENCIES

### Introduction

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks.

The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The uncertainty in the financial statements principally arises in respect of the insurance liabilities of the company.

The insurance liabilities of an insurance company include the provision for unearned premiums and unexpired risks and the provision for outstanding claims. Unearned premiums and unexpired risks represent the amount of income set aside by the company to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the balance sheet date. Outstanding claims represents the company's estimate of the cost of settlement of claims that have occurred by the balance sheet date but have not yet been finally settled.

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

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

### Estimation techniques

Claims and unexpired risks provisions are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions and economic conditions.

Where possible the Group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The Group's estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies and a number of different bases to determine these provisions. These include methods based upon the following:

- the development of previously settled claims, where payments to date are extrapolated for each prior year;
- estimates based upon a projection of claims numbers and average cost;
- notified claims development, where notified claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected loss ratios.

In addition, the Group uses other methods such as the Bornhuetter-Ferguson method, which combines features of the above methods. The Group also uses bespoke methods for specialist classes of business. In selecting its best estimate, the Group considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year. The process is designed to select the most appropriate best estimate.

Large claims impacting each relevant business class are generally assessed separately, being measured either at the face value of the loss adjusters' estimates or projected separately in order to allow for the future development of large claims.

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

The claims provisions are subject to close scrutiny both within the Group's business units and at Group Corporate Centre. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. As an example, the Group's exposure to asbestos and environmental pollution is examined on this basis. The results of these reviews are considered when establishing the appropriate levels of provisions for outstanding claims and unexpired periods of risk.

It should be emphasised that the estimation techniques for the determination of insurance liabilities involve obtaining corroborative evidence from as wide a range of sources as possible and combining these to form the overall estimate. This technique means that the estimate is inevitably deterministic rather than stochastic. A stochastic valuation approach, whereby a range of possible outcomes is estimated and probabilities assigned thereto, is only possible in a limited number of situations.

The pension assets and pension and post retirement liabilities are calculated in accordance with International Accounting Standard 19 (IAS 19). The assets, liabilities and income statement charge, calculated in accordance with IAS 19, are sensitive to the assumptions made, including inflation, interest rate, investment return and mortality. IAS 19 compares, at a given date, the current market value of a pensions fund's assets with its long term liabilities, which are calculated using a

discount rate in line with yields on 'AA' rated bonds of suitable duration and currency. As such, the financial position of a pension fund on this basis is highly sensitive to changes in bond rates and equity markets.

### **Uncertainties and contingencies**

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

- uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss;
- uncertainty as to the extent of policy coverage and limits applicable;
- uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring; and
- uncertainty over the timing of a settlement to a policyholder for a loss suffered.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder.

There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the Group. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretations and court judgments that broaden policy coverage beyond the intent of the original insurance, legislative changes and claims handling procedures.

The establishment of insurance liabilities is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates, particularly for the Group's long tail lines of business. The Group seeks to provide appropriate levels of claims provision and provision for unexpired risks taking the known facts and experience into account.

The Group has exposures to risks in each class of business within each operating segment that may develop and that could have a material impact upon the Group's financial position. The geographical and insurance risk diversity within the Group's portfolio of issued insurance policies make it not possible to predict whether material development will occur and, if it does occur, the location and the timing of such an occurrence. The estimation of insurance liabilities involves the use of judgments and assumptions that are specific to the insurance risks within each territory and the particular type of insurance risk covered. The diversity of the insurance risks results in it not being possible to identify individual judgments and assumptions that are more likely than others to have a material impact on the future development of the insurance liabilities.

The sections below identify a number of specific risks relating to asbestos and environmental claims. There may be other classes of risk which could develop in the future and that could have a material impact on the Group's financial position.

The Group evaluates the concentration of exposures to individual and cumulative insurance risk and establishes its reinsurance policy to reduce such exposure to levels acceptable to the Group.

### **Asbestos and environmental claims**

The estimation of the provisions for the ultimate cost of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of insurance business. As a result it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims, particularly in periods when theories of law are in flux. Consequently, traditional techniques for estimating claims provisions cannot wholly be relied upon and the Group employs specialised techniques to determine provisions using the extensive knowledge of both internal asbestos and environmental pollution experts and external legal and professional advisors.

Factors contributing to this higher degree of uncertainty include:

- the long delay in reporting claims from the date of exposure (for example, cases of mesothelioma can have a latent period of 40 or more years). This makes estimating the ultimate number of claims we will receive particularly difficult;
- issues of allocation of responsibility among potentially responsible parties and insurers;
- emerging court decisions increasing or decreasing insurer liability;
- the tendency for social trends and factors to influence court awards ;
- developments pertaining to the Group's ability to recover reinsurance for claims of this nature; and
- for US liabilities from our London market business, developments in the tactics of US plaintiff lawyers and court decisions and awards.

### **Acquisitions and disposals**

The Group makes acquisitions and disposals of businesses as part of its normal operations. All acquisitions are made after due diligence, which will include, amongst other matters, assessment of the adequacy of claims reserves, assessment of the recoverability of reinsurance balances, inquiries with regard to outstanding litigation and inquiries of local regulators and taxation authorities. Consideration is also given to potential costs, risks and issues in relation to the integration of any proposed acquisitions with existing R&SA operations. The Group will seek to receive the benefit of appropriate contractual representations and warranties in connection with any acquisition and, where necessary, additional indemnifications in relation to specific risks although there can be no guarantee that such protection will be adequate in all circumstances. The Group may also provide relevant representations, warranties and indemnities to

counterparties on any disposal. While such representations, warranties and indemnities are essential components of many contractual relationships, they do not represent the underlying purpose for the transaction. These clauses are customary in such contracts and may from time to time lead to us receiving claims from counterparties.

### **Contracts with third parties**

The Group enters into joint ventures, outsourcing contracts and distribution arrangements with third parties in the normal course of its business and is reliant upon those third parties performing their obligations in accordance with the terms and conditions of the contracts.

### **Litigation, mediation and arbitration**

The Group, in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectoral inquiries in the normal course of its business. In addition the Group is subject to litigation in connection with its former ownership of the US operation. The directors do not believe that any current mediation, arbitration, regulatory, governmental or sectoral inquiries and pending or threatened litigation or dispute will have a material adverse effect on the Group's financial position, although there can be no assurance that losses resulting from any current mediation, arbitration, regulatory, governmental or sectoral inquiries and pending or threatened litigation or dispute will not materially affect the Group's financial position or cash flows for any period.

### **Reinsurance**

The Group is exposed to disputes on, and defects in, contracts with its reinsurers and the possibility of default by its reinsurers. The Group is also exposed to the credit risk assumed in fronting arrangements. In selecting the reinsurers with whom we do business our strategy is to seek reinsurers with the best combination of credit rating, price and capacity. We publish internally a list of authorised reinsurers who pass our selection process and which our operations may use for new transactions.

The Group monitors the financial strength of its reinsurers, including those to whom risks are no longer ceded. Allowance is made in the financial position for non recoverability due to reinsurer default by requiring operations to provide, in line with Group standards, having regard to companies on the Group's 'Watch List'. The 'Watch List' is the list of companies whom the directors believe will not be able to pay amounts due to the Group in full.

### **Changes in foreign exchange rates may impact our results**

We publish our consolidated financial statements in pounds sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly other European currencies and the US dollar, into pounds sterling will impact our reported consolidated financial condition, results of operations and cash flows from period to period. These fluctuations in exchange rates will also impact the pound sterling value of our investments and the return on our investments.

Income and expenses for each income statement item are translated at average exchange rates. Balance sheet assets and liabilities are translated at the closing exchange rates at the balance sheet date.

### **Investment risk**

The Group is exposed to credit risk on its invested assets. Credit risk includes the non performance of contractual payment obligations on invested assets and adverse changes in the credit worthiness of invested assets including exposures to issuers or counterparties for bonds, equities, deposits and derivatives. Our insurance investment portfolios are concentrated in listed securities. We use derivative financial instruments to reduce our exposure to adverse fluctuations in interest rates, foreign exchange rates and equity markets. We have strict controls over the use of derivative instruments.

### **Rating agencies**

The ability of the Group to write certain types of insurance business is dependent on the maintenance of the appropriate credit ratings from the rating agencies. The Group has the objective of maintaining single 'A' ratings. At the present time the ratings are 'A-' from S&P and 'A-' from AM Best. Any worsening in the ratings would have an adverse impact on the ability of the Group to write certain types of general insurance business.

### **Regulatory environment**

The regulatory environment is subject to significant change in many of the jurisdictions in which we operate. We continue to monitor the developments and react accordingly. The directors are confident that the Group will continue to meet all future regulatory capital requirements.

In addition the Group is continuing to monitor and respond to consultation on the latest Solvency II proposals, which are intended, in the medium term, to achieve greater harmonisation of approach across European member states to assessing capital resources and requirements.

## Statutory Information

Summary consolidated income statement	20
Summary consolidated balance sheet	21
Summary statement of recognised income and expense	22
Summary cashflow statement	22
Explanatory notes to the summary consolidated financial statements	23

## SUMMARY CONSOLIDATED INCOME STATEMENT

### STATUTORY BASIS

	12 Months 2006 (audited) £m	12 Months 2005 (audited) (restated)* £m
<b>Continuing operations</b>		
Net written premiums	5,484	5,300
<b>Income</b>		
Net earned premiums	5,292	5,239
Net investment return	600	668
Other operating income	121	99
Total income	6,013	6,006
<b>Expenses</b>		
Net claims and benefits	(3,453)	(3,389)
Underwriting and policy acquisition costs	(1,626)	(1,649)
Profit on change of pension scheme design	-	180
Unwind of discount	(42)	(39)
Other operating expenses	(151)	(176)
Total expenses	(5,272)	(5,073)
<b>Results of operating activities</b>	<b>741</b>	<b>933</b>
Finance costs	(92)	(107)
(Loss)/profit on disposals	(1)	65
Net share of profit after tax of associates	1	3
Profit before tax	649	894
Income tax expense	(170)	(259)
<b>Profit after tax from continuing operations</b>	<b>479</b>	<b>635</b>
<b>Discontinued operations</b>		
Loss after tax from discontinued operations	(499)	(30)
<b>(Loss)/profit after tax</b>	<b>(20)</b>	<b>605</b>
Attributable to:		
Equity holders of the Company	(52)	555
Minority interests	32	50
<b>(Loss)/profit after tax</b>	<b>(20)</b>	<b>605</b>
Earnings per share for profit from continuing operations attributable to the ordinary shareholders of the Company:		
Basic	15.0p	19.9p
Diluted	14.8p	19.7p
Earnings per share for (loss)/profit attributable to the ordinary shareholders of the Company:		
Basic	(2.1)p	18.9p
Diluted	(2.1)p	18.7p

The attached notes are an integral part of these summary consolidated financial statements. For dividend information refer to note 7.

\* The comparatives have been restated to show the US operation as discontinued. See note 2 on page 23.

## SUMMARY CONSOLIDATED BALANCE SHEET

### STATUTORY BASIS

	31 December 2006 (audited) £m	31 December 2005 (audited) (restated)* £m
<b>Assets</b>		
Goodwill and other intangible assets	552	450
Property and equipment	385	410
Investment property	454	435
Investment in associated undertakings	27	29
Financial assets		
Equity securities	1,620	1,683
Debt and fixed income securities	8,568	11,609
Other	269	241
Total financial assets	10,457	13,533
Reinsurers' share of insurance contract liabilities	1,927	4,406
Insurance and reinsurance debtors	2,225	2,547
Deferred acquisition costs	453	465
Other debtors and other assets	852	693
Cash and cash equivalents	1,831	1,617
	<b>19,163</b>	<b>24,585</b>
Non current assets and assets of operations held for sale	3,485	36
<b>Total assets</b>	<b>22,648</b>	<b>24,621</b>
<b>Equity, reserves and liabilities</b>		
<b>Equity and reserves</b>		
Shareholders' funds	2,561	2,686
Minority interests	331	391
<b>Total equity and reserves</b>	<b>2,892</b>	<b>3,077</b>
<b>Liabilities</b>		
Loan capital	1,192	1,152
Insurance contract liabilities	12,790	17,204
Insurance and reinsurance liabilities	391	475
Borrowings	8	251
Provisions and other liabilities	1,781	2,462
	<b>16,162</b>	<b>21,544</b>
Liabilities of operations held for sale	3,594	-
<b>Total liabilities</b>	<b>19,756</b>	<b>21,544</b>
<b>Total equity, reserves and liabilities</b>	<b>22,648</b>	<b>24,621</b>

Assets and liabilities associated with operations held for sale at 31 December 2006 relate to the discontinued US business, see note 2 page 23.

These summary consolidated financial statements have been approved for issue by the Board of Directors on 7 March 2007.

The attached notes are an integral part of these summary consolidated financial statements.

\* The comparatives have been restated to reflect the fair value adjustment of the loan capital. See note 3 on page 23.

## SUMMARY STATEMENT OF RECOGNISED INCOME AND EXPENSE

### STATUTORY BASIS

	12 Months 2006 (audited) £m	12 Months 2005 (audited) (restated)* £m
<b>(Loss)/profit after tax</b>	<b>(20)</b>	605
Exchange (losses)/gains	(151)	62
Fair value gains/(losses) net of tax	32	(35)
Pension fund actuarial gains/(losses) net of tax	153	(53)
Tax effect of prior year adjustment	-	24
<b>Net gains/(losses) not recognised in income statement</b>	<b>34</b>	<b>(2)</b>
<b>Total recognised income for the year</b>	<b>14</b>	<b>603</b>

## SUMMARY CASHFLOW STATEMENT

### STATUTORY BASIS

	12 Months 2006		12 Months 2005	
	Continuing operations £m	Total Group £m	Continuing operations £m	Total Group £m
Net cashflows from operating activities	648	117	843	31
Net cashflows from investing activities	175	781	(745)	(130)
Net cashflows from financing activities	(380)	(389)	(225)	(225)
Net increase/(decrease) in cash and cash equivalents	443	509	(127)	(324)
Cash and cash equivalents at the beginning of the year	1,440	1,612	1,523	1,864
Effect of exchange rate changes on cash and cash equivalents	(56)	(81)	44	72
<b>Cash and cash equivalents at the end of the year</b>	<b>1,827</b>	<b>2,040</b>	1,440	1,612

	31 December 2006		31 December 2005	
	Continuing operations £m	Total Group £m	Continuing operations £m	Total Group £m
Cash and cash equivalents per cashflow statement	1,827	2,040	1,440	1,612
Add: bank overdrafts	4	4	5	5
Cash and cash equivalents per balance sheet	1,831	2,044	1,445	1,617

The attached notes are an integral part of these summary consolidated financial statements.

\* The comparatives have been restated to reflect the fair value adjustment of the loan capital. See note 3 on page 23.

## EXPLANATORY NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

### 1. Changes in significant accounting policies

The consolidated financial statements, from which these summary consolidated financial statements have been extracted, are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available for sale financial assets, investment property, Group occupied property and financial assets and financial liabilities held for trading (which include all derivative contracts).

There have been no significant changes in accounting policy in the year to 31 December 2006. A full list of accounting policies can be found in the 2006 statutory Group financial statements, see note 10 below.

### 2. Non current assets and liabilities of operations held for sale

The US operation has been classified as held for sale and written down in accordance with IFRS 5. The write down and disposal costs of £399m and the trading loss for the year of £85m have been shown on one line in the income statement as a discontinued operation. The income statement comparatives have been restated to show the US as discontinued. The total assets and total liabilities of the US operation, including the write down, have each been shown net of inter company balances on one line in the balance sheet. The balance sheet comparatives have not been restated.

Non current assets held for sale at 31 December 2005 related to property.

### 3. Prior year restatement due to change in accounting treatment

The Group's £450m of perpetual notes were classified as debt under UK GAAP but had to be reclassified as equity on conversion to IFRS. During 2005, the terms of the notes were revised to align the accounting treatment under IFRS with the economic substance of the notes being debt. There was no change in the carrying value of the notes as the conversion was treated as an exchange.

During 2006, the International Financial Reporting Interpretations Committee provided guidance on its understanding of the accounting to be used in these circumstances. As a result, the Group has changed its accounting treatment and recognised the notes at fair value at the date of conversion.

The carrying value of the notes at 31 December 2005 has been increased by £81m in line with the new treatment. A corresponding deferred tax asset of £24m has also been recognised, resulting in a £57m reduction to shareholders' funds at 31 December 2005.

### 4. Changes in total equity and reserves for year to 31 December

	Shareholders' funds	Minority interest	Total equity and reserves
	£m	£m	£m
<b>Balance at 1 January 2006 (as reported)</b>	<b>2,743</b>	<b>391</b>	<b>3,134</b>
Prior year restatement	(57)	-	(57)
<b>Balance at 1 January 2006 (restated)</b>	<b>2,686</b>	<b>391</b>	<b>3,077</b>
Total recognised income for the year	(10)	24	14
New share issue	67	-	67
Changes in shareholders' interests in subsidiaries	(46)	(75)	(121)
Share options	13	-	13
Prior year final dividend	(89)	(9)	(98)
Current year interim dividend	(51)	-	(51)
Preference dividend	(9)	-	(9)
<b>Balance at 31 December 2006</b>	<b>2,561</b>	<b>331</b>	<b>2,892</b>

## 5. Earnings per share

The earnings per share is calculated by reference to the result attributable to the equity shareholders and the weighted average number of shares in issue during the period. On a basic and diluted basis this was 2,929,452,684 and 2,959,286,554 respectively (excluding those held in ESOP trusts). The number of shares in issue at 31 December 2006 was 2,964,836,634 (excluding those held in ESOP trusts).

## 6. Purchase of minority interests

The minority interests in both the Latvian and Lithuanian businesses have been bought by Codan for DKK 599m (£55m). Codan has also purchased DKK 736m (£66m) of their own shares from the market. The Group now owns 74.51% of Codan, up from 71.70% at the start of the year. The total effect of these transactions is to reduce shareholders' funds by £46m and minority interests by £75m.

## 7. Dividends

	2006		2005	
	Per share p	Total £m	Per share p	Total £m
<b>Ordinary dividend</b>				
Final paid in respect of prior year	3.05	89	2.96	86
Interim paid in respect of current year	1.75	51	1.69	49
	<b>4.80</b>	<b>140</b>	4.65	135
<b>Preference dividend</b>		<b>9</b>		9
		<b>149</b>		144

## 8. Taxation

Of the £170m (2005 restated: £259m) of income tax expense in the year, £74m (2005 restated: £176m) relates to UK corporation tax and £96m (2005 restated: £83m) to overseas taxation.

## 9. Exchange rates

£/local currency	12 Months 2006		12 Months 2005	
	Average	Closing	Average	Closing
US Dollar	1.85	1.96	1.82	1.72
Canadian Dollar	2.09	2.28	2.20	2.01
Danish Kroner	10.95	11.07	10.90	10.86

## 10. Results for 2006

This preliminary statement of annual results and dividends does not constitute full statutory Group financial statements within the meaning of Section 240 of the Companies Act 1985. The statutory Group financial statements for the year to 31 December 2006 of Royal & Sun Alliance Insurance Group plc will be delivered to the Registrar of Companies following the Annual General Meeting to be held on 21 May 2007. The independent auditors' report on the Group financial statements for the year ended 31 December 2006 is unqualified and does not contain a statement under Section 237(2) or (3) of the Companies Act 1985.