

SUN ALLIANCE INSURANCE OVERSEAS LIMITED

Report and Accounts

for the year ended 31st December 2005



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Sun Alliance Insurance Overseas Limited
Directors

Directors

D.P. Cockrem

I.A. Craston

M.G. Culmer

M. Harris

H.M. Maxwell

Secretary

L. Thomas

Registered office

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

Auditors

PricewaterhouseCoopers LLP, Southwark Towers, 32 London Bridge Street, London SE1 9SY

Sun Alliance Insurance Overseas Limited

Directors' Report

for the year ended 31st December 2005

Principle activity, review of the year and future developments

The Company is the holding company for subsidiaries transacting general insurance, reinsurance and long term insurance business in the United Kingdom and overseas.

It is intended that the Company will continue to act as the parent company of subsidiaries operating within the insurance industry.

Results and dividends

The result of the Company for the year is shown in the profit and loss account on page 7.

The directors do not recommend the payment of a dividend (2004: £Nil).

Directors

Mr. I.A. Craston and Mr. M.G. Culmer served as directors throughout the year.

Mrs. D.P. Cockrem, Mr. M. Harris and Mrs. H.M. Maxwell were appointed as directors on 22nd December 2005.

Mr. P.C Regan served as a director until he resigned on 31st December 2005.

None of the directors had any interests in the shares of the Company. Their interests in the ordinary shares of 27.5p each in Royal & Sun Alliance Insurance Group plc, together with details of all share options to subscribe for shares in Royal & Sun Alliance Insurance Group plc are disclosed in the financial statements of that company for Mr Culmer and in the financial statements of Royal & Sun Alliance Insurance plc for Mrs Cockrem, Mr Harris and Mrs Maxwell. Mr Regan does not have any interests in the shares of Royal & Sun Alliance Insurance Group plc. The interests of Mr Craston in the ordinary shares of 27.5p each in Royal & Sun Alliance Insurance Group plc are as follows :-

	Ordinary shares held at 1st January 2005	Ordinary shares acquired	Ordinary shares disposed	Ordinary shares held at 31st December 2005
I.A. Craston	9,153	-	-	9,153

In addition to the interests shown above, Mr Craston and Mr Regan had a beneficial interest, as at 31st 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 4,938,894 (2004: 3,038,894) shares of 27.5p each in Royal & Sun Alliance Insurance Group plc held in the Royal & Sun Alliance ESOP Trust No 2. All employees of the Group and certain option-holders have a beneficial interest in the shares held in these trusts with the exception of the executive directors of Royal & Sun Alliance Insurance Group plc who are excluded from the beneficiaries of the Royal & Sun Alliance ESOP Trust.

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

	Held at 1st January 2005	Options to subscribe for shares			Held at 31st December 2005
		Granted	During year Exercised	Lapsed	
I.A. Craston	276,547	30,000	-	-	306,547
P.C. Regan	645,402	451,250	-	-	1,096,652

Directors (cont.)

Long-term incentive scheme interests held during 2005 in respect of the ordinary shares of Royal & Sun Alliance Insurance Group plc as a result of Share Matching Plan awards are as follows:

		Share awards held at 1st January 2005	Granted	During year Exercised	Lapsed	Share awards held at 31st December 2005
I.A. Craston	Deferred share awards	22,401	24,067	-	-	46,468
I.A. Craston	Matching share awards	67,203	72,201	-	-	139,404
P.C. Regan	Deferred share awards	-	63,917	-	-	63,917
P.C. Regan	Matching share awards	-	191,751	-	-	191,751

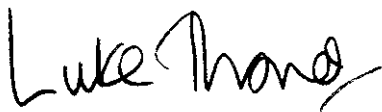
Management of financial risk

The Company invests its available resources in financial assets. The management of financial risk is undertaken in accordance with policies established by the parent company to ensure financial risk is properly managed at Group level. In addition, the investment policy at Company level is expected to ensure that the Company is able to meet its obligations. The Company is not party to any arrangements for which hedge accounting is used.

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 propose a resolution to re-appoint the auditors at each Annual General Meeting.

By order of the directors



L. Thomas
Secretary

23 October 2006

Sun Alliance Insurance Overseas Limited

Statement of Directors' Responsibilities

Directors' responsibilities

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

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31st December 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. 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 Overseas Limited

We have audited the financial statements of Sun Alliance Insurance Overseas Limited for the year ended 31st December 2005 which comprise the profit and loss account, the statement of total recognised gains and losses, the movement in shareholders' funds, the balance sheet and the related notes including the accounting policies. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Basis of audit opinion

We conducted our audit in accordance with 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 as at 31st December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

25 October

2006

Sun Alliance Insurance Overseas Limited

Profit & Loss Account

for the year ended 31st December 2005

Non-technical account

	Notes	2005 £m	2004 £m
Investment income	2	2.8	2.0
Expenses	3	(1.0)	-
Loss on disposal of subsidiaries		-	(0.6)
Profit on ordinary activities before taxation		1.8	1.4
Taxation on profit on ordinary activities	4	(11.8)	(9.5)
Loss for the financial year		(10.0)	(8.1)

Statement of total recognised gains and losses

	Notes	2005 £m	2004 £m
Loss attributable to shareholders		(10.0)	(8.1)
Foreign exchange gains/(losses)		0.3	(0.1)
Unrealised gains on investments in subsidiaries	5	86.3	24.0
Total recognised gains arising in the year		76.6	15.8

Movements in shareholders' funds

	Notes	2005 £m	2004 £m
Shareholders' funds at 1st January		1,129.1	1,113.3
Total recognised gains		76.6	15.8
Shareholders' funds at 31st December		1,205.7	1,129.1

Sun Alliance Insurance Overseas Limited

Balance Sheet as at 31st December 2005

	Notes	2005 £m	2004 £m
Assets			
Investments			
Investments in group undertakings and participating interests	6	522.2	431.2
Debtors			
Other debtors	7	702.2	713.7
		<u>1,224.4</u>	<u>1,144.9</u>
Liabilities			
Share capital			
Called up share capital	9	400.0	400.0
Reserves			
Share premium account		435.5	435.5
Profit and loss account	5	370.2	293.6
Equity shareholders' funds		<u>1,205.7</u>	<u>1,129.1</u>
Creditors			
Other creditors including taxation and social security	8	18.7	15.6
Accruals and deferred income		-	0.2
		<u>1,224.4</u>	<u>1,144.9</u>

The accounts on pages 7 to 13 were approved by the directors on 23 October 2006 and were signed on their behalf by:

Helen M Maxwell

Director

23 October 2006

1. Accounting policies

The financial statements are prepared in accordance with applicable UK accounting standards and the Statement of Recommended Practice (SORP) issued by the Association of British Insurers in December 2005. The accounts of the Company are prepared in accordance with the provisions of section 255 of, and Schedule 9A to, the Companies Act 1985. The financial statements have been prepared under the historical cost accounting rules. The Company's accounting policies are set out below.

(a) Changes in accounting policies

During the year the following accounting standards became mandatory although they do not materially effect the measurement or disclosure in these financial statements.

Financial Reporting Standard (FRS) 21: Events after the Balance Sheet Date. FRS 21 specifies the accounting treatment to be adopted (including the disclosures to be provided) by the Company for events occurring between the balance sheet date and the date when the financial statements are authorised for issue. The main impact of the adoption of FRS 21 is that dividends received from subsidiaries are now recognised in the period in which they are paid. Previously, dividends declared after the balance sheet date were accrued in the period to which they relate. Similarly, dividends payable to shareholders are recognised in the period in which they are paid.

The Company's accounting policies have been changed to reflect the adoption of the above FRSs.

(b) Group accounts

The Company is a wholly-owned subsidiary of a UK holding company and, in accordance with section 228 of the Companies Act 1985, consolidated accounts have not been prepared. The accounts of the Company and its subsidiaries are included in the accounts of the Company's ultimate parent company, Royal & Sun Alliance Insurance Group plc, which is registered in England and Wales.

(c) Investment income

Income from investments is included in the profit and loss account on an accrual basis. Dividend income from overseas investments in subsidiary companies and associated undertakings is accounted for in the non-technical account when received.

(d) 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. UK tax in respect of overseas subsidiaries and principal associated undertakings is based on dividends received.

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 that have been substantively enacted by the balance sheet date. Provision is made for taxation which might arise on the distribution of profits retained by overseas subsidiaries or associated undertakings only to the extent that dividends have been accrued as receivable. Credit is taken for relief for trading and other losses only to the extent that dividends have been accrued as receivable. Credit is taken for relief for trading and other losses only to the extent that the directors anticipate that suitable profits will absorb such losses in future periods.

Deferred tax balances that derive from undiscounted cash flows and for which the impact of discounting is material have been discounted using appropriate rates.

(e) Investments

Investments are stated in the balance sheet at market values, comprising stock exchange values for listed securities and directors' valuations for other investments.

Realised and unrealised gains and losses on investments are taken to the non-technical account.

Investments in subsidiary companies and associated undertakings are valued in the balance sheet at the Company's shareholding proportion of their net assets, including investments at market value.

(f) Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at rates ruling at the year-end and results of overseas business denominated in foreign currencies are translated at the average rate for the period; the resulting exchange adjustments are taken to reserves.

2. Investment activity account

	Non-technical account	
	2005	2004
	£m	£m
Investment income including dividends from group undertakings and participating interests	2.8	2.0

3. Expenses

This comprises costs borne by the Company in respect of the disposal of the Company's indirectly owned operation in Thailand which was disposed of during 2005.

4. Taxation

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

	Non-technical account	
	2005	2004
	£m	£m
Current tax		
UK corporation tax	12.6	9.9
Double taxation relief	(1.3)	(0.7)
Overseas taxation	0.4	(0.4)
Adjustments in respect of prior periods	0.1	0.7
Total current tax	11.8	9.5
Deferred tax		
Timing differences – origination and reversal	-	-
Movement in discount	-	-
Total deferred tax	-	-
Tax charge	11.8	9.5

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

4, **Taxation (continued)**

Factors affecting the current tax charge

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

	2005 £m	2004 £m
Profit on ordinary activities before tax	1.8	1.4
Foreign exchange gains/(losses)	0.3	(0.1)
	2.1	1.3
Tax at 30%	0.6	0.4
<i>Factors effecting charge</i>		
Disallowed expenditure	-	0.2
Tax exempt income and investment gains/losses	0.3	-
Fiscal adjustments	11.2	9.3
Adjustment to prior year provisions	0.1	0.6
Unrelieved foreign tax credits	(0.4)	(1.0)
Current tax charge for the period	11.8	9.5

5. **Retained profits and reserves**

	Retained profits	
	2005 £m	2004 £m
Balance at 1st January	293.6	277.8
Profit and loss account transfer	(10.0)	(8.1)
Foreign exchange gains/(losses)	0.3	(0.1)
Unrealised gains on investments in subsidiaries	86.3	24.0
Balance at 31st December	370.2	293.6

6. **Investments**

	2005 £m	2004 £m
Cost at 1st January	561.0	519.0
Additions	5.4	42.0
Cost at 31st December	566.4	561.0
Adjustment to net asset value	(46.7)	(133.0)
	519.7	428.0
Loans to subsidiaries	2.5	3.2
	522.2	431.2

In December 2005 the Company acquired a 95% holding in La Republica Compania Argentina de Seguros Generales SA at a cost of £5.4m.

Included in loans to subsidiaries is an unsecured loan of £2.4m (2004: £3.1m) to Royal & Sun Alliance Seguros (Argentina) SA. The loan is interest bearing and repayable on two business days notice; an interest rate of 8.00% fixed applies.

Sun Alliance Insurance Overseas Limited

Notes on the Accounts (continued)

7. Other debtors

	2005 £m	2004 £m
Due from parent company and fellow subsidiaries	701.4	712.2
Due from subsidiaries	0.8	1.5
	<u>702.2</u>	<u>713.7</u>

8. Other creditors including taxation and social security

	2005 £m	2004 £m
Taxation payable	11.5	10.2
Due to subsidiaries	7.2	5.4
	<u>18.7</u>	<u>15.6</u>

9. Share capital

	2005 £m	2004 £m
Authorised:		
500,000,000 (2004: 500,000,000) ordinary shares of £1 each	500	500
Issued and fully paid:		
400,000,012 (2004: 400,000,012) ordinary shares of £1 each	400	400

10. Directors' remuneration

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

11. Auditors' remuneration

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

12. 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 FRS1 (revised) and has elected not to prepare its own cash flow statement.

13. Related party transactions

Advantage has been taken of the exemption provided in FRS8 from disclosing details of transactions with Royal & Sun Alliance Insurance Group plc and its subsidiaries and associated undertakings.

14. Parent companies

The Company's immediate parent company 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 and smallest 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.

Sun Alliance Insurance Overseas Limited

Subsidiaries

Principal subsidiary companies

Name and country of incorporation	Percentage of ordinary shares held	
	By Company	By Subsidiaries
United Kingdom <i>(registered in England and Wales)</i>		
Alliance Assurance Company Limited	100.00	
Auk Insurance Company Limited		100.00
The London Assurance	100.00	
R&SA 2 Limited	100.00	
The Sea Insurance Company Limited		100.00
Sun Insurance Office Limited	100.00	
Tariff Reinsurances Limited	100.00	
Argentina		
Royal & Sun Alliance Seguros (Argentina) SA	100.00	
La Republica Compania Argentina de Seguros Generales SA	95.00	5.00
Brazil		
Royal & Sun Alliance Seguros (Brasil) SA	100.00	
Colombia		
Royal & Sun Alliance Seguros (Colombia) SA	86.47	
France		
Royal & Sun Alliance SA	100.00	
Ireland		
The Patriotic Assurance Company Limited	100.00	
Netherlands Antilles		
Royal & Sun Alliance Insurance (Antilles) NV	51.00	
Saudi Arabia		
Royal & Sun Alliance Insurance (Middle East) Limited (E.C.)	50.01	
Uruguay		
Royal & Sun Alliance Seguros (Uruguay) SA	70.00	