



**AMLIN**

**AMLIN PLC**

**PRESS RELEASE**

**For immediate release**

**5<sup>th</sup> March 2007**

**PRELIMINARY RESULTS FOR THE YEAR ENDED  
31 DECEMBER 2006 (UNAUDITED)**

**AMLIN DELIVERS OUTSTANDING 2006 RESULTS**

**Record results**

- ❑ Gross written premium up 12% to £1,113.8 million (2005: £993.5 million).
- ❑ Best ever combined ratio of 72% (2005: 82%).
- ❑ Record profit before tax up 84% at £342.7 million (2005: £186.7 million).
- ❑ 47% increase in earnings per share to 50.4p (2005: 34.3p).
- ❑ Record return on equity of 34% (2005: 29.6%) increasing five year average ROE to 27.9%.

**Dividend and capital management**

- ❑ Basic dividends per share increased 17.5% to 12.0p (2005: 10.2p).
- ❑ Special dividend of 8p per share increasing total dividends to 20p, equivalent to 40% of 2006 earnings.
- ❑ Active capital management policy.
- ❑ £230 million long term debt issue increases capital flexibility.

**Positive outlook for 2007**

- ❑ Continuing healthy environment in many classes.
- ❑ Amlin Bermuda growing.
- ❑ Continually well reserved balance sheet.
- ❑ Healthy net unearned premium reserve of £507.8 million.
- ❑ Improving prospects for investment returns.

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## FINANCIAL HIGHLIGHTS

	2006 £m	*2005 £m	*2004 £m	2003 £m	2002 £m
Gross premium written (1)	<b>1,113.8</b>	993.5	945.6	937.4	717.1
Net premium written (1)	<b>1,013.5</b>	829.3	790.2	787.6	573.0
<b>Net earned premium</b>	<b>973.9</b>	822.1	722.4	701.1	493.3
Profit before tax	<b>342.7</b>	186.7	119.7	117.8	44.8
Return on equity	<b>34.0%</b>	29.6%	21.0%	26.6%	16.7%
<i>Per share amounts (in pence)</i>					
Earnings	<b>50.4</b>	34.3	20.7	21.0	11.8
Net assets	<b>175.6</b>	148.7	113.7	98.7	80.3
Net tangible assets	<b>163.2</b>	136.2	97.0	82.3	63.7
Dividends under IFRS	<b>10.4</b>	9.0	4.7	2.1	0.8
Dividends (paid and proposed final) in respect of the calendar year	<b>20.0</b>	10.2	8.0	2.5	2.0
<i>Syndicate 2001 operating ratios</i>					
Claims ratio	<b>42%</b>	57%	50%	50%	63%
Expense ratio	<b>34%</b>	25%	32%	36%	33%
Combined ratio	<b>76%</b>	82%	82%	86%	96%
<i>Amlin Bermuda Ltd operating ratios</i>					
Claims ratio	<b>36%</b>	-	-	-	-
Expense ratio	<b>12%</b>	-	-	-	-
Combined ratio	<b>48%</b>	-	-	-	-

(1) Excluding premium associated with the reinsurance to close of our increased share in capacity.

\* The indicated columns above are restated for prior period adjustment as detailed in the accounting policies note on page 77 of the statutory report and accounts.

Claims ratio is net claims incurred divided by net earned premium for the year.

Expense ratio is underwriting expense incurred divided by net earned premium. The expense ratio does not include expenses that have not been attributed to underwriting or finance costs.

Combined ratio is the total of the claims and expense ratio

## **CHAIRMAN'S STATEMENT**

Amlin delivered an outstanding financial performance in 2006 with pre-tax profits up 83.6% at £342.7 million and earnings per share up 46.9% at 50.4p.

This result is influenced by the low level of natural catastrophes in 2006 which was in stark contrast to the previous two years. However, we were well placed, having formed Amlin Bermuda, to grow our catastrophe income into very buoyant market conditions. This was achieved while managing our downside risk through fundamental changes in the reinsurance markets.

Return on equity ("ROE") is a key measure for our business and I am particularly pleased that our 2006 ROE of 34.0% was a record for Amlin and increases our five year weighted average ROE to 27.9%.

Total shareholder return for 2006 was 35.7%, and over the last five years has been 378%, one of the highest returns of a non-life insurer worldwide over that period.

### **Dividend and balance sheet management**

The Board proposes a final ordinary dividend of 7.8p per share and an additional special dividend of 8.0p per share. This makes ordinary dividends for 2006, including the interim dividend already paid, of 12.0p per share (2005: 10.2p per share) and total dividends for 2006 of 20.0p per share. These payments materially exceed our commitment to pay at least 30% of earnings for 2006.

Both the final and special dividends are to be paid on 30 May 2007, subject to shareholder approval at the Annual General Meeting to be held on 24 May 2007, in respect of shares on the register on 30 March 2007. The Company's dividend reinvestment plan is available to shareholders in respect of both dividends.

We will keep under review the appropriate level of capital for the future needs of the Group, mindful of the Company's potential to enhance long term shareholder returns through active balance sheet management. The strong cash generation of the business, together with the cyclical nature of the non-life insurance industry, means that Amlin may return significant capital to shareholders over the coming years. The amount will depend on major event loss experience and strategic considerations.

### **Current trading and prospects**

Trading conditions remain good in most of our business areas, although we anticipate increasing competition and, in our UK commercial and airline insurance areas, conditions have already become very competitive.

There has been an increased divergence between our classes of business in their cyclical patterns in 2006. This could well enhance our cross cycle fortunes as, with Amlin's excellent diversity of risk, there is an increased ability to allocate capital between classes according to market conditions.

With a record net earned premium reserve of £507.8 million and still buoyant conditions in many classes of business, 2007 holds out prospects of being another excellent year.

### **Governance**

The Board of Amlin is committed to the highest standards of corporate governance. It also seeks to ensure that the Company is managed within risk guidelines established by the Board and that the strategy as proposed by the Executive is appropriate for the continued delivery of growth in shareholder value.

In a climate where governance arrangements are under increased scrutiny, Amlin has adopted a transparent approach to its reporting which both increases accountability and, we intend, will result in increased confidence in the Company. I was pleased that in 2006 we won our second Building Public Trust Award for "telling it how it is" in our Annual Report, this time for our People reporting.

Following the closure of the 2003 Lloyd's year of account in 2006, which was the last year of account on which independent capital participated on Syndicate 2001, we decided to increase the alignment of membership of the Amlin plc and Amlin Underwriting Limited boards. This has resulted in greater efficiency as well as providing the Board with another level of depth of reporting on its principal trading business.

**Board**

The Board welcomed Sir Mark Wrightson as a new non-executive Director in March 2006.

Lord Stewartby, my former Deputy Chairman and the Senior non-executive Director, retired from Amlin at our AGM in May 2006. He first became involved with our business through a subsidiary in 1993 and became Deputy Chairman of Amlin from its formation in 1998. We have benefited enormously from his contribution throughout this period and thank him for his service to the Company.

Nigel Buchanan has taken on his responsibility as the Senior non-executive Director.

At our AGM in May 2007 one of our directors, Tom Kemp, will be retiring. Tom was originally a director of Murray Lawrence and has served this Company since its formation in 1998. The Company has consistently received valuable insights to its trading, particularly in the United States, from where 49% of our premium originates, and we owe a great deal to him for his contribution.

**The Amlin team**

2006 has been a very successful year as we produced another set of record results and completed the first year of trading in our new company in Bermuda. I would like to thank Charles Philipps, his executive team and all our employees for their skill, effort and teamwork.

**Roger Taylor**  
**Chairman**

## FINANCIAL PERFORMANCE

	2002	2003	2004	2005	2006
	£m	£m	£m	£m	£m
Gross written premium	717.1	937.4	945.6	993.5	<b>1,113.8</b>
Net written premium	573.0	787.6	790.2	829.3	<b>1,013.5</b>
Net earned premium	493.3	701.1	722.4	822.1	<b>973.9</b>
Underwriting contribution	17.1	117.1	106.6	137.1	<b>267.9</b>
Investment contribution	43.7	33.5	52.1	90.9	<b>115.1</b>
Other costs	16.0	32.8	39.0	41.3	<b>40.3</b>
Profit before tax	44.8	117.8	119.7	186.7	<b>342.7</b>
Return on equity	16.7%	26.6%	21.0%	29.6%	<b>34.0%</b>

### *Overview*

The Group has delivered another excellent financial performance in 2006 with a record profit before tax of £342.7 million (2005: £186.7 million) and a return on equity of 34%. This is the fifth consecutive year that we have exceeded our cross cycle return on equity target of 15%. The weighted average return on equity since 2001 now stands at 22.7% which is well in excess of our estimated cost of equity of 8.5%.

Underwriting contributed £267.9 million to profit before tax in the year (2005: £137.1 million). The increase of 95.4% was driven by our decisions to grow our reinsurance account, in London and with our new operation in Bermuda, and to reduce our purchase of retrocessional reinsurance due to the lack of cost effective cover. Consequently with catastrophe claims experience in 2006 at low levels, a stark contrast to 2005 when the insurance industry experienced record losses, the underwriting contribution has grown significantly.

The underwriting figures include exchange losses which arise through translation of non monetary assets and liabilities at historic exchange rates compared to all monetary items at closing rates. The impact of this in the year is to reduce profit by £27.9 million (2005: increase profit by £26.2 million). In order to aid comparison the combined ratios for the business have been given before and after these exchange differences.

Investments produced a return of £115.1 million (2005: £90.9 million). The average return for Group assets was down to 4.8% (2005: 5.4%) as the equity portfolio made good but lower returns than in 2005 and the bond portfolio generated poor absolute returns as interest rate expectations rose in the UK and United States. However average investment balances increased by £0.8 billion to £2.3 billion, leading to an overall increase in returns.

### *Prior period adjustment*

The comparative results have been adjusted to take account of a change to the accounting treatment of multi-employer pension schemes under International Accounting Standards. The change is modest and is set out in more detail in the accompanying accounting policies.

### **Trading conditions**

The combined strengths of Amlin's diversity and experienced underwriting teams again allowed us to flex the business taking account of market conditions with a view to optimising the risk return relationship.

Against the background of the diverging cyclical pricing patterns, Amlin increased premium income significantly in US catastrophe exposed lines, while reducing it in those areas where prices had fallen to levels where it was becoming more difficult to achieve a satisfactory return for the risk, such as airline and UK commercial insurance. We maintained income in many classes where prices were stable or starting to soften as they continued to offer good margins.

We renewed 77% of 2005 business and underwrote £258 million (net of acquisition costs) of new business.

In the Non-marine and reinsurance division, property reinsurance and direct property accounted for £331.3 million. While £68 million of new business was added in these classes a combined retention ratio was only 77%, reflecting the active repositioning and reduction of peak catastrophe exposures. The balance of our non-marine portfolio had an average retention ratio of 89% over the year, although it weakened marginally in the latter months with increased competition for some lines.

Offshore energy within our Marine division generated £24.9 million of new business, but with only 59% of 2005 business retained. The account was repositioned to take advantage of significant price increases for Gulf of Mexico risks while bringing modelled potential catastrophe losses down. Although rates for war and terrorism risks have seen continued erosion in 2006, it remains an attractive class and we strengthened our team in this area in the early part of the year which helped to grow the account, adding £4.3 million of new business.

We declined approximately 40% of airline renewals as market premium returned to levels close to historic average claims cost. Our policy for this sector will be to maintain our involvement in a select portfolio and buy an extensive reinsurance programme to protect ourselves against large losses. In other classes, such as airport liability, general aviation and aviation products, where conditions continued to be good, we maintained healthy levels of retention whilst selectively adding new business.

The UK commercial portfolio continued to contract as competition for fleet motor, professional indemnity and property package meant we lost business and there were a reduced number of opportunities to write profitable new accounts.

### **Underwriting performance**

Underwriting made a very strong contribution to profit. Whilst good performance is to be expected when catastrophe incidence is very low, an overall combined ratio of 72% is excellent given the diverse nature of the Group's portfolios.

Reserve releases were again material, contributing £68.8 million (2005: £79.7 million) to profit. Our reserves are set at a level above an actuarial best estimate of possible outcomes. We believe that this is appropriate because of the inherently uncertain nature of insurance business. With this approach, if 'normal' claims development is experienced, releases will be made from reserves over time. We monitor the level of estimated reserves for consistent strength and adjust expectations of future development if consistent new trends emerge. For example, in 2006 we have revised the reserving approach on the marine business to take account of improvements in claims settlement patterns in recent years.

During 2006 trading conditions for a number of classes of business underwritten have diverged. Overall the annual renewal rate increase was 6.25%.

Gross written premium increased by 12.1% during 2006. Our new Bermudian operation was the major source of growth writing US\$279.8 million of new premium for the Group (including additional lines written for Bermuda on per class reinsurance treaties) in its first full year of trading. The London operation's gross written premium was largely unchanged with growth in property, energy and reinsurance classes balanced out by contraction in our UK commercial classes and in aviation.

Reinsurance expenditure as a proportion of gross written premium fell to 9% from 16.5%. This reflects reduced reinsurance expenditure in London and Amlin Bermuda writing without reinsurance protection. The former results largely from the decision to purchase less retrocessional reinsurance which saved approximately £42 million in the year.

As a consequence of the increase in gross written premium and the reduction in reinsurance, net premium written grew by 22% in the year.

Net earned premium was up by 18% to £973.9 million (excluding the premiums associated with the reinsurance to close). The slower rate of growth in earned premium reflects the acceleration of the level of underwriting through 2006 as conditions in catastrophe exposed lines improved through to the middle of the year. Net unearned premiums now stand at a record £507.8 million.

## Divisional performance

The following commentary is provided for the Syndicate operations across all years of account irrespective of the identity of underlying capital support. This removes any distortion on performance which is attributable to changing levels of ownership of Syndicate 2001.

*Combined ratios: 100% Syndicate and Amlin Bermuda*

	2002	2003	2004	2005	2006
	£m	£m	£m	£m	£m
Gross premium	988.3	1,097.5	942.2	992.9	<b>1,113.8</b>
Net earned premium	699.4	890.6	782.0	827.4	<b>973.9</b>
Claims ratio %	63	50	50	57	<b>41</b>
Expense ratio %	33	36	32	25	<b>31</b>
Combined ratio %	96	86	82	82	<b>72</b>
Combined ratio % (excluding the exchange difference on non-monetary assets and liabilities)	95	84	80	85	<b>70</b>
Underwriting contribution	31.7	134.2	139.3	152.0	<b>267.9</b>

The combined ratios quoted in the following segmental analysis are after removing the exchange differences on the translation of non monetary assets and liabilities.

### Non marine

The Non-marine division remains the Group's largest single business segment. The business written is a blend of classes which are exposed to catastrophic loss (eg catastrophe reinsurance), large claim events (eg aviation reinsurance) and attritional claims (auto and casualty).

Gross written premium was virtually unchanged at £554.6 million (2005: £558.0 million). Overall renewal rates increased by 11.5% but the underlying rate movement picture diverged markedly. There was little change to rates or small reductions in most attritional classes but increases of 28% in US catastrophe reinsurance as the market responded to the 2005 events.

Net written premium, before reinsurance to Amlin Bermuda is deducted, increased by 8.4% to £492.4 million with less retrocessional reinsurance purchased.

The division's combined ratio was 66% excluding MMA (2005: 97%). The improvement reflects the lack of catastrophic losses on a relatively higher net premium base. Reserve releases amounted to £21.9 million (2005: £23.7 million).

### Bermuda

Amlin Bermuda commenced underwriting on 1 December 2005 and 2006 was the first full year of trading. The business was targeted towards writing a catastrophe reinsurance and property reinsurance account similar to the style that is written in London.

The Bermuda business can underwrite reinsurance in most areas of the world but does not have the ability to write insurance in most territories because it has no insurance licences. In order to gain access to a wider insurance exposure, reinsurances were granted to Syndicate 2001 for specific classes of business. In the first few months of operation, Amlin Bermuda reinsured Syndicate 2001's reinsurance account to make early use of its capital.

In addition, in order to provide more overall balance to the Bermuda portfolio, a 10% whole account quota share reinsurance of Syndicate 2001 was also written. No reinsurance was purchased for the Bermudian operation.

In all, Amlin Bermuda has written US\$411.4 million of gross premium for 2006. Of this US\$225.8 million was written directly into the Bermudian operation and US\$53 million was written under the per class reinsurance arrangements. US\$12.3 million was written for the retrocessional treaty for Syndicate 2001 and US\$119.2 million under the whole account reinsurance arrangement.

The level of direct business written by Bermuda was less than originally planned. This was due to a reduction in event risk appetite at the start of the year when it became apparent that Syndicate 2001 would be ceding more risk than anticipated as less reinsurance had been purchased, a slow start due to the assignment of Insurance Financial Strength Ratings towards the end of December 2005 and disappointing rate increases at the 1 January 2006 renewals. However rate increases accelerated through 2006 and a lack of global capacity in the reinsurance market allowed the company to keep largely to plan through 1 April renewals onwards.

The combined ratio for Amlin Bermuda is 48%. This is the result of excellent performance on the direct portfolio, helped by the low level of catastrophe losses in 2006 and a record start for the portfolio ceded from London. In addition the expense ratio for Bermuda is low compared to the London operations, due to the high operational gearing of the reinsurance business written in Bermuda.

### **Marine**

The Marine division writes a mixture of volatile classes like energy, specie and war and more attritional classes like hull, cargo and yacht. The business is written worldwide, reflecting the nature of marine risk. However the yacht and bloodstock accounts have a greater UK concentration.

Written premium in 2006 increased by 22% to £210.8 million. Renewal rate increases were 4.5% overall. Pricing was stable in most classes except energy and war. Energy renewal rates increased by 48% as the market reacted to the heavy losses for energy insurance emanating from the 2005 hurricanes. Renewal rates for the war account reduced by 6.4% as a lack of loss activity encouraged continued competition.

The combined ratio was again strong at 81% (2005:66%). Reserve releases totalled £19.1 million (2005: £29.5 million) as claims development was better than expected in most areas. This release is net of £5.9 million of deterioration on our 2005 hurricane related energy losses which arose from a number of late claims advices. The claims ratio has also been increased by 8% by one large risk claim of £13 million. This is an extraordinary circumstance which we would not expect to see repeated frequently.

### **Aviation**

The Aviation division writes a mixture of classes including airline, general aviation, airport and product liabilities and satellite insurance. Each class is exposed to large loss events and potentially to catastrophic losses. The line size required to write in this area is also large and a comprehensive reinsurance programme is fundamental to writing this business.

The airline portfolio has reduced again in 2006 with continued intense competition forcing rating declines. Average renewal rate reductions in 2006 were 19%. The lack of major airline losses is the principal driver behind the falls in rating but we do not believe that the falls are warranted given the risk exposures that we underwrite. Consequently we have continued to reduce our exposures. The airline account represented only 24.6% of total aviation premium written.

The other aviation related classes remained relatively stable in 2006, although claims inflation in the liability classes reduces expected profit margins.

Given this background the combined ratio was strong at 84% (2005: 75%) with a busy large loss environment in the first half of the year evened out by a relatively benign second half. Reserve releases amounted to £8.0 million (2005: £9.4 million)

### **UK commercial**

The UK commercial division underwrites insurance for mainly UK based clients and the majority of risks are not written in the subscription market but are assumed entirely by the division.

The division writes a balanced portfolio of motor and liability business, combined with a small property account.

The UK commercial market has seen increasing competition over recent years and this continued in 2006. Overall renewal rates reduced by 2.7% but claims inflation is estimated to have reduced margins by a further

6%. The motor account renewal rates reduced by 1% and liability by 5.5%. In the face of this competition the division reduced its underwriting activity with retention rates falling to 68% (2005: 78%).

In this environment the combined ratio of 84% (2005: 73%) is again commendable. Reserve releases were again healthy at £19.8 million (2005: £27.8 million) reflecting the continued steady release of case reserves as claims are settled. The expense ratio has risen by 3% in the year as lower levels of premium are earned against a fixed expense base.

### **Investment performance**

The investment contribution during 2006 was £115.1 million (2005: £90.9 million). The return on average cash and investment balance of £2.3 billion (2005: £1.7 billion) was 4.8% (2005: 4.7%). The increase in cash and investments was driven by strong organic cash flows from profitable trading, the increase in capital following the £200 million of new equity to support the Bermudian business and the replacement of letters of credit with subordinated debt.

The breakdown of returns in London and Bermuda by asset class is provided below.

#### *Asset class returns in London and Bermuda*

	<b>2005</b>	<b>2006</b>
	£m	£m
Global equities	26.9	<b>36.6</b>
Cash and equivalents	2.4	<b>29.9</b>
Bonds	61.6	<b>49.2</b>
Property	0.0	<b>(0.6)</b>
<b>Investment return</b>	<b>90.9</b>	<b>115.1</b>
Investment balance at 1 January	1,350.1	<b>2,143.8</b>
Investment balance at 31 December	2,143.8	<b>2,384.2</b>

The equity portfolio produced a good return of 15.1% (2005: 26.6%). Global economic growth was steady during 2006 which was supportive of equities with global corporate earnings growth at around 15%. Equity pricing was also buoyed by mergers and acquisitions activity. In June advantage was taken of the second quarter equity market correction to start to build up the Group's equity exposure, which had been diluted by the additional capital for Bermuda.

By comparison the performance of our bond portfolios was weak with a return on short dated sterling bonds of 2.5% (2005: 5.3%) and 3.8% (2005: 1.6%) on short dated US dollar bonds. Rising oil prices in the first part of the year and generally solid economic growth increased inflationary pressures during 2006 keeping most central banks on a monetary tightening bias. The US Federal Reserve continued to raise interest rates until August, the European Central Bank increased interest rates throughout the year and the Monetary Policy Committee in the UK surprised the markets by tightening policy in August, a move they consolidated by a further rise in November. This background was not positive for the short end of bond markets, as it caused yields to rise, and therefore prices to fall.

Due to rising interest rates cash returns have been relatively attractive. To balance the equity volatility in our capital assets cash has been an asset class of choice for us in recent years. In addition, in its start up phase Amlin Bermuda held significant levels of cash. Cash returned 4.7% for the period (2005: 4.8%).

### **Expenses**

Total expenses, including underwriting, non-underwriting and finance costs, increased by 37% during the year to £345.9 million. Expenses include the translation differences of non monetary assets and liabilities. The impact of this in the year was to increase expenses by £27.9 million (2005: reduce expenses by £26.2 million). After removing these exchange differences the net increase in expenses was £39.8 million. £25.2 million was an increase in acquisition costs, reflecting the growth in premium earned in the year. Much of the balance relates to the operational expenses of the Bermuda business, with £4.1 million incurred in the year.

## **Taxation**

The effective tax rate of the Group for the year was 21.9% (2005: 24.9%). The main reason for the low rate in 2006 is that the Amlin Bermuda result is not subject to current UK tax. This alone reduces the effective tax rate by 8.5%. We believe that Amlin Bermuda is exempt from the Controlled Foreign Corporation tax provisions of the UK tax regime. On this basis the Group will pay tax to the UK tax authorities only when distributions are made back to its UK holding companies. Recognition of this future tax charge has been made by setting up a deferred tax provision for 9% of Amlin Bermuda's profits.

The other factor reducing the effective tax rate is continued use of unprovided capital losses which have been offset against equity gains. This pushes down the effective tax rate by 1.1% (2005: 3.8%). This effect will not repeat in the future as all capital losses brought forward have now been utilised.

## **Foreign exchange**

Foreign exchange risk is currently managed at entity level depending on the local functional currency. The Group reports in sterling but manages a sterling business in the UK and a US dollar business in Bermuda. For the UK operations we sell trading currency profits into sterling to mitigate the impact of fluctuating exchange rates.

Amlin Bermuda manages its US dollar trading position and holds its balance sheet in US dollars reflecting its global underwriting profile.

At Group level we have currently chosen not to hedge the net dollar asset exposure of Bermuda. Our balance sheet is spread between sterling and US dollars – a natural hedge for our two main markets. During 2006 this led to £77.3 million of exchange translation losses, which are recognised through reserves. However over time we would expect a more balanced position to emerge.

## **ROE FOCUSED CAPITAL MANAGEMENT**

The successful issue of £230 million of 20 year subordinated debt in April 2006 further increased our financial strength as well as providing greater scope for balance sheet management over the coming years, if, as we expect, we will have capital surplus to our requirements. It provides Amlin with more flexibility to return equity to shareholders while maintaining sufficient regulatory capital to withstand major catastrophes and to be able to respond quickly to event driven cyclical strengthening.

The special dividend announced with our results is a clear demonstration of our intention to manage our balance sheet to enhance shareholder returns and value.

## **OUTLOOK FOR 2007**

The outlook for 2007 financial performance is again very healthy, albeit that the final outturn will be influenced by the extent of major catastrophe events. While the pricing environment is coming under increasing pressure, Amlin was in a very strong position entering the New Year and rates in a number of classes are coming off what have been exceptional levels.

### A continuing healthy rating environment in many areas

The table below illustrates the rating of a number of key classes for Amlin.

Class	2000	2001	Rating indices				2005	2006
			2002	2003	2004	2005		
US catastrophe reinsurance	100	115	146	150	143	144	185	
Non US catastrophe reinsurance	100	120	157	161	145	131	134	
Risk XL	100	122	190	192	171	145	164	
US large property insurance	100	125	171	163	143	136	165	
Airline hull and liabilities	100	301	283	235	216	201	163	
Marine hull	100	115	148	171	183	189	191	
Employers' liability	100	115	144	158	159	144	133	
Energy	100	140	172	189	170	176	256	
Professional indemnity	100	110	149	178	181	165	151	
US casualty	100	123	172	215	232	237	232	
War	100	250	288	244	220	206	195	
Fleet motor	100	121	136	143	141	137	134	

Over our portfolio as a whole, rates were flat in our January 2007 renewals with a retention ratio of 83%. However, the divergence of fortunes by business area seen in 2006 continued into the New Year.

US catastrophe reinsurance remains very strong and rate rises have been achieved on 2007 renewals to date, although pricing levels are lower than those achieved in the pre-windstorm July 2006 renewals. With industry catastrophe models now factoring in the probability of increased frequency and severity of weather related losses, we expect US catastrophe business to remain stable, even though the decision by the State of Florida to materially increase the Florida Hurricane Catastrophe Fund (FHCF) will reduce demand for industry cover in that state and is likely to increase competition in other areas. International catastrophe rates remain reasonably priced although a number of less well diversified competitors are seeking greater access to this business and this may result in increased pressure on rates.

For US exposed direct property business, US based insurers who materially reduced their exposures or even exited the market in 2006 are re-entering and this is resulting in some of the large increases achieved in 2006 being given up to retain business. Nevertheless, it is still acceptably priced. However, in non-catastrophe exposed zones, rates are coming under more pressure.

In our marine account, energy risks in the Gulf of Mexico are reasonably firm and in other areas weakening modestly. Many areas are currently stable. Hull rates have recently come under more pressure and war and terrorism rates continue to decline. Even where rates are weakening, we remain confident of being able to deliver good margins.

Most airlines renew in the fourth quarter of the year, but currently there is no sign of a change in direction of rates as competitors chase market share based on historic profitability rather than taking account of exposures. Thankfully, other aviation classes are reasonably stable and these now represent 67% of our Aviation division's planned premium for 2007.

Commercial motor and UK liability business remains under pressure and we will continue to decline business where we do not consider it adequately priced. We will view with interest the results of competitors whom we believe must be making underwriting losses. At some point we would expect their management to take corrective action, and we expect that pressure will build through 2007.

While rates and margins may be eroded, it is important to remember the level of margins which have been possible in recent years for much of our attritional as well as our natural catastrophe exposed classes.

### **Premium growth in Bermuda**

£274 million of premiums were written across the Group by the end of January 2007. Of this, £232 million was written by Syndicate 2001, 5% less than at the same stage in 2006 at constant exchange rates and the balance of £42 million was written by Amlin Bermuda, 57% more than in 2006. We are pleased that Amlin Bermuda was able to get access to a good balance of both US and non US business so that it continued to build the diversity of its account.

The current strength of sterling, if it persists for the year as a whole, will dampen premiums reported in sterling.

On 25 January, the Governor of Florida signed new legislation seeking to reduce the cost of homeowners' insurance in the State. Essentially, the State is bearing hugely increased hurricane risk on behalf of its citizens which will result in less demand for reinsurance from the market. We estimate that this will reduce our reinsurance premiums for Florida risk by around US\$40 million.

For the year as a whole we expect growth in premiums to come from Bermuda, recognising our policy of purposely not seeking to grow income in lines where prices are softening. We have maintained our Lloyd's capacity at its 2006 level of £1 billion.

### **Volatility**

The Group remains subject to greater volatility of performance than prior to 2006, having purchased significantly less retrocessional reinsurance. We have recently been offered and purchased cover at more attractive terms than were available in 2006 and will continue to explore options for reducing our increased volatility. We continue to believe that the relationship between risk and the reward of operating with less protection is a good one.

### **Growth in unearned premium reserve**

With the growth in the business in 2006, we have a record unearned premium reserve of £545.5 million as at 31 December 2006. A large share of this is reinsurance income, which was written at very strong rates and on which we earn premium on a straight line basis, the balance of which will be earned in the first half of this year.

### **Continually well reserved balance sheet**

Amlin's policy of reserving for claims above the actuarial best estimate of their likely development has resulted in material prior year run-off profits in recent years and assuming run-off which is no worse than normal expectations, our continued and consistent policy should deliver further run-off profits.

### **Investment outlook improving**

We consider the outlook for our bond and liquid investments, which represent 69% of the Group's current portfolios, to be better than in 2006. Base rates for US dollars and sterling are both 0.75% higher than at the start of 2006 and there is less risk of rises adversely affecting bond values. The outlook for equities remains sound although we do not expect to repeat the excellent 15% return achieved in 2006.

## **LONGER TERM OUTLOOK**

The healthy trading environment will affect 2008 as well as 2007 results owing to the manner in which premiums are earned.

The increased divergence in the rating cycle that we have recently experienced could well help Amlin's medium term performance. Conditions for our UK commercial business should start to improve in 2008, if not before. If this is the case, improving performance in this area will help offset the softening of conditions in our Marine and Non marine areas which appear to have peaked. In these circumstances, the value of Amlin's diversity will be increased through its ability to allocate capital between classes according to market conditions.

**Consolidated Income Statement**  
**For the year ended 31 December 2006**

	Notes	2006 £m	2005 (restated) £m
Gross premium earned	1,2	<b>1,087.3</b>	986.7
Insurance premium revenue from the receipt of reinsurance to close	2	<b>78.8</b>	78.6
Reinsurance premium ceded	1,2	<b>(113.4)</b>	(164.6)
<b>Net earned premium revenue</b>	2	<b>1,052.7</b>	900.7
Investment return	1,3	<b>115.1</b>	90.9
Other operating income		<b>1.8</b>	1.4
<b>Total income</b>		<b>1,169.6</b>	993.0
Insurance claims and claims settlement expenses	1,4	<b>(460.7)</b>	(912.1)
Insurance claims and claims settlement expenses relating to the receipt of reinsurance to close	4	<b>(78.8)</b>	(78.6)
Insurance claims and claims settlement expenses recoverable from reinsurers	1,4	<b>58.5</b>	436.4
<b>Net insurance claims</b>	4	<b>(481.0)</b>	(554.3)
Expenses for the acquisition of insurance contracts	5	<b>(195.4)</b>	(170.2)
Other operating expenses	6	<b>(126.7)</b>	(71.4)
<b>Total expense</b>		<b>(322.1)</b>	(241.6)
<b>Results of operating activities</b>		<b>366.5</b>	197.1
Finance costs		<b>(23.8)</b>	(10.4)
<b>Profit before tax</b>		<b>342.7</b>	186.7
Tax	7	<b>(74.9)</b>	(46.5)
<b>Total recognised profit for the year</b>		<b>267.8</b>	140.2
Attributable to:			
Equity holders of the Parent Company		<b>267.5</b>	140.2
Minority interests		<b>0.3</b>	-
		<b>267.8</b>	140.2
<b>Earnings per share from continuing operations attributable to equity holders of the Parent Company</b>			
Basic	14	<b>50.4p</b>	34.3p
Diluted	14	<b>49.8p</b>	33.7p

**Consolidated Statement of Changes in Equity**  
**For the year ended 31 December 2006**

	Notes	Share capital £m	Share premium £m	Other reserves £m	Minority interest £m	Retained earnings £m	Total £m
At 1 January 2006 as previously stated		132.5	344.0	51.0	-	265.1	792.6
IAS19 Employee benefits prior period adjustment		-	-	-	-	(7.8)	(7.8)
At 1 January 2006 restated		132.5	344.0	51.0	-	257.3	784.8
Gains on revaluation of employee share ownership trust recognised directly in equity		-	-	1.3	-	-	1.3
Currency translation differences on overseas operations		-	-	(77.1)	-	-	(77.1)
Deferred tax		-	-	1.3	-	-	1.3
Profit for the financial year		-	-	-	0.3	267.5	267.8
Total recognised income for the year		-	-	(74.5)	0.3	267.5	193.3
Employee share option scheme:							
- share based payment reserve		-	-	1.1	-	-	1.1
- proceeds from shares issued		1.0	3.6	-	-	-	4.6
Dividends paid	15	-	-	-	-	(47.4)	(47.4)
		1.0	3.6	1.1	-	(47.4)	(41.7)
At 31 December 2006		133.5	347.6	(22.4)	0.3	477.4	936.4

**Consolidated Statement of Changes in Equity (continued)**  
**For the year ended 31 December 2006**

	Notes	Share capital £m	Share premium £m	Other reserves £m	Minority interest £m	Retained earnings £m	Total £m
At 1 January 2005 as previously stated		98.8	154.2	43.5	-	163.3	459.8
IAS19 Employee benefits prior period adjustment		-	-	-	-	(10.6)	(10.6)
At 1 January 2005 restated		98.8	154.2	43.5	-	152.7	449.2
Gains on revaluation of employee share ownership trust recognised directly in equity		-	-	1.3	-	-	1.3
Currency translation differences on overseas operations		-	-	3.8	-	-	3.8
Deferred tax		-	-	1.7	-	-	1.7
Profit for the financial year (restated)		-	-	-	-	140.2	140.2
Total recognised income for the year		-	-	6.8	-	140.2	147.0
Rights issue proceeds, net of issue costs	12	31.9	182.8	-	-	-	214.7
Employee share option scheme:							
- share based payment reserve		-	-	0.7	-	-	0.7
- proceeds from shares issued		1.8	7.0	-	-	-	8.8
Dividends paid	15	-	-	-	-	(35.6)	(35.6)
		33.7	189.8	0.7	-	(35.6)	188.6
At 31 December 2005 (restated)		132.5	344.0	51.0	-	257.3	784.8

**Consolidated Balance Sheet**  
**At 31 December 2006**

<b>ASSETS</b>	Notes	<b>2006</b> <b>£m</b>	2005 (restated) £m
Cash and cash equivalents		<b>16.5</b>	65.6
Financial investments at fair value through income	9	<b>2,367.7</b>	2,078.2
Reinsurance assets	10		
- reinsurers share of outstanding claims		<b>357.0</b>	604.6
- reinsurers share of unearned premium		<b>37.7</b>	24.2
- debtors arising from reinsurance operations		<b>300.6</b>	387.3
Loans and receivables, including insurance receivables			
- insurance receivables	11	<b>216.3</b>	214.3
- loans and receivables	11	<b>51.6</b>	132.9
Current income tax assets		<b>6.3</b>	3.7
Deferred tax assets	7	<b>20.9</b>	24.4
Property and equipment		<b>6.2</b>	6.0
Intangible assets		<b>66.0</b>	66.0
<b>Total assets</b>		<b>3,446.8</b>	3,607.2
<b>EQUITY</b>			
Share capital		<b>133.5</b>	132.5
Share premium account		<b>347.6</b>	344.0
Other reserves		<b>(23.4)</b>	51.3
Treasury shares		<b>1.0</b>	(0.3)
Retained earnings		<b>477.4</b>	257.3
<b>Equity attributable to equity holders of the parent</b>		<b>936.1</b>	784.8
Minority interest		<b>0.3</b>	-
<b>Total equity and reserves</b>		<b>936.4</b>	784.8
<b>LIABILITIES</b>			
Insurance contracts	10		
- outstanding claims		<b>1,417.5</b>	1,704.3
- unearned premium		<b>545.5</b>	523.8
- creditors arising from insurance operations		<b>68.6</b>	114.8
Trade and other payables		<b>68.4</b>	67.1
Current income tax liabilities		<b>28.7</b>	19.6
Borrowings	13	<b>278.8</b>	298.2
Retirement benefit obligations		<b>7.5</b>	12.4
Deferred tax liabilities	7	<b>95.4</b>	82.2
<b>Total liabilities</b>		<b>2,510.4</b>	2,822.4
<b>Total equity, reserves and liabilities</b>		<b>3,446.8</b>	3,607.2

**Consolidated Cash Flow Statement**  
**For the year ended 31 December 2006**

	Notes	2006 £m	2005 £m
<b>Cash generated from operations</b>	18	<b>(20.2)</b>	(447.4)
Income taxes paid		<b>(50.4)</b>	(17.6)
<b>Net cash flows from operations</b>		<b>(70.6)</b>	(465.0)
<b>Cash flows from investing activities</b>			
Interest received		<b>97.5</b>	65.3
Dividends received		<b>4.5</b>	2.0
Acquisition of subsidiary, net of cash acquired		-	(0.2)
Purchase of property and equipment		<b>(3.6)</b>	(1.9)
<b>Net cash used in investing activities</b>		<b>98.4</b>	65.2
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares		<b>4.6</b>	223.5
Proceeds from borrowings		<b>227.7</b>	266.1
Repayment of borrowings		<b>(238.0)</b>	(32.0)
Dividends paid to shareholders		<b>(47.4)</b>	(30.6)
Interest paid		<b>(24.1)</b>	(9.2)
<b>Net cash flows from financing activities</b>		<b>(77.2)</b>	417.8
Net (decrease)/increase in cash and cash equivalents		<b>(49.4)</b>	18.0
Cash and cash equivalents at beginning of year		<b>65.6</b>	47.6
Effect of rate changes on cash and cash equivalents		<b>0.3</b>	-
<b>Cash and cash equivalents at end of year</b>		<b>16.5</b>	65.6

The Group classifies the cash flows for the purchase and disposal of financial assets in its operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance contracts or the capital required to support underwriting, net of £271.8 million (2005: £756.3 million) being cash generated in the period that has been used to purchase financial investments.

Cash flows relating to participations on syndicates not managed by the Group are included only to the extent that cash is transferred between the Premium Trust Funds and the Group.

## **Summary of significant accounting policies**

The basis of preparation, basis of consolidation principles and significant accounting policies adopted in the preparation of Amlin plc's (the Group's) financial statements are set out below.

### **Basis of preparation**

Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. The Company published full financial statements that comply with IFRSs in March 2007.

### **Basis of consolidation**

The financial statements consolidate the accounts of the Company, its subsidiary undertakings, including the Group's underwriting through participation on Lloyd's syndicates. Subsidiaries are those entities in which the Group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits and includes the Group's Employee Benefit Trusts. The financial statements of subsidiaries are prepared for the same reporting year as the parent company. Consolidation adjustments are made to convert subsidiary accounts prepared under UK GAAP into IFRS so as to remove any different accounting policies that may exist. Subsidiaries are consolidated from the date control is transferred to the Group and cease to be consolidated from the date control is transferred out. All inter-company balances, profits and transactions are eliminated.

### **IAS19, Employee Benefits: change in accounting policy and prior period adjustment**

The Group participates in a number of pension schemes. One of the schemes in which the Group participates, the Lloyd's Superannuation Fund (the Fund), is a defined benefit scheme which is classified as a multi-employer scheme under the criteria set out in IAS19. As such, the Group recognises its pension costs for this scheme as if it were a defined contribution scheme. Historically, the implication of this has been that the Group did not report the assets and liabilities of the Fund in its own balance sheet, but did charge contributions made to the Fund in the period in which they were made.

In December 2004 an amendment was introduced to IAS19 that requires full provision to be made for the net present value of any future contractual contributions into a multi-employer pension scheme. This amendment is now mandatory and has been fully adopted by the Group. In 2004, Amlin agreed with the Fund's trustee a schedule of annual payments into the Fund commencing in 2004 and concluding in 2009. Previously, these payments were being expensed as they were paid and were not provided for in advance. However, in accordance with the requirements of the amendment to IAS19, a prior period adjustment has been made to the net assets at 1 January 2005 and 31 December 2005 and the reported profit for the year ended 31 December 2005.

## Summary of significant accounting policies (continued)

The effects of the change in accounting policy on the consolidated income statement and balance sheet are:

	12 months 2006 £m	12 months 2005 £m
Reported profit for the period under previous accounting policy after tax	264.2	137.4
Payments made included within other operating expenses	4.6	4.6
Movement in discount on present value of future payments	0.3	(0.5)
Movement in deferred tax	(1.3)	(1.3)
<b>Restated profit for the period under new accounting policy after tax</b>	<b>267.8</b>	<b>140.2</b>

	Notes	31 December 2005 £m
Net assets as reported		792.6
Increase in retirement benefit liabilities		(11.1)
Increase in associated deferred tax asset	7	3.3
<b>Restated net assets</b>		<b>784.8</b>

The cumulative effect of the change in accounting policy on the net assets of the Group on accounting periods to 31 December 2004 is a reduction of £10.6m in total shareholders' equity.

The impact of the change in accounting policy as detailed on earnings and diluted earnings per share are as follows:

	2006	2005
Basic earnings per share under previous accounting policies	<b>49.7p</b>	33.6p
<b>Basic earnings per share</b>	<b>50.4p</b>	34.3p
Diluted earnings per share under previous accounting policies	<b>49.1p</b>	33.1p
<b>Diluted earnings per share</b>	<b>49.8p</b>	33.7p

## **Summary of significant accounting policies (continued)**

### **International Financial Reporting Standards**

At the date of authorisation of these financial statements a number of standards had been published by the IASB but were not yet effective. These include:

- IFRS 7, Financial Instruments Disclosures; and
- IFRS 8, Operating Segments

Other interpretations issued by the IASB at the date of authorisation include:

- IFRIC 8, which clarifies IFRS 2, Share-Based Payments;
- IFRIC 9, Reassessment of Embedded Derivatives;
- IFRIC 10, Interim Financial Reporting and Impairment;
- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions; and
- IFRIC 12, Service Concession Arrangements.

The directors anticipate that the adoption of IFRS7 and IFRS8 in future periods and the interpretations IFRIC 8 to 12 will have no material impact on the financial statements except for additional disclosures.

In accordance with the standard for insurance contracts (IFRS4), the Group has applied existing accounting practices for insurance contracts, modified, as appropriate, to comply with the IFRS framework and applicable standards.

### **Use of estimates**

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

### **Foreign currency translation**

The Group presents its accounts in sterling since it is subject to regulation in the United Kingdom and the net assets, liabilities and income of the Group are currently weighted towards sterling. US dollar revenue is significant but the sterling revenue stream is also currently material. All group entities are incorporated in the United Kingdom with the exception of Amlin Bermuda Holdings Limited and Amlin Bermuda Ltd which are incorporated in Bermuda. All Group entities conduct business in a range of economic environments, primarily the United Kingdom, United States of America and Europe. Due to the regulatory environment and the fact that the Group trades through the Lloyd's market, all Group companies incorporated in the United Kingdom have adopted sterling as their functional currency. The Group companies incorporated in Bermuda have adopted the US dollar as their functional currency.

Income and expenditure in US dollars, Euros and Canadian dollars is translated at average rates of exchange for the period. Transactions denominated in other foreign currencies are translated using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are translated into sterling at the rates of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at the average rate prevailing in the period in which the asset or liability first arose.

Exchange differences arising from the conversion of overseas operations are accounted for through reserves.

Where contracts to sell currency have been entered into prior to the year end, the contracted rates have been used. Differences arising on the translation of foreign currency amounts on such items are included in other operating expenses.

## **Summary of significant accounting policies (continued)**

### **Insurance contracts premium**

Gross written premium comprise premium on insurance contracts incepting during the financial year. The estimated premium income in respect of facility contracts is deemed to be written in full at the inception of the contract. Premium is disclosed before the deduction of brokerage and taxes or duties levied on them. Estimates are included for premium receivable after the period end but not yet notified, as well as adjustments made in the year to premium written in prior accounting periods.

Premium is earned over the policy contract period. Where the incidence of risk is the same throughout the contract, the earned element is calculated separately for each contract on a 365ths basis. For premium written under facilities, such as under binding authorities, the earned element is calculated based on the estimated risk profile of the individual contracts involved.

The proportion of written premium, gross of commission payable, attributable to periods after the balance sheet date is deferred as a provision for unearned premium. The change in this provision is taken to the income statement in order that revenue is recognised over the period of the risk.

Acquisition costs comprise brokerage incurred on insurance contracts written during the financial year. They are incurred on the same basis as the earned proportions of the premium they relate to. Deferred acquisition costs are amortised over the period in which the related revenues are earned. Deferred acquisition costs are reviewed at the end of each reporting period and are written off where they are no longer considered to be recoverable.

### **Reinsurance premium ceded**

Reinsurance premium ceded comprise the cost of reinsurance arrangements placed and are accounted for in the same accounting period as the related insurance contracts. The provision for reinsurers' share of unearned premium represents that part of reinsurance premium written which is estimated to be earned in following financial years.

### **Insurance contracts liabilities: claims**

Claims paid are defined as those claims transactions settled up to the balance sheet date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the balance sheet date, net of any provision for bad debt.

Claims reserves are estimated on an undiscounted basis. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed. Any changes to the amounts held are adjusted through the income statement. Provisions are established above an actuarial best estimate and so that there is a reasonable chance of release of reserves from one underwriting year to the next.

Claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the balance sheet date. Included within the provision is an allowance for the future costs of settling those claims. This is estimated based on past experience and current expectations of future cost levels.

The claims provision also includes, where necessary, a reserve for unexpired risks where, at the balance sheet date, the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premium provision. In determining the need for an unexpired risk provision the underwriting divisions within the Group have been regarded as groups of business that are managed together.

Although the claims provision is considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections) and case by case reviews of notified losses, on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events.

## Summary of significant accounting policies (continued)

### Net investment income

Dividends and any related tax credits are recognised as income on the date the related listed investments are marked ex-dividend. Other investment income, interest receivable, expenses and interest payable are recognised on an accruals basis.

### Intangible assets

#### i. Syndicate capacity

The cost of syndicate participations which have been purchased in the Lloyd's capacity auctions is capitalised at cost. Syndicate capacity is considered to have an indefinite life and is not subject to an annual amortisation charge. The continuing value of the capacity is reviewed for impairment annually by reference to the expected future profit streams to be earned from Syndicate 2001, with any impairment in value being charged to the income statement.

#### ii. Goodwill

Goodwill arising on acquisitions prior to 1 January 1999 was written off to reserves. Goodwill recognised between 1 January 1999 and the date of transition to IFRS (1 January 2004) was capitalised and amortised on a straight line basis over its estimated useful life. Following the transition to IFRS this goodwill is stated at net book value at 1 January 2004. Goodwill that was recognised subsequent to 1 January 2004, representing the excess of the purchase consideration over fair value of net assets acquired, is capitalised. Goodwill is tested for impairment annually or when events or changes in circumstance indicate that it might be impaired by comparing the net present value of the future earnings stream from the acquired subsidiary, for the next five years, against the carrying value of the goodwill and the carrying value of the related net assets.

### Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and provision for impairment where appropriate. Depreciation is calculated on the straight line method to write down the cost of such assets to their residual values over their estimated useful lives as follows:

Leasehold land and buildings	over period of lease
Motor vehicles	33% per annum
Computer equipment	33% per annum
Furniture, fixtures and leasehold improvements	20% per annum

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstance indicate that the carrying value may be impaired. If any such condition exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment and the difference is charged to the income statement.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken to the income statement. Repairs and renewals are charged to the income statement when the expenditure is incurred.

## **Summary of significant accounting policies (continued)**

### **Financial investments**

The Group has classified its financial investments as “fair value through income” (FV) to the extent that they are not reported as cash and cash equivalents. This classification has been determined by management based on the decision at the time of acquisition. Within the FV category, fixed maturity and equity securities are classified as trading as the Group buys with the intention to resell. All other securities are classified as other than trading within the FV category.

Purchases and sales of investments are recognised on the trade date, which is the date the Group commits to purchase or sell the assets. These are initially recognised at fair value, and subsequently re-measured at fair value based on quoted bid prices. Changes in the fair value of investments are included in the income statement in the period in which they arise.

In the Company’s accounts, other financial investments in Group undertakings are stated at cost and are reviewed for impairment annually or when events or changes in circumstances indicate the carrying value may be impaired.

### **Loans and receivables**

Loans and receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is evidence that the asset is impaired. These are reversed when payment is received.

### **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Any difference between amortised cost and the redemption value is recognised in the income statement over the period of the borrowings. Transaction costs on borrowings are charged through the income statement over the period of the borrowings.

### **Borrowing costs**

Borrowing costs comprise interest payable on loans and bank overdrafts and commissions charged for the utilisation of letters of credit. These costs are charged to the income statement as financing costs, as incurred. In addition fees paid for the arrangement of debt and letter of credit facilities are charged to borrowing costs over the life of the facility.

### **Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at fair value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and other short-term, highly liquid investments which are subject to insignificant risk of change in fair value.

### **Treasury shares**

Treasury shares are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the treasury shares. Any consideration paid or received is recognised directly in equity.

## **Summary of significant accounting policies (continued)**

### **Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards to the Group. All other leases are classified as operating leases.

Assets held under finance leases and hire purchase transactions are capitalised in the balance sheet and depreciated over their useful lives. The initial capital value is the lower of the fair value of the leased asset and the present value of the minimum lease payments. Payments under finance leases are apportioned between finance charges and the reduction of the lease obligation so as to achieve a consistent rate of interest on the remaining balance of the lease liability.

Rentals payable under operating leases are charged to income in the period in which they become payable in accordance with the terms of the lease.

### **Employee benefits**

#### **i. Pension obligations**

The Group participates in a number of pension schemes, including two defined benefit schemes, defined contribution schemes and personal pension schemes.

The liability in respect of the J E Mumford (Underwriting Agencies) Limited defined benefit scheme is calculated as the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. The resulting pension scheme surplus or deficit appears as an asset or liability in the consolidated balance sheet. Actuarial gains and losses arising from revaluations are recognised in full in the income statement, as they arise.

The Lloyd's Superannuation Scheme is treated as a multi-employer scheme where insufficient information is available to account as a defined benefit scheme. For this scheme, where contractual obligations have been agreed, the net present value of these payments is recognised as a liability on the balance sheet.

Pension contributions to schemes that are accounted for as defined contribution plans are charged to the income statement when due.

#### **ii. Equity compensation plans**

The Group operates a number of executive and employee share schemes. Options issued after 7 November 2002 are accounted for using the fair value method where the cost for providing equity compensation is based on the fair value of the share option or award at the date of the grant. The fair value is calculated using an option pricing model and the corresponding expense is recognised in the income statement over the vesting period. The accrual for this charge is recognised in equity shareholders' funds. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital for the par value and the surplus to share premium.

#### **iii. Other benefits**

Other employee incentive schemes and long-term service awards, including sabbatical leave, are recognised when they accrue to employees. A provision is made for the estimated liability for long-service leave as a result of services rendered by employees up to the balance sheet date.

#### **Other income**

Information fee income is recognised on an earned basis

## **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years or that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered, or to the extent that it has been utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. Deferred tax and liabilities have not been discounted.

Deferred tax is provided for on the profits of overseas subsidiaries where it is reasonably foreseeable that distribution of the profit back to the UK will take place.

**NOTES TO THE ACCOUNTS**

FOR THE YEAR ENDED 31 DECEMBER 2006

**1 Segmental reporting by business group**

The tables below show segmental information by business segment. Business segments are primary segments and represent the way in which the business is managed. Each segment underwrites sub-classes of business which fall within the broad classes of aviation, marine, non-marine and UK commercial business. The segments are discussed in more detail in the operating and financial review. The non-marine business group is large and comprises direct and reinsurance books of business.

The segmental disclosure excludes insurance premium income and claims expenses from the receipt of reinsurance to close as detailed in note 2 as these have no impact on profit for the year.

<b>Income and expenses by business segment Year ended 31 December 2006</b>	<b>Aviation £m</b>	<b>Non- marine £m</b>	<b>Marine £m</b>	<b>UK commercial £m</b>	<b>Total UK divisions £m</b>	<b>Amlin Bermuda Ltd £m</b>	<b>Intra group items £m</b>	<b>Other technical £m</b>	<b>Total £m</b>
<b>Gross premium written</b>	75.7	554.6	210.9	150.0	991.2	223.5	(100.8)	(0.1)	1,113.8
Analysed by geographic segment									
UK	12.7	49.5	53.1	133.7	249.0	110.3	(100.8)	-	258.5
US	29.5	344.2	51.6	0.3	425.6	88.8	-	-	514.4
Europe	14.1	37.9	39.5	5.8	97.3	3.7	-	-	101.0
Worldwide	0.4	15.8	19.2	1.6	37.0	1.8	-	-	38.8
Other	19.0	107.2	47.5	8.6	182.3	18.9	-	(0.1)	201.1
<b>Total</b>	<b>75.7</b>	<b>554.6</b>	<b>210.9</b>	<b>150.0</b>	<b>991.2</b>	<b>223.5</b>	<b>(100.8)</b>	<b>(0.1)</b>	<b>1,113.8</b>
Gross premium earned	88.8	569.5	192.7	163.2	1,014.2	132.5	(59.3)	(0.1)	1,087.3
Reinsurance premium ceded	(29.2)	(87.3)	(31.8)	(21.4)	(169.7)	-	56.3	-	(113.4)
Net premium earned	59.6	482.2	160.9	141.8	844.5	132.5	(3.0)	(0.1)	973.9
Insurance claims and claims settlement expenses	(48.9)	(179.8)	(111.0)	(103.0)	(442.7)	(47.5)	29.8	(0.3)	(460.7)
Reinsurance recoveries	19.6	7.7	41.2	20.6	89.1	-	(30.8)	0.2	58.5
Underwriting expenses	(24.0)	(162.4)	(67.6)	(37.8)	(291.8)	(16.0)	4.0	-	(303.8)
<b>Profit attributable to underwriting</b>	<b>6.3</b>	<b>147.7</b>	<b>23.5</b>	<b>21.6</b>	<b>199.1</b>	<b>69.0</b>	<b>-</b>	<b>(0.2)</b>	<b>267.9</b>
Investment return					83.1	32.0			115.1
Agency expenses (1)	(2.6)	(14.3)	(3.3)	(4.5)	(24.7)	-	-	24.7	-
Other non-underwriting expenses (2)									(16.5)
Finance costs (2)									(23.8)
Profit before tax									342.7
Combined ratio	89%	69%	85%	85%	76%	48%			72%

Included within the UK gross written premium of Amlin Bermuda Ltd is premium from Syndicate 2001 amounting to £100.8 million (2005: £0.3 million) on reinsurance contracts undertaken at commercial rates.

**NOTES TO THE ACCOUNTS**

FOR THE YEAR ENDED 31 DECEMBER 2006

**1 Segmental reporting by business group (continued)**

Assets and liabilities by business segment At 31 December 2006	Aviation £m	Non- marine direct £m	Marine £m	UK commercial £m	Total UK divisions £m	Amlin Bermuda Ltd £m	Intra group items £m	Other technical £m	Total £m
<b>Assets</b>									
Assets attributable to business segments	268.1	1,012.8	417.4	546.0	2,244.3	739.4	(99.6)	13.5	2,897.6
Assets allocated between the UK and Bermuda					549.2	-			549.2
<b>Total assets</b>									<b>3,446.8</b>
<b>Liabilities</b>									
Liabilities attributable to business segments	255.4	873.2	374.0	492.4	1,995.0	135.7	(99.6)	11.7	2,042.8
Liabilities allocated between the UK and Bermuda					467.6	-			467.6
<b>Total liabilities</b>									<b>2,510.4</b>
<b>Total net assets</b>									<b>936.4</b>

The net assets of Amlin Bermuda Ltd are located in Bermuda and the USA. The majority of the other assets of the Group are located in the UK, the US and Canada. The corresponding liabilities are also concentrated in these countries, but given the nature of the Group's business some of the liabilities will be located elsewhere in the world.

During the year, Amlin Bermuda Ltd purchased £1.9 million of fixed assets. Other assets purchased by Amlin Corporate Services Limited during the year totalled £1.7 million. These cannot be allocated to a specific segment. Depreciation has been charged on property and equipment for the year amounting to £3.1 million of which £0.3 million has been charged to aviation, £1.4 million to non-marine, £0.5 million to marine, £0.2 million to UK commercial, £0.4 million to Amlin Bermuda Ltd with the remainder not being allocated to a specific segment.

- (1) Agency expenses allocated to segments represent fees and commission payable to Amlin Underwriting Limited;
- (2) Other non-underwriting expenses and finance costs are incurred in support of the entire business of the Group and have not been allocated to particular segments.

NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006

1 Segmental reporting by business group (continued)

Income and expenses by business segment Year ended 31 December 2005 (restated)	Aviation £m	Non- marine direct £m	Marine £m	UK commercial £m	Total UK divisions £m	Amlin Bermuda Ltd £m	Intra group items £m	Other technical £m	Total £m
<b>Gross premium written</b>	83.0	558.0	172.8	175.5	989.3	2.9	(0.3)	1.6	993.5
Analysed by geographic segment									
UK	11.4	55.5	43.1	159.1	269.1	0.8	(0.1)	0.5	270.3
US	32.6	330.5	30.2	0.3	393.6	1.1	(0.1)	0.7	395.3
Europe	15.8	40.0	32.4	7.2	95.4	0.3	-	0.1	95.8
Worldwide	0.2	17.9	25.7	2.2	46.0	0.1	-	0.1	46.2
Other	23.0	114.1	41.4	6.7	185.2	0.6	(0.1)	0.2	185.9
<b>Total</b>	83.0	558.0	172.8	175.5	989.3	2.9	(0.3)	1.6	993.5
Gross premium earned	93.0	546.6	164.7	181.1	985.4	0.1	(0.3)	1.5	986.7
Reinsurance premium ceded	(23.6)	(100.6)	(25.9)	(14.2)	(164.3)	-	-	(0.3)	(164.6)
Net premium earned	69.4	446.0	138.8	166.9	821.1	0.1	(0.3)	1.2	822.1
Insurance claims and claims settlement expenses	(50.1)	(651.2)	(105.7)	(105.0)	(912.0)	-	(2.7)	2.6	(912.1)
Reinsurance recoveries	15.1	347.0	55.3	19.1	436.5	-	-	(0.1)	436.4
Underwriting expenses	(14.4)	(113.6)	(40.8)	(37.6)	(206.4)	(0.1)	(1.0)	(1.8)	(209.3)
<b>Profit attributable to underwriting</b>	20.0	28.2	47.6	43.4	139.2	-	(4.0)	1.9	137.1
Investment return					90.9				90.9
Agency expenses (1)	(3.9)	(24.9)	(4.2)	(5.0)	(38.0)	-	38.0	-	-
Other non-underwriting expenses (2)									(30.9)
Financing costs (2)									(10.4)
Profit before tax									186.7
Combined ratio (3)	70%	93%	63%	72%	82%	-			82%

NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2006

**1 Segmental reporting by business group (continued)**

<b>Assets and liabilities by business segment At 31 December 2005 (restated)</b>	<b>Aviation £m</b>	<b>Non- marine</b>	<b>Marine £m</b>	<b>UK commercial £m</b>	<b>Total UK divisions £m</b>	<b>Amlin Bermuda Ltd £m</b>	<b>Intra group items £m</b>	<b>Other technical £m</b>	<b>Total £m</b>
<b>Assets</b>									
Assets attributable to business segments	321.9	1,273.4	415.8	589.6	2,600.7	589.3	-	14.3	3,204.3
Assets allocated between the UK and Bermuda					402.9	-			402.9
<b>Total assets</b>									<b>3,607.2</b>
<b>Liabilities</b>									
Liabilities attributable to business segments	300.1	1,157.8	357.5	508.2	2,323.6	4.9	-	14.5	2,343.0
Liabilities allocated between the UK and Bermuda					479.4	-			479.4
<b>Total liabilities</b>									<b>2,822.4</b>
<b>Total net assets</b>									<b>784.8</b>

- (1) Agency expenses allocated to segments represent fees and commission payable to Amlin Underwriting Limited;
- (2) Other non-underwriting expenses and finance costs are incurred in support of the entire business of the Group and have not been allocated to particular segments;
- (3) The combined ratios are calculated assuming a constant 100% ownership over the period from which premium has been earned.

## 2 Net earned premium

	2006 £m	2005 (restated) £m
<b>Insurance contracts premium</b>		
Gross premium written	1,113.8	993.5
Change in unearned premium provision	(26.5)	(6.8)
Gross premium earned	1,087.3	986.7
Insurance premium revenue from the receipt of reinsurance to close	78.8	78.6
<b>Reinsurance premium ceded</b>		
Reinsurance premium payable	(100.3)	(164.2)
Change in unearned reinsurance premium provision	(13.1)	(0.4)
	<b>(113.4)</b>	<b>(164.6)</b>
<b>Net earned premium</b>	<b>1,052.7</b>	<b>900.7</b>

The insurance premium revenue from the receipt of reinsurance to close represents the premium received from the third party syndicate members on the 2003 year of account (2005: 2002 year of account) who sold their capacity to Amlin, for use by Amlin's corporate members for the following year of account of Syndicate 2001. An identical amount is recorded as a movement in claims, representing the additional liabilities taken on by Amlin from the third party members. Overall these transactions have no impact on profit for the year. For the 2004 year of account and onwards 100% of Syndicate 2001 capacity is owned by the Group.

## 3 Investment return

	2006 £m	2005 £m
Investment income		
- dividend income	4.5	2.1
- interest income	67.7	66.7
Cash and cash equivalents interest income	26.5	2.4
	<b>98.7</b>	<b>71.2</b>
Net realised gains/(losses) on financial assets		
- equity securities	7.4	12.2
- debt securities	(0.3)	(6.0)
	<b>7.1</b>	<b>6.2</b>
Net fair value gains on assets at fair value through income statement		
- equity securities	10.3	12.5
- debt securities	(1.0)	1.0
	<b>9.3</b>	<b>13.5</b>
	<b>115.1</b>	<b>90.9</b>

#### 4 Insurance claims and loss adjustment expenses

	2006 £m	2005 (restated) £m
<b>Gross</b>		
Current year insurance claims and loss adjustment expenses	515.7	991.6
Reduced costs for prior period insurance claims	(55.0)	(79.5)
	460.7	912.1
Insurance claims and loss adjustment expenses relating to the receipt of reinsurance to close (note 2)	78.8	78.6
<b>Reinsurance</b>		
Current year insurance claims and loss adjustment expenses recoverable from reinsurers	(44.7)	(436.2)
Additional costs for prior period claims recoverable from reinsurers	(13.8)	(0.2)
	(58.5)	(436.4)
<b>Total net insurance claims and loss adjustment expenses</b>	<b>481.0</b>	<b>554.3</b>

#### 5 Expenses for the acquisition of insurance contracts

	2006 £m	2005 £m
Expenses for the acquisition of insurance contracts	203.4	173.4
Changes in deferred expenses for the acquisition of insurance contracts	(8.0)	(3.2)
	195.4	170.2

#### 6 Other operating expenses

	2006 £m	2005 (restated) £m
<b>Expenses related to underwriting</b>		
Administrative expenses	71.9	64.8
Underwriting exchange losses/(gains)	36.5	(25.7)
	108.4	39.1
<b>Other expenses</b>		
Central management and other expenses	7.2	2.8
Asset management fees	1.3	2.3
Marketing and administration	0.5	0.6
Depreciation	0.3	2.4
Employee incentives	18.6	24.2
Group company exchange gains	(9.6)	-
	18.3	32.3
<b>Total</b>	<b>126.7</b>	<b>71.4</b>

## 7 Tax

	2006 £m	2005 (restated) £m
<b>Current tax</b>		
UK corporation tax	57.0	34.3
Foreign tax	(0.1)	(1.6)
	<b>56.9</b>	<b>32.7</b>
<b>Deferred tax – current year</b>		
Movement in assets	4.8	4.1
Movement in liabilities	13.2	9.7
	<b>18.0</b>	<b>13.8</b>
Taxes on income	<b>74.9</b>	<b>46.5</b>

In addition to the above, deferred tax £1.3 million (2005: £1.7 million credit) has been credited directly to equity.

Underwriting profits and losses are recognised in the technical account on an annual accounting basis, recognising the results in the period in which they are earned. Corporation tax is charged in the period in which the underwriting profits are actually paid by the Syndicate to the corporate names.

Deferred tax is provided on the annually accounted underwriting result with reference to the forecast ultimate result of each of the years of account included in the annually accounted underwriting. Where the forecast ultimate result for a year of account is a taxable profit, deferred tax is provided in full on the movement on that year of account included in this period's annually accounted underwriting result. Where the forecast ultimate result for a year of account is a loss, deferred tax is only provided for on the movement on that year of account included in this period's annually accounted Syndicate underwriting result to the extent that forecasts show that the taxable loss will be utilised in the foreseeable future. Deferred tax has been provided on the annually accounted underwriting result for this accounting period of £218.4 million (2005: £143.3 million).

Deferred tax assets on loss provisions in respect of non-aligned syndicate participations (see note 10) are only provided for, to the extent that forecasts show that it is more likely than not that the ultimate taxable underwriting losses represented by these provisions will be utilised within the foreseeable future. Deferred tax has been provided in full on non-aligned syndicate loss participation provisions of £3.8 million (2005: £4.5 million).

## 7 Tax (continued)

### Reconciliation of tax expense

The UK standard rate of corporation tax is 30% (2005: 30%), whereas the current tax assessed for the year ended 31 December 2006 as a percentage of profit before tax is 21.9% (2005 (restated): 24.9%). The reasons for this difference are explained below:

	2006	2006	2005	2005
	£m	%	(restated) £m	(restated) %
Profit before tax	<b>342.7</b>		<b>186.7</b>	
Taxation on profit on ordinary activities calculated at the standard rate of corporation tax in the UK	<b>102.8</b>	<b>30.0</b>	<b>56.0</b>	<b>30.0</b>
Non-deductible or non-taxable items	<b>4.5</b>	<b>1.3</b>	<b>(0.2)</b>	<b>(0.1)</b>
Utilisation of unprovided for capital losses	<b>(3.8)</b>	<b>(1.1)</b>	<b>(7.1)</b>	<b>(3.8)</b>
Tax rate differences on overseas subsidiaries	<b>(29.3)</b>	<b>(8.5)</b>	-	-
Under/(over) provision in respect of prior periods	<b>0.8</b>	<b>0.2</b>	<b>(0.6)</b>	<b>(0.3)</b>
Irrecoverable overseas tax	<b>(0.1)</b>	-	<b>(1.6)</b>	<b>(0.9)</b>
Taxes on income	<b>74.9</b>	<b>21.9</b>	<b>46.5</b>	<b>24.9</b>

The Group's tax provision for 2006 and 2005 has been prepared on the basis that the Group's Bermudian subsidiaries are non-UK resident for UK corporation tax purposes. The corporation tax rate for Bermudian companies is currently 0% (2005: 0%).

A deferred tax liability of £8.9million (2005:£nil) has been provided for on profits of the Group's overseas subsidiaries expected to be distributed in the foreseeable future. A deferred tax liability has not been provided on the undistributed profits of the overseas subsidiaries of £69.1 million (2005: £2.4 million) as the parent company has determined not to distribute these profits in the foreseeable future.

A deferred tax asset of £5.4 million (2005: £5.7 million) has been taken on existing capital losses to match against deferred tax provisions of £6.4 million (2005: £5.7 million) on unrealised capital gains arising within the Group during this accounting period. As all capital losses have now been provided for the Group will not in future periods enjoy the reduction in its effective tax rate arising from the utilisation or provision of previously unprovided capital losses as in previous years.

The Group is subject to US tax on US underwriting profits. No provision has been made in respect of such tax arising in 2006 as any net provision is likely to be immaterial and would be offset by brought forward US tax losses in the Group.

## 7 Tax (continued)

### Deferred income tax

The deferred tax asset is attributable to temporary differences arising on the following:

	Provisions for losses £m	Other provisions £m	Capital losses £m	Pension provisions £m	Other timing differences £m	Total £m
At 1 January 2006 (restated)	1.2	7.8	5.7	3.3	6.4	24.4
Movements in the year	(0.1)	(2.1)	(0.3)	(1.3)	(1.0)	(4.8)
Movement through equity in the year	-	-	-	-	1.3	1.3
At 31 December 2006	1.1	5.7	5.4	2.0	6.7	20.9

Included within the opening balance for deferred tax under “Pension provisions” is an increase of £3.3m representing the deferred tax element on the change in accounting for pension liabilities.

The deferred tax liability is attributable to temporary differences arising on the following:

	Underwriting results £m	Unrealised capital gains £m	Syndicate capacity £m	Other timing differences £m	Total £m
At 1 January 2006	73.5	5.7	3.0	-	82.2
Movements in the year	2.5	0.7	1.1	8.9	13.2
At 31 December 2006	76.0	6.4	4.1	8.9	95.4

Deferred tax assets have been provided for on all capital losses carried forward of £18 million (2005: capital losses unprovided for £12.7 million)

Deferred tax assets have not been provided on US net operating losses of £31.0 million (2005:£43.3 million) carried forward due to uncertainty over their future use.

## 8 Net foreign exchange (losses)/gains

The Group's incurred foreign exchange losses of £26.9 million (2005: £31.9 million gain) during the year.

The Group writes business in many currencies and although a large amount of the Group's balance sheet assets and liabilities are matched, minimising the effect of movements in foreign exchange rates on the Group's result, it is not possible or practical to match exactly all assets and liabilities in currency and accounting standards dictate that certain classes of assets and liabilities be translated at different rates (see Foreign currency translation accounting policy).

Included within the Group's incurred foreign exchange losses on translating non-monetary assets and liabilities at historic average rates amounted to £27.9 million (2005: £26.2 million gain).

Foreign exchange gains/(losses) on investments in overseas subsidiaries are taken directly to reserves in accordance with IAS21, The Effects of Changes in Foreign Exchanges. Amlin Bermuda Ltd and Amlin Bermuda Holdings Limited report in US dollars. The loss taken to reserves for the year ended 31 December 2006 was £77.1 million (2005: £3.8 million gain). This reflects the Group's investment of \$1 billion of capital in Amlin Bermuda Ltd at the movement in the dollar rate from 1.72 at the start of the year to 1.96 at the balance sheet date.

## 9 Financial investments

	At valuation 2006 £m	At valuation 2005 £m	At cost 2006 £m	At cost 2005 £m
Shares and other variable yield securities	<b>291.4</b>	116.2	<b>260.8</b>	96.2
Debt and other fixed income securities	<b>1,599.6</b>	1,142.1	<b>1,599.8</b>	1,149.5
Participation in investment pools	<b>126.6</b>	703.8	<b>111.7</b>	688.7
Deposits with credit institutions	<b>294.2</b>	62.3	<b>268.0</b>	62.3
Overseas deposits	<b>55.9</b>	51.9	<b>55.9</b>	51.9
Other	-	1.9	-	1.9
	<b>2,367.7</b>	2,078.2	<b>2,296.2</b>	2,050.5
In Group owned companies	<b>1,105.0</b>	920.7	<b>1,140.3</b>	885.8
In Syndicate 2001	<b>1,257.1</b>	1,151.7	<b>1,150.3</b>	1,158.9
In non-aligned syndicates participations	<b>5.6</b>	5.8	<b>5.6</b>	5.8
	<b>2,367.7</b>	2,078.2	<b>2,296.2</b>	2,050.5
Listed investments included in Group:				
Shares and other variable yield securities	<b>291.4</b>	116.2	<b>230.7</b>	96.2
Debt and other fixed income securities	<b>1,596.7</b>	104.1	<b>1,599.6</b>	103.3
	<b>1,888.1</b>	220.3	<b>1,830.3</b>	199.5

£382.1 million (2005: £276.7 million) of the Group's investments are charged to Lloyd's to support the Group's underwriting activities.

Overseas deposits represent balances held with overseas regulators to permit underwriting in certain territories. The assets are managed by Lloyd's on a pooled basis.

## 9 Financial investments (continued)

	2006 £m	2005 £m
<b>At 1 January</b>	<b>2,078.2</b>	1,302.5
Exchange adjustments	<b>(68.5)</b>	46.0
Net purchases	<b>341.6</b>	710.0
Realised gains on disposals	<b>7.1</b>	6.2
Unrealised investment gains	<b>9.3</b>	13.5
<b>At 31 December</b>	<b>2,367.7</b>	2,078.2

## 10 Insurance contracts and reinsurance assets

	Claims reserves £m	Unearned premium reserves £m	Other insurance assets and liabilities £m	Total £m
<b>Insurance liabilities</b>				
At 1 January 2005	1,103.3	517.3	46.0	1,666.6
Movement in the year	525.5	6.5	65.6	597.6
Exchange adjustments	75.5	-	3.2	78.7
<b>At 31 December 2005</b>	<b>1,704.3</b>	<b>523.8</b>	<b>114.8</b>	<b>2,342.9</b>
Movement in the year	(156.8)	27.7	(36.1)	(165.2)
Exchange adjustments	(130.0)	(6.0)	(10.1)	(146.1)
<b>At 31 December 2006</b>	<b>1,417.5</b>	<b>545.5</b>	<b>68.6</b>	<b>2,031.6</b>
<b>Reinsurance assets</b>				
At 1 January 2005	318.6	24.9	261.3	604.8
Movement in the year	262.0	(0.7)	106.8	368.1
Exchange adjustments	24.0	-	19.2	43.2
<b>At 31 December 2005</b>	<b>604.6</b>	<b>24.2</b>	<b>387.3</b>	<b>1,016.1</b>
Movement in the year	(198.7)	13.5	(54.5)	(239.7)
Exchange adjustment	(48.9)	-	(32.2)	(81.1)
<b>At 31 December 2006</b>	<b>357.0</b>	<b>37.7</b>	<b>300.6</b>	<b>695.3</b>

Other insurance liabilities are comprised principally of premium payable for reinsurance, including reinstatement premium. Other insurance assets are comprised principally of amounts recoverable from reinsurers in respect of paid claims and premium receivable on inward reinsurance business, including reinstatement premium.

## 10 Insurance contracts and reinsurance assets (continued)

The claims reserves are further analysed between notified outstanding claims and incurred but not reported claims below:

	<b>2006</b>	2005
	<b>£m</b>	£m
Notified outstanding claims	<b>843.4</b>	1,121.8
Claims incurred but not reported	<b>574.1</b>	582.5
Insurance contracts claims reserve	<b>1,417.5</b>	1,704.3

It is estimated, using historical settlement trends, that £564.2 million (2005: £497.4 million) of the claims reserves included in the above analysis, as at 31 December 2006, will settle in the next twelve months.

From 1994 to 1999 the Group participated on a number of Lloyd's syndicates other than those managed by the Group. From 2000 the Group ceased to underwrite directly on non-aligned syndicates. However, a number of syndicates remain "open" and Amlin's final liabilities are still to be finalised. Provisions are made for potential future insurance claims. Included within the claims provisions in the table above are provisions in respect of "non-aligned syndicate participations" of £4.2 million (2005:£4.5 million). Syndicates that remain open at 31 December 2006 are set out in the table below.

Managing agent	Non-aligned syndicate	Syndicate capacity		
		1999 £m	1998 £m	1997 £m
<b>Non-marine</b>				
Jago Managing Agency Ltd	205	2.25	-	-
A E Grant (Underwriting Agencies) Ltd	991	2.93	2.35	-
Duncanson & Holt Syndicate Management Ltd	1101	-	2.50	2.50
<b>Total non-marine</b>		5.18	4.85	2.50
<b>Motor</b>				
Ockham Personal Insurance Agency Ltd	37	4.64	-	-
<b>Aviation</b>				
Duncanson & Holt Syndicate Management Ltd	957	-	3.00	3.00
<b>Total capacity</b>				
Capacity remaining open at 31 December 2006		9.82	7.85	5.50

## 11 Loans and receivables, including insurance receivables

	2006 £m	2005 £m
Receivables arising from insurance contracts	98.0	103.9
Deferred acquisition costs	118.3	110.4
Insurance receivables	216.3	214.3
Other debtors	22.6	116.4
Prepayments and other accrued income	29.0	16.5
Loans and receivables	51.6	132.9

	2006 £m	2005 £m
Current portion	267.1	347.2
Non-current portion	0.8	-
	267.9	347.2

The reconciliation of opening and closing deferred acquisition costs is as follows:

	2006 £m	2005 £m
At 1 January	110.4	107.2
Exchange adjustments	(0.1)	-
Movements in the year	8.0	3.2
At 31 December	118.3	110.4

## 12 Share capital

<b>Authorised ordinary shares of 25p each</b>	<b>2006 Number</b>	<b>2006 £m</b>	2005 Number	2005 £m
<b>At 31 December</b>	<b>800,000,000</b>	<b>200.0</b>	562,000,000	140.5
<b>Allotted, called up and fully paid</b>	<b>2006 Number</b>	<b>2006 £m</b>	2005 Number	2005 £m
At 1 January	<b>530,113,127</b>	<b>132.5</b>	395,089,608	98.8
Scrip dividend alternative shares issued	-	-	3,070,054	0.8
Shares issued on exercise of options	<b>3,893,593</b>	<b>1.0</b>	4,148,392	1.0
Rights issue	-	-	127,805,073	31.9
<b>At 31 December</b>	<b>534,006,720</b>	<b>133.5</b>	530,113,127	132.5

The shares issued on exercise of options were issued for a total consideration of £3.7 million at an average price of 98.00 pence per share (2005: £3.5 million, average price 86.48 pence).

The scrip dividend shares were issued on 24 May 2005 in respect of the 2004 final dividend at a reference share price of 165.92 pence per share. Subsequent dividends did not offer a scrip dividend alternative.

127,805,073 new shares were issued via a 7 for 22 rights issue which closed on the 25 November 2005 with the new shares being issued on the following trading day, 28 November 2005. The rights issue raised £223.7 million gross, and £214.7 million net of expenses. The balance of the capital raised not including the share capital, £182.8 million, is included in the share premium reserve, analysed as gross £191.8 million and expenses of £9.0 million.

## 13 Borrowings

	<b>2006</b>	2005
	<b>£m</b>	£m
Bank loans	<b>0.9</b>	241.0
Finance lease creditors	-	0.1
Subordinated debt	<b>277.9</b>	57.1
	<b>278.8</b>	298.2
	<b>2006</b>	2005
	<b>£m</b>	£m
Current portion	<b>0.9</b>	148.8
Non-current portion	<b>277.9</b>	149.4
	<b>278.8</b>	298.2

The directors' estimation of the fair value of the Group's borrowings is £306.3 million (2005: £299.1 million).

The Group's borrowings comprise three issues of subordinated debt.

Details of the subordinated debt issues are as follows:

Issue date	Principal amount	Reset date	Maturity date	Interest rate to reset date %	Interest rate from reset date to maturity date %
23 November 2004	\$50m	Nov 2014	Nov 2019	7.11	LIBOR + 3.48
15 March 2005	\$50m	Mar 2015	Mar 2020	7.28	LIBOR + 3.32
20 April 2006	£230m	Apr 2016	Apr 2026	6.50	LIBOR + 3.48

The bonds will be redeemed on the maturity dates at the principal amounts, together with accrued interest. The Company has the option to redeem the bonds in whole, subject to certain requirements, on the reset dates or any interest payment date thereafter at the principal amount plus accrued interest.

### 13 Borrowings (continued)

The old debt facility, entered into in November 2005, consisted of the following arrangements:

- A £170 million term loan bridge facility. The rate of interest was LIBOR plus 0.75% up to 30 June 2006 and LIBOR plus 1.0% thereafter. Only £150 million of the facility has been utilised to date and of this £100 million was repaid in June 2006, £36 million in July 2006 and the balance of £14 million was repaid in August 2006.
- A £20 million term loan. The rate of interest is LIBOR plus 1.5%, plus mandatory costs. The loan was repaid in full in April 2006.
- A \$125 million revolving credit facility. The rate of interest is LIBOR plus 1.5%, plus mandatory costs. \$105 million of the loan was repaid in April 2006 and the balance of \$20 million was repaid in June 2006.
- A £150 million letter of credit (LOC) facility. This was deposited with Lloyd's in November 2005 as part of the Group's Funds at Lloyd's (FAL) required to support underwriting on Syndicate 2001. The LOC was replaced with part of the proceeds from the issue of the subordinated debt in April 2006. Currently the facility is not being utilised but is being retained to provide additional financial strength and flexibility.

On 13 November 2006 the Company entered into a new debt facility with its banks, which replaced the 2005 facility. The new facility is available for three years from the signing date and provides an unsecured £200 million multicurrency revolving credit facility available by way of cash advances or sterling LOC. The facility is guaranteed by the Company's subsidiaries Amlin Corporate Services Limited and Amlin Investments Limited.

In December 2006 Amlin Bermuda Ltd entered into a \$300 million LOC and Revolving Credit Facility. The facility comprised a secured LOC facility for \$200 million for a three year term and an unsecured revolving credit facility for \$100 million for a term of 364 days, twice renewable. The secured LOC facility is secured by a registered charge over a portfolio of assets managed by Aberdeen Asset Management Limited with State Street Bank and Trust Company as custodian. As at 31 December 2006 \$1.7 million LOCs were issued with an additional \$8.8 million LOCs issued in January 2007

Obligations due under finance leases and hire purchase contracts are payable as follows:

	2006	2005
	£m	£m
Within one year	0.1	0.1
Within two to five years	-	0.1
	<b>0.1</b>	<b>0.2</b>

## 14 Earnings and net assets per share

Earnings per share are based on the profit attributable to shareholders and the weighted average number of shares in issue during the period. Shares held by the Employee Share Ownership Trust (ESOT) are excluded from the weighted average number of shares.

Basic and diluted earnings per share are as follows:

	2006	2005 (restated)
Profit attributable to equity holders of the Parent Company	<b>£267.5m</b>	£140.2m
Weighted average number of shares in issue	<b>531.8m</b>	408.8m
Dilutive shares	<b>6.4m</b>	6.6m
Adjusted average number of shares in issue	<b>538.2m</b>	415.4m
Basic earnings per share	<b>50.4p</b>	34.3p
Diluted earnings per share	<b>49.8p</b>	33.7p

	2006	2005 (restated)
Basic and tangible net assets per share are as follows:		
Net assets	<b>£936.4m</b>	£784.8m
Adjustments for intangible assets	<b>(£66.0m)</b>	(£66.0m)
Tangible net assets	<b>£870.4m</b>	£718.8m

Number of shares in issue at end of period	<b>534.0m</b>	530.1m
Adjustment for ESOT shares	<b>(0.8m)</b>	(2.2m)
Basic number of shares after ESOT adjustment	<b>533.2m</b>	527.9m
Net assets per share	<b>175.6p</b>	148.7p
Tangible net assets per share	<b>163.2p</b>	136.2p

## 15 Dividends

The amounts recognised as distributions to equity holders are as follows:

<b>Group</b>	<b>2006 £m</b>	<b>2005 £m</b>
Final dividend for the year ended:		
- 31 December 2004 of 5.0 pence per ordinary share	-	19.7
- 31 December 2005 of 6.2 pence per ordinary share	<b>25.0</b>	-
Interim dividend for the year ended:		
- 31 December 2005 of 4.0 pence per ordinary share	-	15.9
- 31 December 2006 of 4.2 pence per ordinary share	<b>22.4</b>	-
	<b>47.4</b>	<b>35.6</b>

The dividends for 2004 and 2005 were paid in a combination of cash and scrip dividend shares. The 2006 interim dividend was paid solely in cash. The amounts paid in cash and scrip dividend shares were as follows:

	<b>2006 £m</b>	<b>2005 £m</b>
Cash	<b>22.4</b>	30.5
Scrip dividend	-	5.1
	<b>22.4</b>	<b>35.6</b>

The final ordinary dividend of 7.8 pence per ordinary share for 2006, amounting to £41.7 million, payable in cash, and a special dividend of 8.0 pence per ordinary share, amounting to £42.7 million, payable in cash, were approved by the Board on 2 March 2007 and have not been included as a liability as at 31 December 2006.

## 16 Principal exchange rates

The principal exchange rates used in translating foreign currency assets, liabilities, income and expenditure in the production of these financial statements were:

	Average rate		Year end rate	
	2006	2005	2006	2005
US dollar	<b>1.84</b>	1.82	<b>1.96</b>	1.72
Canadian dollar	<b>2.09</b>	2.21	<b>2.28</b>	2.01
Euro	<b>1.47</b>	1.46	<b>1.48</b>	1.46

## 17 Contingent liabilities

The Group has entered into various deeds of covenant in respect of certain corporate member subsidiaries to meet each such subsidiary's obligations to Lloyd's. At 31 December 2006, the total guarantee given by the Group under these deeds of covenant (subject to limited exceptions) amounted to £382.1 million (2005: £276.7 million). The obligations under the deeds of covenant are secured by a fixed charge over investments of the same value at the relevant valuation date and a floating charge over all the investments and other assets of Amlin Investments Limited, in favour of Lloyd's. A floating charge granted to Lloyd's by the Company was also outstanding at the year end but has since been released by Lloyd's in January 2007. Lloyd's has the right to retain the income on the charged investments, although it is not expected to exercise this right unless it considers there to be a risk that one or more of the covenants might need to be called and, if called, might not be honoured in full.

As liability under each deed of covenant is limited to a fixed monetary amount, the enforcement by Lloyd's of any deed of covenant in the event of a default by a corporate member, where the total value of investments has fallen below the total of all amounts covenanted, may result in the appropriation of a share of the Group's Funds at Lloyd's that is greater than the proportion which that subsidiary's overall premium limit bears to the total overall premium limit of the Group's Lloyd's underwriting.

£150 million of LOCs deposited with Lloyd's in November 2005 pursuant to the Lloyd's deposit trust deeds for Funds at Lloyd's were replaced with £150 million of assets on 3 May 2006.

The new debt facility is guaranteed by the Company's subsidiaries Amlin Corporate Services Limited and Amlin Investments Limited.

The new debt facility for Amlin Bermuda Ltd is secured by a registered charge over a portfolio of assets managed by Aberdeen Asset Management Limited with State Street Bank and Trust Company as custodian (see note 13). As at 31 December 2006 \$1.7 million LOCs were issued with an additional \$8.8 million of LOCs issued in January 2007

## 18 Cash generated from operations

	Notes	2006 £m	2005 (restated) £m
<b>Group cash generated from operations</b>			
Profit before tax		<b>342.7</b>	186.7
Net movement on Premium Trust Funds for non-aligned participations		-	(2.9)
Depreciation charge		<b>3.2</b>	2.1
Interest paid		<b>24.1</b>	9.2
Interest received		<b>(97.5)</b>	(65.3)
Dividends received		<b>(4.5)</b>	(2.0)
Realised/unrealised losses/(gains) on investments		<b>(16.4)</b>	(13.5)
Net purchases of financial investments		<b>(349.4)</b>	(752.4)
Decrease/(increase) in loans and receivables		<b>79.3</b>	(64.9)
Decrease/(increase) in reinsurance contract assets		<b>320.8</b>	(411.5)
(Decrease)/increase in insurance contract liabilities		<b>(311.1)</b>	679.2
Increase/(decrease) in trade and other payables		<b>1.3</b>	(2.7)
Increase in retirement benefits		<b>(4.9)</b>	(4.1)
Exchange (gains)/losses on long term borrowings		<b>(11.6)</b>	(5.3)
Other non-cash movements		<b>3.8</b>	-
Cash generated from operations		<b>(20.2)</b>	(447.4)

## 19 Group owned net assets

The assets and liabilities attributable to Group owned companies, as opposed to the Group's syndicate participations, are summarised below:

	In Group owned companies 2006 £m	In syndicates 2006 £m	In Amlin Bermuda Ltd 2006 £m	<b>Total 2006 £m</b>	In Group owned companies 2005 £m	In syndicates 2005 £m	In Amlin Bermuda Ltd 2005 £m	<b>Total 2005 £m</b>
<b>Investments</b>								
Financial investments	468.2	1,257.4	642.1	<b>2,367.7</b>	337.3	1,157.5	583.4	2,078.2
<b>Other assets</b>								
Intangible assets	66.0	-	-	<b>66.0</b>	66.0	-	-	66.0
Property and equipment	4.6	-	1.6	<b>6.2</b>	5.8	-	0.2	6.0
Cash and cash equivalents	14.4	(0.2)	2.3	<b>16.5</b>	12.6	52.4	0.6	65.6
Loans and receivables – insurance assets	(32.5)	159.3	89.5	<b>216.3</b>	(2.8)	214.2	2.9	214.3
Loans and receivables – other	(10.6)	59.3	2.9	<b>51.6</b>	38.2	94.5	0.2	132.9
Deferred income tax	20.9	-	-	<b>20.9</b>	24.4	-	-	24.4
Current income tax	2.0	4.3	-	<b>6.3</b>	3.7	-	-	3.7
Reinsurance assets	(56.0)	751.3	-	<b>695.3</b>	-	1,016.1	-	1,016.1
<b>Total assets</b>	<b>477.0</b>	<b>2,231.4</b>	<b>738.4</b>	<b>3,446.8</b>	<b>485.2</b>	<b>2,534.7</b>	<b>587.3</b>	<b>3,607.2</b>

## 19 Group owned net assets (continued)

	In Group owned companies 2006 £m	In syndicates 2006 £m	In Amlin Bermuda Ltd 2006 £m	<b>Total 2006 £m</b>	In Group owned companies 2005 £m	In Group owned companies 2006 £m		
<b>Current liabilities</b>								
Trade and other payables	(35.9)	(20.5)	(1.5)	<b>(57.9)</b>	(52.0)	(3.4)	(1.0)	(56.4)
Current income tax liabilities	(28.7)	-	-	<b>(28.7)</b>	(19.6)	-	-	(19.6)
Borrowings	-	(0.9)	-	<b>(0.9)</b>	(148.8)	-	-	(148.8)
	(64.6)	(21.4)	(1.5)	<b>(87.5)</b>	(220.4)	(3.4)	(1.0)	(224.8)
<b>Non-current liabilities</b>								
Trade and other payables	(10.5)	-	-	<b>(10.5)</b>	(10.6)	(0.1)	-	(10.7)
Borrowings	(277.9)	-	-	<b>(277.9)</b>	(149.4)	-	-	(149.4)
Retirement benefit obligations	(7.5)	-	-	<b>(7.5)</b>	(12.4)	-	-	(12.4)
Deferred tax liabilities	(95.4)	-	-	<b>(95.4)</b>	(82.2)	-	-	(82.2)
	(391.3)	-	-	<b>(391.3)</b>	(254.6)	(0.1)	-	(254.7)
	(455.9)	(21.4)	(1.5)	<b>(478.8)</b>	(475.0)	(3.5)	(1.0)	(479.5)
Insurance contracts	84.0	(1,981.8)	(133.8)	<b>(2,031.6)</b>	(4.5)	(2,335.5)	(2.9)	(2,342.9)
<b>Consolidated shareholders' funds at 31 December</b>	105.1	228.2	603.1	<b>936.4</b>	5.7	195.7	583.4	784.8

The assets of the Syndicate included above are held in regulated trust funds and are only available to pay syndicate related expenditure.

## 19 Group owned net assets (continued)

The table below sets out the Group's share of the Syndicate assets and liabilities by currency at 31 December:

	Amlin Bermuda Ltd		Syndicate 2001		Net 2006 £m	Net 2005 £m
	Assets £m	Liabilities £m	Assets £m	Liabilities £m		
Sterling	-	-	772.1	(685.9)	86.2	196.1
US dollar	738.4	(135.3)	1,262.0	(1,146.0)	719.1	553.0
Can dollar	-	-	66.8	(49.3)	17.5	17.7
Euro	-	-	130.5	(122.0)	8.5	12.3
	738.4	(135.3)	2,231.4	(2,003.2)	831.3	779.1

## **20 Financial information and posting of accounts**

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2005 or 2006, but is derived from those accounts. Statutory accounts for 2005 have been delivered to the Registrar of Companies and those for 2006 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under Section 237(2) or (3) of the Companies Act 1985.

The audited Annual Report and Accounts for 2006 are expected to be posted to shareholders by no later than 6 April 2007. Copies of the Report may be obtained from that date by writing to the Company Secretary, Amlin plc., St Helen's, 1 Undershaft, London, EC3A 8ND. The Annual General Meeting of the Company will be held at the same address at noon on Thursday, 24 May 2007.

The preliminary Results were approved by the Board on 2 March 2007.