

ROYAL & SUN ALLIANCE REINSURANCE LIMITED

Report and Accounts

for the year ended 31 December 2006

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Directors

B J McManus

I A Craston

M G Culmer

M Harris

D P Cockrem

R J Clayton

Company Secretary

L Thomas

Registered office

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

Auditors

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

The directors present their report and the audited financial statements for the year ended 31 December 2006

Principal activity

The principal activity of the Company is to provide an insurance settlement function for the insurance activities carried out by Royal & Sun Alliance offices and Global Network partners

Although both branches of Royal & Sun Alliance Reinsurance Limited based in Belgium and Singapore have now ceased trading, business continues to run-off

Review of the year and future developments

The Company ceased writing new business in Singapore and Belgium in November 2001. The running-down of this existing book is classified as discontinued in the revenue account. During the year, this part of the business was transferred by way of a Part VII transfer to another group company. The level of gross premium written on behalf of the Royal & Sun Alliance Global Network Limited is expected to remain at a similar level in the future.

Supplier payment policy

It is the policy of the Royal & Sun Alliance Insurance Group plc and this company to agree appropriate terms and conditions in advance with its suppliers and to make payment in accordance with those terms and conditions, provided that the supplier has complied with them. In most cases, agreements for the supply of goods or services are made under standard terms of contract that lay down payment terms. In the United Kingdom these are available on request from UK purchasing, Leadenhall Court, 1 Leadenhall Street, London EC3V 1PP.

Result and dividend

The profit for the year is shown in the profit and loss account on page 12. The directors do not recommend the payment of a dividend (2005: £Nil).

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Royal & Sun Alliance Insurance Group plc (the Group) and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are set out in the estimation techniques, uncertainties and contingencies on pages 50 to 52, and in the risk framework on pages 22 to 23 of the Annual Report & Accounts of the Group, which do not form part of this report.

A discussion on the management of financial risk is set out below.

Key performance indicators

The directors of Royal & Sun Alliance Insurance Group plc manage the Group's operations on a divisional basis. For this reason the Company's directors believe that analysis using key performance indicators (KPIs) for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. Financial KPIs are detailed in the Annual Report & Accounts of the Group (which do not form part of this report) within the Group CEO review on pages 6 to 9 and the regional business review on pages 12 to 17. This document also includes non-financial KPIs which are detailed in the regional business reviews on pages 12 to 17, the corporate responsibility report on pages 24 to 25 and the directors' report on pages 29 to 30.

Directors

The names of the current directors are listed on page 2. R J Clayton was appointed as a director of the Company on 8 January 2007. I A Craston, B J McManus, M G Culmer, M Harris and D P Cockrem all served as directors throughout the year. R C Cox resigned as director on 30 September 2006 and H M Maxwell resigned as a director on 8 January 2007.

Financial risk management

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

Credit risk

The primary sources of credit risk within the Group are investment and treasury activities and reinsurance counterparty risk. Within the investment management and treasury activities, a range of bank counterparty concentration and credit quality limits together with other controls are in place to ensure that exposure is managed within the Group risk appetite. New reinsurance cover is placed with reinsurers that are authorised as Approved Reinsurance Counterparties recommended by the Group Reinsurance Credit Committee under criteria approved by the Board Risk Committee.

Market risk

Market risk arises from the Group's investment portfolios. The Global Asset Management Committee is the management committee that oversees the Group's investment strategy under the oversight of the Investment Committee and operating within risk limits set by the Board Risk Committee.

Liquidity risk

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

Auditors

So far as each director is aware, there is no relevant audit information (as defined in Section 234ZA(3) of the Companies Act 1985) of which the Company's auditors are unaware, and each director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of, and to establish that the auditors are aware of, any relevant audit information.

Following an extensive review process by the Royal & Sun Alliance Insurance Group plc (the Company's ultimate parent company), Deloitte & Touche LLP are being proposed for appointment as auditors for all UK companies within the Royal & Sun Alliance Insurance group for the year ending 31 December 2007. PricewaterhouseCoopers LLP will stand down to enable Deloitte & Touche LLP to be proposed for appointment in their place. The Company currently operates an elective regime pursuant to Section 386 of the Companies Act 1985 under which it has elected to dispense with the annual appointment of the Company's auditors. Pursuant to Section 393 of the Companies Act 1985, the Company has today received a notice from a member of the Company proposing that a general meeting be convened for the purposes of considering a resolution that Deloitte & Touche LLP be appointed as auditors of the Company in place of PricewaterhouseCoopers LLP for the year ending 31 December 2007.

By order of the board



L Thomas
Company Secretary

18 JUNE 2007

Royal & Sun Alliance Reinsurance Limited

Statement of directors' responsibilities

Statement of directors' responsibilities

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

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2006. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis

The directors have responsibility for ensuring that the Company keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

Independent auditors' report to the members of Royal & Sun Alliance Reinsurance Limited

We have audited the financial statements of Royal & Sun Alliance Reinsurance Limited for the year ended 31 December 2006 which comprise the profit and loss account the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

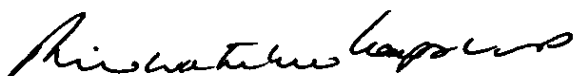
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London, United Kingdom

20 June 2007

1. Accounting and disclosure requirements

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

2. Accounting policies

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

(a) General insurance business

(i) Underwriting results

The underwriting result is accounted for on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance. Premiums written are accounted for in the year in which the related risks commence and include estimates where the amounts are not determined at the balance sheet date. Premiums written exclude taxes and duties levied on premiums. The commission and other acquisition costs incurred in writing the business are deferred and amortised over the period in which the related premiums are earned.

Claims paid represent all payments made during the period whether arising from events during that or earlier periods.

(ii) Technical provisions

The provision for unearned premiums represents the proportion of premiums written relating to periods of insurance subsequent to the balance sheet date, calculated principally on a daily pro-rata basis.

The provision for claims outstanding, whether reported or not, comprises the estimated cost of claims incurred but not settled at the balance sheet date. It includes related expenses and a deduction for the expected value of salvage and other recoveries. The provision is determined using the best information available of claims settlement patterns, forecast inflation trends and, after recognition of the potential time elapsed in the notification, development and settlement of claims.

Differences between the estimated cost and subsequent settlement are dealt with in the technical account for the year in which the claims are settled or re-estimated.

Provision is made, based on information available at the balance sheet date, for any estimated future underwriting losses relating to unexpired risks, after taking into account future investment income on relevant technical provisions. The unexpired risk provision is assessed in aggregate for business classes which in the opinion of the directors are managed together.

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

(iii) Reinsurance recoveries

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to the market data on the financial strength of each of the reinsurance companies and taking into account any disputes on, and defects in, contract wordings.

(b) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses. Dividends are recorded on the date on which the shares are quoted ex-dividend and included the imputed tax credits. Realised gains and losses on investments are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their carrying value at the balance sheet date and their purchase price or their carrying value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

(c) Taxation

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

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

Deferred tax balances are not discounted.

(d) Investments

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

(e) Translation of foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at rates ruling at the year end. Foreign currency revenue transactions are translated into sterling using the cumulative average rate for the financial year. The resulting exchange adjustments, including the differences arising from the translation of the technical provisions at the beginning of the year at year end rates, are taken to the non-technical account and are included in the current year retained profit or loss.

(f) Estimation techniques, uncertainties and contingencies

Introduction

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

The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The uncertainty in the financial statements principally arises in respect of the technical provisions of the Company.

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

Introduction (continued)

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

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

Estimation techniques

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

The Company employs a variety of statistical techniques and a number of different bases to determine these provisions. These include methods based upon the following:

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

In addition, the Company uses other methods such as the Bornhuetter-Ferguson method, which combines features of the above methods. The Company also uses bespoke methods for specialist classes of business.

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

Where possible the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

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

The general insurance business claims provisions are subject to annual independent review by external advisors. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisors who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. The results of these reviews are considered when establishing the appropriate levels of provisions for outstanding claims and unexpired periods of risk.

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

Uncertainties and contingencies

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

- uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss,
- uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring,
- uncertainty over the timing of a settlement to a policyholder for a loss suffered

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks. For certain classes of policy (e.g. term assurance) the value of the settlement of a claim may be specified under the policy terms while for other classes (e.g. motor insurance) the cost of a claim will be determined by an actual loss suffered by the policyholder.

There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the Company. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. There are many factors that will determine the level of uncertainty such as inflation, judicial trends, legislative changes and claims handling procedures.

There may also be complex technical issues that give rise to delays in notification arising from unresolved legal issues on policy coverage and the identity of the insureds. As a consequence, traditional techniques for estimating claims provisions cannot wholly be relied on and the Company employs specialised techniques to determine provisions using the extensive knowledge of both internal and external legal and professional advisors.

The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates. The Company seeks to provide appropriate levels of claims provision and provision for unexpired risks taking the known facts and experience into account. However, by their nature, the quantification of the provisions must remain very uncertain.

Royal & Sun Alliance Reinsurance Limited

Profit and loss account for the year ended 31 December 2006

Technical account - General business

	Notes	2006 £000	2005 £000
Gross premiums written - continuing		171,691	160,201
- discontinued		167	455
	2	<u>171,858</u>	<u>160,656</u>
Outward reinsurance premiums		<u>(171,746)</u>	<u>(160,760)</u>
Net premiums written		112	(104)
Change in the gross provision for unearned premiums		831	1,725
Change in the provision for unearned premiums, reinsurers' share		<u>(831)</u>	<u>(1,725)</u>
Earned premiums, net of reinsurance		112	(104)
Claims paid			
Gross amount		(111,627)	(86,346)
Reinsurers' share		<u>102,282</u>	<u>81,478</u>
		<u>(9,345)</u>	<u>(4,868)</u>
Change in the provision for claims			
Gross amount		36,508	(16,562)
Reinsurers' share		<u>(26,520)</u>	<u>21,532</u>
		<u>9,988</u>	<u>4,970</u>
Claims incurred, net of reinsurance		643	102
Acquisition costs		(9,101)	(9,478)
Administrative expenses		(30)	421
Reinsurance commissions and profit participation		<u>9,080</u>	<u>9,420</u>
Net operating expenses		(51)	363
Balance on the technical account for general business	2	<u>704</u>	<u>361</u>

Balance on the technical account for general business £704,000 (2005 £361,000) relates to discontinued business only

The notes on pages 15 to 19 and the accounting policies on pages 7 to 10 form an integral part of these accounts

Royal & Sun Alliance Reinsurance Limited

Profit and loss account (continued)

for the year ended 31 December 2006

Non-technical account

	Notes	2006 £000	2005 £000
Balance on the technical account for general business		704	361
Investment income	9	2,588	3,429
Realised loss on investments		-	(884)
Unrealised gain on investments		-	240
Unrealised loss on investments		(627)	-
Other income		-	154
Other charges		(1,110)	-
Profit on ordinary activities before taxation	2	1,555	3,300
Taxation on profit on ordinary activities	8	(1,368)	(2,161)
Profit on ordinary activities after taxation		187	1,139

An analysis of continuing and discontinued operations is shown in note 3

The notes on pages 15 to 19 and the accounting policies on pages 7 to 10 form an integral part of these accounts

There have been no recognised gains or losses in either reporting year other than those recorded in the profit and loss account, accordingly no statement of total recognised gains and losses is presented

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

Reconciliation of movements in shareholder's funds for the year ended 31 December 2006

	Share Capital £000	Share premium £000	Profit & loss account £000	2006 £000	2005 £000
Shareholder's funds at 1st January	70,000	57,373	(20,306)	107,067	105,928
Total recognised gains relating to the year	-	-	187	187	1,139
Shareholder's funds at 31st December	70,000	57,373	(20,119)	107,254	107,067

Royal & Sun Alliance Reinsurance Limited

Balance sheet

as at 31 December 2006

	Notes	2006 £000	2005 £000
Assets			
Investments			
Other financial investments	11	56,498	55,044
Deposits with ceding undertakings		-	1,740
		<u>56,498</u>	<u>56,784</u>
Reinsurers' share of technical provisions			
Provision for unearned premiums		65,445	68,149
Claims outstanding		<u>164,902</u>	<u>201,041</u>
		<u>230,347</u>	<u>269,190</u>
Debtors			
Debtors arising out of reinsurance operations		12,367	9,558
Amounts owed by group undertakings		47,642	72,757
Other debtors	10	<u>396</u>	<u>746</u>
		<u>60,405</u>	<u>83,061</u>
Other assets			
Cash at bank and in hand		-	446
Prepayments and accrued income			
Accrued interest		<u>1,007</u>	<u>541</u>
Total assets		<u>348,257</u>	<u>410,022</u>

The notes on pages 15 to 19 and the accounting policies on pages 7 to 10 form an integral part of these accounts

Royal & Sun Alliance Reinsurance Limited

Balance sheet (continued)

as at 31 December 2006

	Notes	2006 £000	2005 £000
Liabilities			
Capital and reserves			
Called up share capital	12	70,000	70,000
Share premium account	13	57,373	57,373
Profit and loss account	13	(20,119)	(20,306)
Equity shareholder's funds		107,254	107,067
Technical provisions			
Provision for unearned premiums		65,445	68,149
Claims outstanding		166,802	213,360
		232,247	281,509
Creditors			
Creditors arising out of direct insurance operations		85	87
Creditors arising out of reinsurance operations		2,947	12,236
Amounts owed to group undertakings		714	681
Other creditors including taxation and social security		5,010	8,442
		8,756	21,446
Total liabilities		348,257	410,022

The notes on pages 15 to 19 and the accounting policies on pages 7 to 10 form an integral part of these accounts

The accounts on pages 7 to 19 were approved by the Board of Directors and signed on its behalf by -



D P Cockrem

Director

18 JUNE 2007

Royal & Sun Alliance Reinsurance Limited

Notes to the accounts

1 Exchange rates

	2006 Cumulative Average	2006 End of Period	2005 End of Period
The rates of exchange used in these accounts in respect of the major overseas currencies are			
Euro	1.47	1.48	1.46
Singapore Dollar	2.93	3.00	2.85
US Dollar	1.84	1.96	1.72

Other income in the non-technical account includes (£1,110,000) (2005 £154,000 gain) of net losses on the retranslation of foreign currency items, which is included in the current year retained profit

2 Segmental analysis of business by class and geographical area

	2006 £000	2005 £000
Gross premiums written		
UK	59,380	53,377
Europe	21,883	17,273
Far East and Australasia	1,018	1,292
Other	89,577	88,714
	171,858	160,656
Profit on ordinary activities before tax		
Europe	757	3,010
Far East and Australasia	798	290
	1,555	3,300
Net assets as at 31 December		
Europe	99,774	99,910
Far East and Australasia	7,480	7,157
	107,254	107,067

Gross premiums are disclosed by origin. There is no material difference between the amounts shown and those by reference to destination (i.e. location of risk). All business written is within the reinsurance class.

	2006 £000	2005 £000
Gross premiums written	171,858	160,656
Gross premiums earned	172,689	162,381
Gross claims incurred	(75,119)	(102,908)
Gross operating expenses	(34,707)	(19,257)
Gross technical result	62,863	40,216
Reinsurance balance	(62,159)	(39,855)
Net technical result	704	361

In the Company's capacity as a global network service provider, gross premiums earned of £172,523,000 (2005 £161,926,000), and gross claims incurred of £76,161,000 (2005 £102,627,000) do not result in a significant transfer of insurance risk to the Company.

Royal & Sun Alliance Reinsurance Limited

Notes to the accounts (continued)

3. Analysis of profit and loss account items

An analysis of continuing and discontinued business is detailed below. Discontinued business relates to the run-off of business transacted in Belgium and Singapore.

	2006			2005		
	Continuing £000	Discontinued £000	Total £000	Continuing £000	Discontinued £000	Total £000
Premiums written - gross	171,691	167	171,858	160,201	455	160,656
- reinsurance	(171,691)	(55)	(171,746)	(160,201)	(559)	(160,760)
Premiums written, net of reinsurance	-	112	112	-	(104)	(104)
Earned premiums, net of reinsurance	-	112	112	-	(104)	(104)
Claims incurred, net of reinsurance	-	643	643	-	102	102
Net operating expenses	-	(51)	(51)	-	363	363
Balance on technical account for general business	-	704	704	-	361	361
Investment Return	-	851	851	-	2,939	2,939
Profit on ordinary activities before tax	-	1,555	1,555	-	3,300	3,300

4. Prior years' claims provision

The over provision in net claims provisions at the beginning of the year compared to payments and provisions at the end of the year in respect of prior years claims was £643,000 (2005 £327,000).

5. Auditors' remuneration

The fee for the audit of the Company's accounts was £6,000 (2005 £5,700) which was borne by a parent company, Royal & Sun Alliance Insurance Plc.

6. Directors' emoluments

None of the directors received any emoluments from the Company during the year (2005 £nil). All the directors receive remuneration from Royal & Sun Alliance Insurance plc as employees of that Company, and it is not appropriate, because of the non-executive nature of their services, to make an apportionment of their emoluments in respect of the Company.

7. Employees and staff costs

The Company did not employ anyone during the year (2005 nil). All administrative duties are performed by employees of Royal & Sun Alliance Insurance plc at no cost to the company (2005 £nil).

Royal & Sun Alliance Reinsurance Limited

Notes to the accounts (continued)

8 Taxation

	2006 £000	2005 £000
The charge for taxation in the profit & loss account comprises		
Current tax		
UK corporation tax	1,374	1,871
Double taxation relief	(4)	-
Foreign tax	4	6
Adjustments in respect of prior years	(7)	493
Total current tax	1,367	2,370
Deferred tax		
Origination and reversal of timing differences	1	2
Adjustments in respect of prior periods	-	(208)
Movement in discount	-	(3)
Total deferred tax	1	(209)
Tax Charge	1,368	2,161

The UK corporation tax for the current year is based on a rate of 30% (2005 30%)

Factors affecting the current tax charge

The current tax charge for the year is more than (2005 more than) 30% due to the items set out in the reconciliation below

	2006 £000	2005 £000
Profit on ordinary activities before tax	1,555	3,300
Tax at 30%	467	990
<i>Factors affecting charge</i>		
Tax exempt income and investment gains	129	(44)
Overseas tax suffered and expensed	-	4
Adjustment to prior year provisions	(8)	493
Other timing differences	(1)	(2)
Fiscal adjustments due to change in tax laws	780	929
Current tax charge for the period	1,367	2,370

Royal & Sun Alliance Reinsurance Limited

Notes to the accounts (continued)

8 Taxation (continued)

Balance sheet presentation of the deferred tax asset

	2006 £000	2005 £000
Accelerated capital allowances in respect of timing differences	5	6
Claims discounting	367	367
Deferred tax asset (see note 10)	372	373

A deferred tax asset has not been recognised in respect of capital losses with an estimated tax value of £3.1m (2005 £3.1m) as it is not considered likely that suitable profits will arise to absorb these in the near future

Other debtors: deferred taxation (see note 10)

Other debtors in the balance sheet includes £371,831 (2005 £373,352) relating to deferred tax

	2006 £000	2005 £000
At 1 January	373	164
(Charged)/ Credited	(1)	209
At 31 December	372	373

9 Investment Income

	2006 £000	2005 £000
Income from other financial investments	2,588	3,429

10 Other Debtors

	2006 £000	2005 £000
Prepayments	3	355
Tax recoverable	18	18
Deferred tax (see note 8)	372	373
Sundry debtors	3	-
	396	746

11 Investments

The historical cost of investments is £58,360,000 (2004 £56,279,000)

	2006 £000	2005 £000
Other financial investments		
Listed debt securities and other fixed income securities	55,665	48,990
Deposits with credit institutions	833	6,054
	56,498	55,044

Notes to the accounts (continued)

12 Share capital

	2006 £000	2005 £000
Authorised 100,000,000 shares of £1 each	100,000	100,000
Allotted, issued and fully paid up 70,000,000 shares of £1 each	70,000	70,000

13 Reserves

Reserves and reserve movements are as follows

	Share premium £000	Profit & loss account £000	Total 2006 £000	Total 2005 £000
Balance at 1 January	57,373	(20,306)	37,067	35,928
Retained profit for the year	-	187	187	1,139
Balance at 31 December	57,373	(20,119)	37,254	37,067

14 Capital commitments

The Company had no capital commitments at 31 December 2006 (2005 £Nil)

15 Contingent liabilities

The Company has entered into a mutual guarantee with Royal & Sun Alliance Insurance plc and certain of its subsidiaries for the payment of general insurance business liabilities. This guarantee is not expected to be exercised in the foreseeable future. The Company had no other contingent liabilities as at 31 December 2006 (2005 £Nil).

16 Cash flow statement

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

17 Related party transactions

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

18 Parent companies

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

The Company's ultimate parent company and controlling party is Royal & Sun Alliance Insurance Group plc which is registered in England and Wales, and is the parent company of the smallest and largest group to consolidate these financial statements. A copy of that Company's accounts can be obtained from 9th Floor, One Plantation Place, 30 Fenchurch Street, London, EC3M 3BD.