Registered Number: 00100097

ROYAL & SUN ALLIANCE REINSURANCE LIMITED

Annual Report and Accounts

for the year ended 31 December 2010

ROYAL & SUN ALLIANCE REINSURANCE LIMITED

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ROYAL & SUN ALLIANCE REINSURANCE LIMITED

Company information

Directors

R J Clayton

D P Cockrem

I A Craston

M G Culmer

N G P Donaldson

M Harris

W R B McDonnell

Secretary

Roysun Limited

Registered office

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

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
London

Directors' report

for the year ended 31 December 2010

The directors present their annual report on the affairs of the Company and the audited financial statements for the year ended 31 December 2010

Business review and principal activities

The principal activity of the Company is to provide a settlement function for the insurance activities carried out by RSA Insurance Group plc (the Group) offices and Global Network partners From 20 December 2007, the Company assumed reinsurance liability for marine and property treaties with the Group in operations in China, Hong Kong and Singapore

The Company held a share in an investment pool during the year

The results for the Company show a profit on ordinary activities before tax of £1,288,000 (*2009 £3,200,000)* for the year and gross premiums written of £314,084,000 (2009 *£312,848,000*) The shareholder funds of the Company were £112,733,000 as at 31 December 2010 (*31 December 2009 £112,248,000*)

Future outlook

There is not expected to be any change to the business in the foreseeable future

Dividends

The directors do not recommend payment of a dividend in respect of the year ended 31 December 2010 *(2009 £nil)*

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated within the principal risks of the Group and are not managed separately The principal risks and uncertainties of the Group, which include those of the UK business, and hence the Company, are set out in the estimation techniques, risks, uncertainties and contingencies on pages 86 to 88, and in the risk framework on pages 28 to 31 of the Annual Report and Accounts of the Group (which do not form part of this report)

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

Financial risk management

The Company is a subsidiary of RSA 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

Key performance indicators

The directors of RSA 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 UK business in aggregate is relevant to the Company Financial KPIs are detailed in the Annual Report and Accounts of the Group (which do not form part of this report) within the Group CEO review on pages 10 to 13 and the regional business reviews on pages 18 to 23 The Annual Report and Accounts of the Group also includes non-financial KPIs which are detailed in the regional business reviews on pages 18 to 23, the corporate responsibility report on pages 32 to 35 and the directors' report on pages 42 to 53

Articles of association

The Companies Act 2006 which became effective on 1 October 2009, abolishes the requirement for a company to have an authorised share capital through the repeal of section 2(5)(a) of the Companies Act 1985

Accordingly, by written resolution passed on 1 April 2010, the Company amended its articles of association (the "Old Articles") by deleting all the provisions of the Company's memorandum of association which, by virtue of section 28 of the Companies Act 2006, were treated with effect from 1 October 2009 as provisions of the Old Articles At the same time the Company adopted new Articles of Association (the "New Articles") The New Articles do not contain restrictions on the share capital of the Company and consequently, the Company no longer has an authorised share capital

Directors

The names of the current directors, all of whom served throughout the year, are listed on page 1 P L Miles resigned as a director on 30 June 2010 W R B McDonnell was appointed as a director on 16 June 2011

Auditor

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the 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 any relevant audit information, and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have confirmed their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed to be reappointed as auditors in the absence of an Annual General Meeting

Going concern

In considering the appropriateness of the going concern basis the Board have reviewed the key risks and uncertainties to which they believe the Company is exposed, the Company's ongoing financial commitments and the continuing availability of sufficient Group resources for the next twelve months and beyond As a result of this, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and have satisfied themselves that it is appropriate to prepare these financial statements on a going concern basis

By order of the Board

K. Baily

K A Baily
For and on behalf of
Roysun Limited
Secretary

29 September 2011

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the corporation and of the profit or loss of the corporation for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditor's report to the member of Royal & Sun Alliance Reinsurance Limited

We have audited the financial statements of Royal & Sun Alliance Reinsurance Limited for the year ended 31 December 2010 which comprise the profit and loss account, the balance sheet and the related notes 1 to 19 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company's member, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Alexander Arterton BSc ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
29 September 2011

Profit and loss account

for the year ended 31 December 2010

Technical account – general business

	Note	2010 £000	2009 £000
Gross premiums written	4	314,084	312,848
Outward reinsurance premiums		(314,084)	(312,848)
Premiums written, net of reinsurance		-	-
Change in the gross provision for unearned premiums		5,813	(9,553)
Change in the provision for unearned premiums, reinsurers' share		(5,813)	9,553
Earned premiums, net of reinsurance		-	-
Claims paid			
Gross amount		(144,842)	(176,462)
Reinsurers' share		144,842	176,440
		-	(22)
Change in the provision for claims			
Gross amount		(68,401)	23,778
Reinsurers' share		68,401	(22,839)
		-	939
Claims incurred, net of reinsurance		-	917
Acquisition costs		(14,713)	(12,814)
Reinsurance commissions and profit participation		15,016	12,814
Net operating expenses		303	-
Balance on the technical account for general business		303	917

The notes on pages 10 to 16 form an integral part of these accounts

Profit and loss account (continued)
for the year ended 31 December 2010

Non-technical account

	Notes	2010 £000	2009 £000
Balance on the technical account for general business		**303**	917
Investment income	9	**2,982**	2,216
Unrealised losses on investments		**(1,188)**	(273)
Investment expenses and charges		**(2)**	(2)
Other (expenses)/income		**(807)**	342
Profit on ordinary activities before tax		**1,288**	3,200
Taxation on profit on ordinary activities	10	**(803)**	(1,521)
Profit for the financial year		**485**	1,679

All figures relate to continuing operations

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

The notes on pages 10 to 16 form an integral part of these accounts

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ROYAL & SUN ALLIANCE REINSURANCE LIMITED

Balance sheet
as at 31 December 2010

Assets	Notes	2010 £000	2009 £000
Investments			
Other financial investments	11	**60,913**	59,121
Reinsurers' share of technical provisions			
Provision for unearned premiums		**102,010**	108,805
Claims outstanding		**351,972**	284,233
		453,982	393,038
Debtors			
Debtors arising out of reinsurance operations		**11,352**	15,235
Amounts owed by group undertakings		**54,777**	59,385
Other debtors	12	**4**	4
		66,133	74,624
Total assets		**581,028**	526,783

The notes on pages 10 to 16 form an integral part of these accounts

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ROYAL & SUN ALLIANCE REINSURANCE LIMITED

Balance sheet (continued)
as at 31 December 2010

Liabilities

	Notes	2010 £000	2009 £000
Capital and reserves			
Called up share capital	14	**70,000**	70,000
Share premium account	15	**57,373**	57,373
Profit and loss account	15	**(14,640)**	(15,125)
Shareholder funds	15	**112,733**	112,248
Technical provisions			
Provision for unearned premiums		**102,010**	108,805
Claims outstanding		**351,972**	284,233
		453,982	393,038
Creditors			
Creditors arising out of direct insurance operations		**-**	225
Creditors arising out of reinsurance operations		**13,522**	19,739
Other creditors including taxation and social security	16	**791**	1,533
		14,313	21,497
Total liabilities		**581,028**	526,783

The notes on pages 10 to 16 form an integral part of these accounts

The financial statements were approved by the Board of Directors and are signed on its behalf by

W R B McDonnell
Director
29 September 2011

1 Financial Statements

The financial statements are prepared in accordance with applicable UK accounting standards and in compliance with the Companies Act 2006, including schedule 3 of the accounting regulations issued under the Act and the Statement of Recommended Practice (SORP) on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 (as amended in December 2006) The financial statements have been prepared under the current value rules, as permitted by Schedule 3 of the accounting regulations, on the going concern basis

In considering the appropriateness of the going concern basis the Board have reviewed the key risks and uncertainties to which they believe the Company is exposed, the Company's ongoing financial commitments and the continuing availability of sufficient Group resources for the next twelve months and beyond As a result of this, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and have satisfied themselves that it is appropriate to prepare these financial statements on a going concern basis

A summary of the major accounting policies, which have been applied consistently throughout the year and the preceding 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 contract is entered into and include estimates where the amounts are not determined at the balance sheet date Premiums written exclude taxes and duties levied on premiums 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 quarterly 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 and settlement of claims

Differences between the estimated cost and subsequent settlement of claims are dealt with in the technical account for the year in which the claims are settled or in which the provisions for claims outstanding are 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 that is expected to be earned from the assets backing the provision for unearned premiums (net of deferred acquisition costs) The unexpired risk provision is assessed in aggregate for business classes which, in the opinion of the directors, are managed together When considering any requirement for a provision for unexpired risks, no account is taken of any new claims events occurring after the balance sheet date other than those that can be expected during the unexpired period of risk at the balance sheet date

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) *Translation of foreign currencies*

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates ruling at the balance sheet date Transactions denominated in foreign currencies are translated into sterling using the cumulative average rate for the financial year The resulting exchange differences are included within the profit and loss account

1 Financial Statements (continued)

c) *Investment return*

Income from investments is included in the non-technical account on an accruals basis Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses Dividends on equity investments are recognised on the date at which the investment is priced 'ex dividend'

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

d) *Taxation*

Current tax, based on profits and income for the year, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised in respect of all timing differences (except as set out below) that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted A deferred tax asset is recognised for relief for trading losses or other losses only to the extent that the directors anticipate that suitable profits will absorb such losses in the future

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on a non-discounted basis

e) *Investments*

The beneficial interest in the investment pool is stated at the Company's share of the value of the underlying assets Movements in carrying value, together with profits and losses arising on disposal of any part of the beneficial interest, are taken to the non-technical account

Within the investment pool, investments are valued at market values comprising stock exchange values for listed securities and directors' valuations for other investments

2 Estimation Techniques, Risks, Uncertainties and Contingencies

Introduction

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

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

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

In addition to the inherent uncertainty of having to make provision for future events, there is also considerable uncertainty as regards the eventual outcome of the claims that have occurred by the balance sheet date but remain unsettled This includes claims that may have occurred but have not yet been notified to the company and those that are not yet apparent to the insured As a consequence of this uncertainty, the insurance company needs to apply sophisticated estimation techniques to determine the appropriate provisions

Estimation techniques

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

2 Estimation Techniques, Risks, Uncertainties and Contingencies (continued)

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 Company's estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies and a number of different bases to determine these provisions These include methods based upon the following

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

In addition, the 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 In selecting its best estimate, the Company considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year The process is designed to select the most appropriate best estimate

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

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

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

It should be emphasised that the estimation techniques for the determination of insurance liabilities involve obtaining corroborative evidence from as wide a range of sources as possible and combining these to form the overall estimate This technique means that the estimate is inevitably deterministic rather than stochastic

Uncertainties and contingencies

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

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

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

There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the 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, inconsistent judicial interpretations and court judgments that broaden policy coverage beyond the intent of the original insurance, legislative changes and claims handling procedures

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

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

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

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

Litigation, disputes and investigations

The Company, in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectoral inquiries in the normal course of its business The directors do not believe that any current mediation, arbitration, regulatory, governmental or sectoral inquiries and pending or threatened litigation or dispute, as outlined elsewhere in this note, will have a material adverse effect on the Company's financial position, although there can be no assurance that losses resulting from any pending mediation, arbitration, regulatory, governmental or sectoral inquiries and investigations and threatened litigation or dispute will not materially affect the Company's financial position or cash flows for any period

2 Estimation Techniques, Risks, Uncertainties and Contingencies (continued)

Reinsurance

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

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

Investment risk

The Company is exposed to market risk and credit risk on its invested assets Market risk includes the risk of potential losses from adverse movements in market rates and prices including interest rates, equity prices, property prices and foreign currency exchange rates The Company's exposure to market risks is controlled by the setting of investment limits in line with the RSA Insurance Group's risk appetite From time to time the Company also makes use of derivative financial instruments to reduce exposure to adverse fluctuations in interest rates, foreign exchange rates and equity markets The Company has strict controls over the use of derivative instruments

Credit risk includes the non performance of contractual payment obligations on invested assets and adverse changes in the creditworthiness of invested assets including exposures to issuers or counterparties for bonds, equities, deposits and derivatives Limits are set at both a portfolio and counterparty level based on likelihood of default to manage the RSA Insurance Group's overall credit profile and specific concentrations within risk appetite

Our insurance investment portfolios are concentrated in listed securities with very low levels of exposure to assets without quoted market prices We use model based analysis to verify asset values when market values are not readily available

Changes in foreign exchange rates may impact our results

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

Income and expenses for each Profit and Loss Account item are translated at average exchange rates Balance sheet assets and liabilities are translated at the closing exchange rates at the balance sheet date

Rating environment

The ability of the Company to write certain types of insurance business is dependent on the maintenance of the appropriate credit ratings from the rating agencies The RSA Insurance Group has the objective of maintaining single 'A' ratings At the present time the ratings are 'A' (positive outlook) from S&P, improved from 'A' (stable outlook) in December 2010, 'A' (stable outlook) from AM Best and 'A2' (stable outlook) from Moody's Any worsening in the ratings could have an adverse impact on the ability of the RSA Insurance Group and the Company to write certain types of general insurance business

In assessing credit risk in relation to reinsurance and investments, the RSA Insurance Group takes into account a variety of factors, including credit rating, If any such rating changes, or is otherwise reassessed, this has potential implications for the related exposures

Regulatory environment

The legal, regulatory and accounting environment is subject to significant change in many of the jurisdictions in which we operate We continue to monitor the developments and react accordingly

The new solvency framework for insurers being developed by the EU, referred to as 'Solvency II', is intended in the medium term to achieve greater harmonisation of approach across EU member states to assessing capital resources and requirements There will be continued uncertainty until all the rules are finalised and the Group is actively participating in shaping the outcome through our involvement with European and UK regulators and industry bodies The Group is actively progressing its implementation plans and the directors are confident that the Group will continue to meet all future regulatory capital requirements

3 Exchange rates

The rates of exchange used in these accounts in respect of the major overseas currencies are	**2010 Cumulative Average**	2009 Cumulative Average	**2010 End of Period**	2009 End of Period
Euro	**1 17**	1 12	**1 17**	1 13
Singapore Dollar	**2 10**	2 27	**2 01**	2 27
US Dollar	**1 55**	1 57	**1 57**	1 61

Other income in the non-technical account includes net losses of £813,000 *(2009 net gains of £342,000)* on the retranslation of foreign currency items

4 Segmental information

a) *by class of business*

In the Company's capacity as a global network service provider, gross premiums earned of £285,086,000 *(2009 £290,054,000)*, and gross claims incurred of £143,237,000 *(2009 £146,249,000)* do not result in a significant transfer of insurance risk to the Company All business written is within the reinsurance class

b) *by geographical segment*

	2010 £000	2009 £000
Gross premiums written		
UK	**67,777**	66,235
Europe	**210,376**	222,642
Far East and Australasia	**25,005**	17,050
Other	**10,926**	6,921
	314,084	312,848
Profit on ordinary activities before taxation		
UK	**1,018**	2,283
Europe	**133**	-
Far East and Australasia	**37**	917
Other	**100**	-
	1,288	3,200
Net assets as at 31 December		
UK	**102,768**	102,553
Europe	**133**	-
Far East and Australasia	**9,732**	9,695
Other	**100**	-
	112,733	112,248

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

5 Movement in prior year's provision for claims outstanding

There was no material movement in incurred claims arising from the difference between the claims provision at the beginning of the year, and subsequent payments and the provision at the end of the year

6 Auditor's remuneration

Fees payable to Deloitte LLP for the audit of the Company's annual accounts were £6,600 *(2009 £6,600)* which were borne by a parent company, Royal & Sun Alliance Insurance plc Details of non-audit fees payable to Deloitte LLP are disclosed in the RSA Insurance Group plc 2010 Annual Report and Accounts

7 Directors' emoluments

None of the directors received any emoluments from the Company during the year *(2009 £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

8 Employees and staff costs

The Company did not employ anyone during the year (*2009 none*) All administrative duties are performed by employees of Royal & Sun Alliance Insurance plc at no cost to the Company (*2009 £nil*)

9 Investment income, expenses and charges

	2010 £000	2009 £000
Income from other investments	**2,981**	2,207
Gains on the realisation of investments	**1**	9
	2,982	2,216

10 Taxation

The charge for taxation in the profit and loss account comprises

	2010 £000	2009 £000
Current tax		
UK corporation tax	793	1,533
Adjustments in respect of prior periods		
- UK corporation tax	10	(12)
Total current tax	803	1,521
Deferred tax		
Adjustments in respect of prior periods	-	-
Total deferred tax (see note 13)	-	-
Tax charge	803	1,521

The UK corporation tax for the current year is based on a rate of 28% *(2009 28%)*

Factors affecting the current tax charge

The current tax charge for the year is more than 28% (*2009 more than 28%*) due to the items set out in the reconciliation below

	2010 £000	2009 £000
Profit on ordinary activities before tax	1,288	3,200
Tax at 28 % *(2009 28%)*	360	896
Factors affecting charge		
Fiscal adjustments	433	637
Adjustments to tax charge in respect of previous periods	10	(12)
Current tax charge for the year	803	1,521

11 Investments

Other financial investments

	2009 £000	2008 £000
Participation in investment pool	60,913	59,121
Listed investments included in the above are as follows		
Debt securities and other fixed income securities	58,800	57,851

The composition of the investment pool is 69% *(2009 73%)* British government stocks, 29% *(2009 26%)* other government and corporate bonds and 2% *(2009 1%)* deposits with credit institutions

The historical cost of other financial investments is £58,635,000 *(2009 £55,692,000)*

12 Other debtors

Other debtors includes £4,109 (*2009 £4,261*) relating to deferred tax (see note 13)

13 Deferred tax

Deferred tax for the current year is based on a rate of 27% *(2009 28%)*

	2010 £000	2009 £000
Accelerated capital allowances	4	4
Deferred tax asset	4	4

	2010 £000	2009 £000
Deferred tax asset at 1 January	4	4
Credit for the year	-	-
Deferred tax asset at 31 December	4	4

14 Share capital

	2010 £000	2009 £000
Allotted, issued and fully paid up		
70,000,000 *(2009 70,000,000)* ordinary shares of £1 each	70,000	70,000
	70,000	70,000

15 Movements in shareholder funds

	Share capital £000	Share premium £000	Profit and loss account £000	2010 £000	2009 £000
Shareholder funds at 1 January	70,000	57,373	(15,125)	112,248	110,569
Profit for the financial year	-	-	485	485	1,679
Shareholder funds at 31 December	70,000	57,373	(14,640)	112,733	112,248

16 Other creditors

Other creditors including taxation and social security includes £791,000 *(2009 £1,533,000)* in respect of corporation tax payable

17 Cash flow statement

The Company is a wholly-owned subsidiary of RSA Insurance Group plc and the cash flows of the Company are included in the consolidated cash flow statement of RSA 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

18 Related party transactions

Advantage has been taken of the exemption provided in FRS 8 'Related Party Disclosures' from disclosing details of transactions with RSA Insurance Group plc and its subsidiaries and associated undertakings

19 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 RSA 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