Registered Number: 00100097

Royal & Sun Alliance Reinsurance Limited

Annual Report and Accounts

for the year ended 31 December 2017

Contents

Royal & Sun Alliance Reinsurance Limited

Company Information

Directors

Mr S Egan

Mr S Lewis

Mr W R B McDonnell

Mr N Williams

Mr D Coughlan (resigned 20 April 2017)

Ms H Robinson (resigned 8 December 2017)

Secretary

Roysun Limited

Registered Office

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

Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

Strategic report

For the year ended 31 December 2017

The directors present their annual report on the affairs of the Company and the audited financial statements for the year ended 31 December 2017.

Business review and principal activity

The principal activity of the Company and its overseas branches is to provide a settlement function for the insurance activities carried out by RSA Insurance Group (the 'Group') offices and Global Network Partners.

The results for the Company show a loss on ordinary activities before tax of £(12,000) (2016 profit: £5,511,000) for the year. Gross premiums written of £272,800,000 (2016: £248,586,000). The shareholders' funds of the Company as at 31 December 2017 were £89,417,000 (2016: £89,644,000).

Key performance indicators

The directors of the Group manage the Group's operations on a divisional basis as described in the Annual Report & Accounts of the Group. 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.

A key measure used by the Company in managing the business is the Solvency II coverage ratio. The Solvency II coverage ratio represents total eligible capital as a proportion of the Solvency Capital Requirement (SCR) under Solvency II. The Solvency II coverage ratio is a measure of the capital adequacy of insurance companies. Our SCR is calculated on our risk profile using the Company's internal capital model. Throughout 2017 the Solvency II SCR coverage ratio stood at approximately 10 times based on the Group's approved Internal Model.

The Annual Report & Accounts of the Group are available on RSA's website at www.rsagroup.com

Future outlook

There are not expected to be any future changes to the Company's activities.

Principal risks and uncertainties

The Company's principal risk is the credit risk of other group companies, Global Network Partners and exchange rate risk. This risk is integrated within and managed together with the other principal risks of the Group. The principal risks and uncertainties of the Group, which include those of the UK business and branches, and hence the Company, are set out in risks and capital notes, and in the Risk management review in the Annual Report and Accounts of the Group, which do not form part of this report.

By order of the Board

R Begum
For and on behalf of Roysun Limited
Secretary

Directors' report
For the year ended 31 December 2017

Directors

The names of the directors who held office during the year are listed on page 1.

Directors' responsibilities

The directors' responsibilities statement appears on page 5 and is incorporated by reference into this report.

None of the directors have any interest in the share capital of the Company.

Dividends

No interim dividends were paid during the year (2016: £nil) The directors did not recommend payment of a final dividend in respect of the year ended 31 December 2017 (2016: £nil).

Information included within the Strategic Review

Information relating to the likely future developments of the Company is contained within the Strategic report on page 2 and is incorporated into this report by reference.

Political donations

The Company did not make any political donations during the financial year (2016: £nil).

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 reasonable 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.

KPMG LLP have confirmed their willingness to continue in office as auditor of the Company for the year ending 31 December 2018. Under the Companies Act 2006, the Company is not required to hold an Annual General Meeting and accordingly KPMG LLP will be deemed to be re-appointed for each succeeding financial year.

Essential Contracts and change of control

The Company does not consider that it has any significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid that are required to be disclosed pursuant to paragraph 13(2) (j) of Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause some options and awards granted to employees under such schemes and plans to vest in such circumstances.

Directors' Indemnity

Article 82 and 83 of the Articles of Association provides that, among other things and insofar as permitted by law, the Company may indemnify its directors against any liability and may purchase and maintain insurance against any liability. As permitted by section 233 of the Companies Act 2006, the Company, through its ultimate parent company, purchased and maintained Directors and Officers insurance for its directors and officers which provides suitable cover in relation to the discharge of their duties as directors and officers.

Post Balance Sheet Events

There were no post balance sheet events.

Going concern

In considering the appropriateness of the going concern basis, the Board has reviewed the Company's ongoing commitments for the next twelve months and beyond. The Board's review included the Company's strategic plans and updated forecasts, capital position, liquidity and credit facilities and investment portfolio.

Based on this review no material uncertainties that would require disclosure have been identified in relation to the ability of the Company to remain a going concern for at least the next twelve months, from both the date of the balance sheet and the approval of the financial statements.

It is therefore concluded that the going concern basis is appropriate for the preparation of the 2017 financial statements.

Signed by order of the Board

R Begum
Secretary
For and on behalf of Roysun Limited

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare such financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 auditor's report to the members of Royal & Sun Alliance Reinsurance Limited

1 Our opinion is unmodified

We have audited the financial statements of Royal & Sun Alliance Reinsurance Limited ("the Company") for the year ended 31 December 2017 which comprise the Balance Sheet, as at 31 December 2017, and the Profit and Loss Account, Statement of Other Comprehensive Income and Statement of Changes in Equity for the year then ended, and the related notes.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Company's Regulated Board.

We were appointed as auditor by the directors on 13 May 2013. The period of total uninterrupted engagement is for the five financial years ended 31 December, 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

<table>
<tr><td colspan="2">Valuation of claims outstanding
(2017 gross £361.4m ; 2016 gross £319.3m)

Refer to page 16(accounting policy) and pages 27 (financial disclosures).</td></tr>
<tr><th>The risk</th><th>Our response</th></tr>
<tr><td>Subjective Valuation:
Valuation of claims outstanding is highly judgmental because it requires a number of assumptions to be made with high estimation uncertainty such as loss ratios, estimates of the frequency and severity of claims and, where appropriate, the discount rates for longer tail classes of business by territory and line of business. The determination and application of the methodology and performance of the calculations are also complex.
Certain lines of business have greater inherent uncertainty, for example those where claims emerge more slowly over time, or where there is greater variability in claim settlement amounts.

Completeness and accuracy of data
The valuation of claims outstanding depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating claims outstanding, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise.
If the data used in calculating insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise.</td><td>With the assistance of our actuarial specialists, we performed the following procedures:
— Control design and observation: Evaluation of the governance around the overall reserving process. We assessed qualifications and experience of those responsible and examined the output of the reviews to assess the scope and depth of these processes. Our evaluation of the methodologies and key assumptions for the most significant and subjective classes of business enabled us to assess the quality of challenge applied through the Company's reserving process.
— Independent re-performance: Independent re-projection of the reserve balances using our own models for certain classes of business. The determination of which classes to re-project was based on risk assessment and consideration of the evidence available from other alternative data analysis procedures.
— Sector experience and Benchmarking: Comparison of assumptions, reserving methodologies and estimates of losses to expectations based on the Company's historical experience, current trends and benchmarking to our own industry knowledge.
— Sensitivity analysis: Evaluation of management's sensitivity analysis over key judgements and assumptions, such as the discount rates for longer tail classes of business and Periodic Payment Order projections.

In addition to the above the audit team performed procedures to assess the completeness and accuracy of data:

— Control observation and re-performance: Evaluation and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process (including both current and prior year case reserve data). The controls included reconciliations between data in the actuarial reserving systems and data in the policy administration systems. We tested controls through inspecting or re-performing the Company's reconciliations.

Our results
— We found the valuation of the claims outstanding to be acceptable.</td></tr>
</table>

Independent auditor's report to the members of Royal & Sun Alliance Reinsurance Limited (continued)

IT systems and control environment	
The risk	**Our response**
Processing errors Many financial reporting controls depend on the correct functioning of operational and financial IT systems. If these systems or controls fail, a significant risk of error in reported financial information can arise from the failure to transfer data appropriately between systems or inappropriate changes being made to financial data or systems. This is an area of significant risk in our audit due to the complexity of the IT infrastructure, particularly where there are legacy systems which require increased manual inputs, relative to more automated processes.	With the assistance of our own IT audit specialists, our procedures included: — **Controls design and observation:** Assessing the design and implementation of general IT controls around system access, change management and computer operations within specific applications pertinent to the financial statements by assessing if appropriate policies are in place and adhered to by inspecting supporting evidence. Where general IT controls did not operate effectively, we addressed the increased risk of financial statement misstatement by extending the scope of our work. This included assessing the operation of controls over changes or transactions being recorded in the systems and testing manual compensating controls, such as reconciliations between systems and other information sources, through re-performance or inspection. — **Extended scope:** Where general IT controls and compensating manual controls did not operate to mitigate a risk, we performed additional substantive testing, such as using extended sample sizes and performing data analysis routines over impacted accounts. **Our results** Our testing identified deficiencies in the design and operation of controls. We compensated for this by extending our detailed testing over and above that originally planned, and this work was completed satisfactorily.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £4.4m (2016: £15.2m), determined with reference to a benchmark of Net Assets, of which it represents 4.9% (2016: 3% of total liabilities). We believe that net assets is a more appropriate benchmark than profit before tax, because the gross written and earned premiums are 100% reinsured and therefore the profit or loss of the company does not represent the overall activity or size of the entity.
We agreed to report to the Board any corrected or uncorrected identified misstatements exceeding £0.2m (2016: £0.7m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above.

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.
Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, 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.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 5, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Royal & Sun Alliance Reinsurance Limited (continued)

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect
Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. We identified relevant areas of laws and regulations from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital, conduct and certain aspects of company legislation recognising the financial and regulated nature of the company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, 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 members 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 members, as a body, for our audit work, for this report, or for the opinions we have formed.

Jessica S.S. Katsouris

Jessica Katsouris (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

4 April 2018

Profit and loss account
for the year ended 31 December 2017

Technical account - general business	Notes	2017 £'000	2016 £'000
Gross premiums written	5	272,800	248,586
Outward reinsurance premiums		(272,800)	(248,586)
Premiums written, net of reinsurance		-	-
Change in the gross provision for unearned premiums		2,134	3,364
Change in provision for unearned premiums, reinsurers' share		(2,134)	(3,364)
Earned premiums, net of reinsurance		-	-
Claims paid			
Gross amount		(166,546)	(150,181)
Reinsurers' share		166,546	150,181
		-	-
Change in the provision for claims			
Gross amount		(52,106)	(3,492)
Reinsurers' share		52,106	3,492
		-	-
Claims incurred, net of reinsurance		-	-
Acquisition costs		(24,252)	(22,133)
Reinsurance commissions and profit participation		24,915	22,847
Net operating expenses		663	714
Balance on the technical account for general business	5	663	714

All figures relate to continuing operations

The notes on pages 15 to 28 form an integral part of these accounts.

Profit and loss account (continued)
for the year ended 31 December 2017

Non technical account	Notes	2017 £'000	2016 £'000
Balance on the technical account for general business		**663**	714
Investment income	9	**293**	164
Realised losses on investments		**(112)**	-
Investment expenses		**(1)**	-
Foreign exchange (losses) / gains		**(855)**	4,633
(Loss)/profit on ordinary activities before tax	5	**(12)**	5,511
Taxation on (loss)/profit on ordinary activities	10	**(186)**	(1,105)
(Loss)/profit for the financial year		**(198)**	4,406

All figures relate to continuing operations

The notes on pages 15 to 28 form an integral part of these accounts.

Statement of other comprehensive income

for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
(Loss)/profit for the financial year		**(198)**	4,406
Unrealised losses on other financial instruments classified as available for sale net of tax		**(29)**	(176)
Total comprehensive (expense)/income for the year		**(227)**	4,230

The notes on pages 15 to 28 form an integral part of these accounts.

Balance Sheet
as at 31 December 2017

Assets	Notes	2017 £'000	2016 £'000
Other financial investments			
Debt securities and other fixed income securities	11	**17,890**	18,275
Total investments		**17,890**	18,275
Reinsurers' share of technical provisions			
Provision for unearned premiums	13	**74,807**	77,873
Claims outstanding	12	**361,362**	319,329
		436,169	397,202
Debtors			
Debtors arising out of reinsurance operations		**24,788**	35,297
Amounts owed by group undertakings		**28,705**	19,202
Other debtors (including deferred taxation)	14	**48**	-
		53,541	54,499
Other assets			
Cash at bank and in hand		**28,489**	28,436
		28,489	28,436
Prepayments and accrued income			
Accrued interest and rent		**71**	52
Deferred acquisition costs	16	**7,867**	8,181
		7,938	8,233
Total assets		**544,027**	506,645

The notes on pages 15 to 28 form an integral part of these accounts.

Balance Sheet (continued)
as at 31 December 2017

Liabilities	Notes	2017 £'000	2016 £'000
Capital and reserves			
Called up share capital	18	**70,000**	70,000
Available for sale account		**(205)**	(176)
Profit and loss account		**19,622**	19,820
Shareholders funds		**89,417**	89,644
Technical provisions			
Provision for unearned premiums		**74,807**	77,873
Claims outstanding		**361,362**	319,329
		436,169	397,202
Creditors			
Creditors arising out of reinsurance operations		**10,388**	10,516
Other creditors (including taxation and social security)	17	**186**	1,102
		10,574	11,618
Accruals and deferred income			
Reinsurers deferred acquisition costs	16	**7,867**	8,181
Total liabilities		**544,027**	506,645

The notes on pages 15 to 28 form an integral part of these accounts.

The financial statements were approved 4 April 2018 by the Board of Directors and are signed on its behalf by:

Director
WILLIAM MCDONNELL

Statement of changes in equity
for the year ended 31 December 2017

	Called up share capital	Available for sale reserve	Profit and loss account	**Shareholders funds**
	£'000	£'000	£'000	**£'000**
Balance at 1 January 2016	70,000	-	15,414	85,414
Profit for the Financial Year	-	-	4,406	4,406
Other comprehensive income	-	(176)	-	(176)
Balance at 1 January 2017	**70,000**	**(176)**	**19,820**	**89,644**
Loss for the Financial Year	-	-	(198)	(198)
Other comprehensive expense	-	(29)	-	(29)
Balance at 31 December 2017	**70,000**	**(205)**	**19,622**	**89,417**

The notes on pages 15 to 28 form an integral part of these accounts.

1. Basis of preparation (Financial Statements)

The Company is a wholly owned subsidiary of Royal & Sun Alliance Insurance plc (RSAI). Royal & Sun Alliance Reinsurance Limited is a company incorporated and domiciled in the UK. The Company's ultimate parent company and controlling party is RSA Insurance Group plc (RSAIG), which is registered in England and Wales and is the parent company of the smallest and largest group to consolidate these financial statements. RSAIG has prepared its consolidated financial statements under IFRS as adopted by the EU since its date of transition to IFRS at 1 January 2004.

These financial statements were prepared in accordance with Financial Reporting Standard (FRS 101) Reduced Disclosure Framework and in compliance with the Companies Act 2006.

The Company's financial statements are presented in Pound Sterling, which is also the Company's functional currency and rounded to the nearest thousand except where otherwise indicated.

The financial statements have been prepared on the going concern basis.

In considering the appropriateness of the going concern basis, the Board has reviewed the Company's ongoing financial commitments for the next twelve months and beyond. The Board's review included operational plans and updated forecast, capital position, liquidity and credit facilities. As a result of this review the directors have satisfied themselves that it is appropriate to prepare these financial statements on a going concern basis.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRS'), but makes amendments where necessary in order to comply with Companies Act 2006. The Company has set out below where advantage of FRS 101 exemptions has been taken.

The exemptions used by the Company are as follows:-

- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of key management personnel; and
- Disclosures in respect of transactions between two or more wholly owned subsidiaries of the group.

(i) Selection of significant accounting policies, critical judgements and major sources of estimation uncertainty

The Company exercises judgement in selecting each accounting policy. The accounting policies of the Company are selected by the directors to present financial statements that they consider contain the most relevant information.

The preparation of the financial statements requires the Company to exercise judgements in the use of estimates and assumptions in a number of key areas. The most significant of these are as follows:-

Valuation of claims outstanding

The Company makes critical judgements when valuing claims outstanding. The methodology of measuring claims outstanding is described in note 2.

(ii) Translation of foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. Non-monetary items are carried at historical cost and reported using the exchange rate at the date of the transaction.

(iii) Investments

A financial asset is initially recognised on the date the Company commits to purchase the asset at fair value plus, in the case of all financial assets not classified as at fair value through the profit and loss account, transaction costs that are directly attributable to its acquisition. A financial asset is derecognised when the rights to receive cashflows from the investment have expired or have been transferred and when the Company has substantially transferred the risks and rewards of ownership of the asset.

On initial recognition, the financial assets may be categorised into the following categories: financial assets at fair value through profit and loss, loans and receivables, and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

The Company classifies investments in equity and debt securities in accordance with its investment strategy on the basis on which the investment return is managed and the performance is evaluated internally. Where the investment return is managed on the basis of the periodic cashflows arising from the investment, a financial asset is classified as an available for sale financial asset. Where the investment return is managed on the basis of the total return on the investment (including unrealised investment gains), the financial asset is designated as at fair value through profit and loss. Other investments comprising loans and deposits with credit institutions, reinsurance deposits and other deposits, are classified as loans and receivables at amortised cost.

Financial assets arising from non-investment activities are categorised as loans and receivables at amortised cost. Investments in subsidiaries and associates are accounted for as available for sale equity investments.

Investment income is recognised in the profit and loss account. Dividends on equity investments are recognised on the date at which the investment is priced 'ex dividend'. Interest income is recognised using the effective interest rate method. Unrealised gains and losses on available for sale investments are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary items (which are recognised in the non-technical account). The profit or loss in the period from unrealised gains and losses on assets classified as fair value through profit and loss is calculated as the difference between the current valuation of the asset at the balance sheet date and the cost at the date of acquisition or the last balance sheet date, whichever is later.

When assets are classified at fair value are disposed of cumulative unrealised gains and losses recognised in the current and earlier accounting periods in respect of such assets are reversed and the difference between the sale proceeds and the initial purchase price is recognised in the statement of comprehensive income. When assets that are classified as Available-For-Sale are disposed of the cumulative unrealised gains and losses included in the revaluation reserve is reversed and the difference between the sale proceeds and amortised cost is recognised in the statement of comprehensive income.

On de-recognition of an investment classified as available for sale, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit and loss account.

For available for sale financial assets, where the cumulative changes in fair value recognised in other comprehensive income represent a loss, the individual asset or Company of assets is reviewed to test whether an indication of impairment exists.

For securities whose fair values are readily determined and where there is objective evidence that such an asset is impaired, including for equity investments, a significant or prolonged decline in the fair value below cost, the net loss previously charged to other comprehensive income is reclassified to the non-technical account.

If the fair value of a previously impaired debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed and the reversal recognised in the non- technical account. Impairment losses on equity investments are not reversed.

For other loans and receivables, where there is evidence that the contracted cashflows will not be received in full, an impairment charge is recognised in the non-technical account to reduce the carrying value of the financial asset to its recoverable amount.

(iv) Insurance Contracts

Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the company agrees to compensate a policyholder if a specified uncertain future event (other than a change in financial variable) adversely affects the policyholder. Any contracts not meeting the definition of an insurance contract under IFRS4 are classified as investment contracts or derivative contracts, as appropriate.

Income recognition

Premiums written are accounted for in the period in which the contract is entered into and include estimates where the amounts are not determined at the end of the reporting period. Premiums written exclude taxes. Duties levied on premiums and directly related expenses, e.g. commissions, are recognised as an expense. Premiums are earned as revenue over the period of the contract and are calculated based on a daily pro rata basis.

Technical provisions

The provision for unearned premium represents the portion of the premiums written relating to the periods of insurance coverage subsequent to the end of the reporting period after the deduction of related acquisition costs.

Acquisition costs comprise the direct and indirect costs of obtaining and processing new insurance business. Deferred acquisition costs (DAC) are amortised on the same basis as the related unearned premiums are earned.

Claims outstanding comprise the estimated cost of claims incurred but not settled at the end of the reporting period. 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 recognised in the profit and loss account in the year in which they are settled or in which the claims outstanding are re-estimated.

At the end of each reporting period liability adequacy tests are performed to ensure the adequacy of the provision for unearned premium net of related DAC assets. In performing these tests best estimates of future contractual cash flows, claims handling and administrative expenses, as well as investment income on assets backing such liabilities are used. Any deficiency is charged to the technical account immediately by establishing a provision for liability adequacy (the unexpired risk provision). The unexpired risk provision is assessed in aggregate for business classes which, in the opinion of the Directors, are managed together.

Reinsurance ceded

Premiums payable in respect of reinsurance ceded are recognised in the period in which the reinsurance contract is entered into and include estimates where the amounts are not determined at the balance sheet date. Premiums are expensed over the period of the reinsurance contract, calculated principally on a daily pro-rata basis.

A reinsurance asset (reinsurers' share of claims outstanding) is recognised to reflect the amount estimated to be recoverable under the reinsurance contracts in respect of the provisions for outstanding claims reported under claims outstanding. The amount recoverable from reinsurers is initially valued on the same basis as the underlying provisions for outstanding claims. The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the Company may not receive all amounts due under the reinsurance contract and the event has a reliably measurable impact on the expected amount that will be recovered from the reinsurer.

The reinsurers' share of each unexpired risk provision is recognised on the same basis.

(v) Taxation and deferred tax

Taxation and deferred tax is recognised in the profit and loss account, except to the extent that the tax arises from a transaction or event recognised either in other comprehensive income or directly in equity.

Taxation is based on profits and income for the year as determined in accordance with the relevant tax legislation, together with adjustments for prior years.

Deferred tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and the carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the related deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which unused tax losses and temporary differences can be utilised.

(vi) Cash at bank and in hand

Cash at bank and in hand are short term, highly liquid investments that are subject to insignificant changes in value and are readily convertible into known amounts of cash.

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 contract liabilities of the Company.

The insurance contract liabilities of an insurance company include the provision for unearned premiums and unexpired risks and the provision for losses and loss adjustment expenses. 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 end of the reporting period. Outstanding claims represent the company's estimate of the cost of settlement of claims that have occurred by the end of the reporting period 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 end of the reporting period 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.

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 Company 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. The results of these reviews are considered when establishing the appropriate levels of provisions for outstanding claims and unexpired periods of risk.

The provision for losses and loss adjustment expenses are subject to close scrutiny both within the Company's business units and at Company 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 losses and loss adjustment expenses and unexpired periods of risk.

It should be emphasised that the estimation techniques for the determination of insurance contract 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 contract 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 provisions for losses and loss adjustment expenses 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 geographic and 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 contract 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 contract liabilities.

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

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 the Company conducts business its strategy is to seek reinsurers with the best combination of financial strength, price and capacity. The Company Corporate Centre publishes internally a list of authorised reinsurers who pass the Company's selection process and which its 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 requiring operations to provide, in line with Company standards, having regard to companies on the Company's 'Watch List'. The 'Watch List' is the list of companies whom the directors believe will not be able to pay amounts due to the Company 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 and foreign currency exchange rates. The Company's exposure to market risks is controlled by the setting of investment limits in line with the Company's risk appetite.

Credit risk includes the non performance of contractual payment obligations on invested assets and adverse changes in the credit worthiness of invested assets including exposures to issuers or counterparties for bonds, equities, deposits and derivatives. Limits are set at both a portfolio and counterparty level based on likelihood of default to manage the Company's overall credit profile and specific concentrations within risk appetite. The Company's insurance investment portfolios are concentrated in listed securities with very low levels of exposure to assets without quoted market prices. The Company uses model based analysis to verify asset values when market values are not readily available.

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 Company has the objective of maintaining single 'A' ratings. At the present time the ratings are 'A' (stable outlook) from S&P and 'A2' (stable outlook) from Moody's. A worsening in the ratings could have an adverse impact on the ability of the Company to write certain types of general insurance business.

In assessing credit risk in relation to reinsurance and investments, the Company 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.

Foreign exchange risk

The Company publishes financial statements in Pound Sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly other European currencies and the Canadian dollar, into Pound Sterling will impact the reported financial position, results of operations from period to period. These fluctuations in exchange rates will also impact the Pound Sterling value of and the return on the Company's investments.

3. Risk management and capital management

Introduction

RSA Insurance Group plc, of which the Company is an important part, is managed along divisional lines. The Company processes reinsurance transactions carried out by RSA Insurance Group plc offices and Global partners. The directors of the Company have considered whether the Group's approach to strategy, risk management, performance review and custody of assets fully meets the needs of the Company as a separate regulated entity. They have concluded that it does. The following discussion sets out the approach of the Group, and hence of the Company, to risk management.

Risk management

As an insurance company, the Company is in the business of actively seeking risk with a view to adding value by managing it. This note summarises the key risks to the Group, and hence the Company, and the steps taken to manage them.

The Group's Board of Directors (the Board) defines the risk appetite of the organisation. The Group employs a comprehensive Risk Management System that includes a full range of risk policies, procedures, measurement, reporting and monitoring techniques and a series of stress tests and scenario analyses to ensure that the risk exposures that arise from operating the Company's business are managed appropriately.

The Company is not exposed to risks arising from insurance contracts as risks are fully reinsured.

Financial Risk

Financial risk refers to the risk of financial loss from transactions entered into by the Company and includes the following risks:

- Credit
- Liquidity
- Currency

Credit Risk

Credit risk is the risk of loss of value of the financial assets due to counterparties failing to meet all or part of their obligations to the Company.

The Company is exposed to credit and concentrations of risk with individual network partners, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The reinsurance strategy is to purchase reinsurance in the most effective manner from reinsurers who meet the Company's security standards. Reinsurance counterparties are subject to a rigorous internal assessment process on an ongoing basis to ensure that their creditworthiness continues to be satisfactory and the potential impact from reinsurer default is measured regularly and managed accordingly. The Company's Reinsurance Credit Committee oversees the management of these risks. Company standards are set such that reinsurers that have a financial strength rating of less than 'A-' with Standard & Poor's, or a comparable rating, are removed from the Company's authorised list of approved reinsurers unless the Company's internal review discovers exceptional circumstances in favour of the reinsurer. Collateral is taken to mitigate exposures, where appropriate, to acceptable levels or the size or credit quality of the exposure.

The Company regularly monitors its aggregate exposures by reinsurer Company against predetermined reinsurer Company limits, in accordance with the methodology agreed by the Board Risk Committee (BRC). The Company's largest reinsurance exposures are both with RSAI and Strategic Network Partners, which are given annual approval by the Board.

Credit risk for intercompany balances is managed through a credit risk insurance policy which the Company has with RSAI plc. A financial risk assessment is completed annually for all third party counterparties which is presented to GRCC (Group Reinsurance Credit Committee) annually. All transactions are managed within credit limits set by Group.

The Company is responsible for assessing and monitoring the creditworthiness of their counterparties (e.g. reinsurers). The Company's credit committee is responsible for ensuring these exposures are within its risk appetite. Exposure monitoring and reporting is embedded throughout the organisation with aggregate credit positions reported and monitored at Group level.

The following table provides information regarding the aggregated credit risk exposure for financial assets of the Company as at 31 December 2017.

	Credit rating relating to financial assets that are neither past due not impaired						Total Financial Assets that are neither past due nor impaired
	AAA	AA	A	BBB	<BBB	Not rated	
As at 31 December 2017	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Debt securities	8,041	3,074	6,775	-	-	-	17,890
Reinsurance assets	21,048	1,334	340,391	79,080	-	2,183	444,036
Reinsurance debtors (1)	3,154	669	4,689	4,932	684	10,660	24,788
Cash at bank and in hand	25,959	-	2,530	-	-	-	28,489

	Credit rating relating to financial assets that are neither past due not impaired						Total Financial Assets that are neither past due nor impaired
	AAA	AA	A	BBB	<BBB	Not rated	
As at 31 December 2016	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Debt securities	9,736	5,196	3,343	-	-	-	18,275
Reinsurance assets	76,004	1,737	310,749	13,661	-	3,232	405,383
Reinsurance debtors (1)	6,931	2,009	3,002	8,182	966	14,207	35,297
Cash at bank and in hand	25,936	-	2,500	-	-	-	28,436

Notes:

1. The reinsurance debtors classified as not rated comprise global partners that do not have individual credit ratings. The overall risk to the Company is deemed to be low as the cover could be cancelled if payments were not received on a timely basis.

There are no material financial assets that would have been past due or impaired had the terms not been renegotiated.

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired as at 31 December 2017.

		Financial assets that are past due but not impaired						
	Neither past due nor impaired	**0-3 months**	**3-6 months**	**6-12 months**	**Greater than 12 months**	**Impaired Financial Assets**	**Balance Sheet carrying value**	**Impairment losses charged to Income Statement**
As at 31 December 2017	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Debt securities	**17,890**	-	-	-	-	-	**17,890**	-
Reinsurance assets	**444,036**	-	-	-	-	-	**444,036**	-
Reinsurance debtors	**14,043**	**6,974**	**1,227**	**1,974**	**570**	-	**24,788**	-
Cash at bank and in hand	**28,489**	-	-	-	-	-	**28,489**	-

		Financial assets that are past due but not impaired						
	Neither past due nor impaired	0-3 months	3-6 months	6-12 months	Greater than 12 months	Impaired Financial Assets	Balance Sheet carrying value	Impairment losses charged to Income Statement
As at 31 December 2016	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Debt securities	18,275	-	-	-	-	-	18,275	-
Reinsurance assets	405,383	-	-	-	-	-	405,383	-
Reinsurance debtors	20,199	11,342	1,713	1,434	609	-	35,297	-
Cash at bank and in hand	28,436	-	-	-	-	-	28,436	-

Currency Risk

The Company incurs operational currency risk by underwriting liabilities in currencies other than the currency of the primary environment in which the business units operate (non functional currencies).

Operational currency risk is managed by the Company by broadly matching assets and liabilities by currency.

Sensitivity Analysis

The Company uses a number of sensitivity or stress-test based risk management tools to understand the impact of the above risks on earning and capital in both normal and stressed conditions. These stress tests combine deterministic shocks, analysis of historical scenarios and stochastic modelling using the internal capital model to inform the Company's decision making, planning process and also for identification and management of risks within the business units.

The following tables provide an indication for the Company of some of the single factor changes adopted within the Group:

Impact of a 10% change in Pounds Sterling against Euro, Singapore Dollar, Canadian Dollar or US Dollar on shareholders' funds.

	10% strengthening in Pounds Sterling against Euro	10% weakening in Pounds Sterling against Euro	10% strengthening in Pounds Sterling against Singapore Dollar	10% weakening in Pounds Sterling against Singapore Dollar	10% strengthening in Pounds Sterling against Canadian Dollar	10% weakening in Pounds Sterling against Canadian Dollar	10% strengthening in Pounds Sterling against US Dollar	10% weakening in Pounds Sterling against US Dollar
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Movement in shareholders' funds as at 31 December 2017	**(47)**	**58**	**23**	**(28)**	**1,626**	**(1,988)**	**422**	**(516)**
Movement in shareholders' funds as at 31 December 2016	221	(270)	28	(35)	1,666	(2,036)	1,262	(1,542)

Liquidity Risk

Liquidity risk is the risk that the Company may be unable to pay obligations when due as a result of assets not being available in a form that can be immediately converted into cash. Liquidity is managed such that the Company maintains a minimum level of cash or cash equivalents or highly liquid assets that can be liquidated within a minimum stated period of time. Contingency funding plans are prepared and monitored to ensure that these minimum levels are met even in stress conditions.

Maturity period

The following table summarises the maturity dates (whichever is earlier) for financial liabilities that are subject to fixed and variable interest rates. Direct insurance creditors are also presented and are analysed by remaining duration until settlement.

	Less than 1 Year	**1 - 2 Years**	**2 - 3 Years**	**3 - 4 Years**	**4 - 5 Years**	**5 - 10 Years**	**Total**	**Balance Sheet carrying value**
As at 2017	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial Liabilities								
Reinsurance creditors	**9,426**	**962**	**-**	**-**	**-**	**-**	**10,388**	**-**
Total	**9,426**	**962**	**-**	**-**	**-**	**-**	**10,388**	**-**

	Less than 1 Year	1 - 2 Years	2 - 3 Years	3 - 4 Years	4 - 5 Years	5 - 10 Years	Total	Balance Sheet carrying value
As at 2016	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial Liabilities								
Reinsurance creditors	10,577	(61)	-	-	-	-	10,516	-
Total	10,577	(61)	-	-	-	-	10,516	-

Own Risk and Solvency Assessment (ORSA)

The Solvency II directive which is effective from 1 January 2016, introduces a requirement for undertakings to conduct an ORSA. In anticipation of this requirement, the Company has updated its risk and capital management processes.

The Group defines its ORSA as a series of inter-related activities by which it establishes:

- The quantity and quality of the risks which it seeks to assume
- The level of capital required to support those risks
- The actions it will take to achieve and maintain the desired levels of risk and capital.

The assessments of how much risk to assume and how much capital to hold are inextricably linked. In some situations, it may be desirable to increase the amount of risk assumed or retained in order to make the most efficient use of capital available or else to return excess capital to capital providers. In other situations, where the risk assumed give rise to a capital requirement that is greater than the capital immediately available to support those risks, it will be necessary either to reduce the risk assumed or to obtain additional capital.

The assessment of risk and solvency needs is in principle carried out continuously. In practice, the assessment consists of a range of specific activities and decisions carried out at different times of the year as part of an annual cycle, supplemented as necessary by ad hoc assessments of the impact of external events and developments and of internal business proposals.

Papers are presented to the Board throughout the year dealing with individual elements that make up the ORSA. The information contained in those papers and the associated decisions taken are summarised in an annual ORSA report.

Capital Management

The Company forms part of RSA Insurance Group Plc and is regulated by the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA')

Capital Appetite

The Company aims to hold sufficient capital, which comprises shareholders' equity and subordinated loan capital, to meet its plan and objectives. This represents sufficient surpluses for both regulatory and economic capital, as well as, sufficient capital to support the Group's and the Company's aim of maintaining single 'A' ratings. To assist in managing its capital position, the Group has set internal target coverage ratios for each of the principal capital measures.

Regulatory solvency position during 2017

The Group's Solvency II Internal Model was approved by the PRA in December 2015 and forms the basis of the primary Solvency II SCR measure.

The internal model is used to support, inform and improve the Company's decision making. It is used to determine the Group's and Company's optimum capital structure, its investment strategy, its reinsurance program and to determine the pricing and target returns for each portfolio.

At 31 December 2017, the Company's estimated SCR and corresponding Eligible Own Funds were as follows:

	Estimated (unaudited) 2017 £m	2016 £m
Eligible Own Funds	**85**	85
SCR	**8**	8
Coverage (unrounded)	**1041%**	1036%

The Solvency and Financial Condition Report as required by Solvency II for the year ended 31 December 2017 will be publicly available in May 2018.

The Company uses a variety of metrics to monitor its capital position including Shareholders' funds, which are £89,417,000 as at 31 December 2017 (2016: £89,644,000).

4. Exchange Rates

The rate of exchange used in these accounts in respect of the major overseas currency are:

	2017 Cumulative Average	**2017 End of Period**	2016 Cumulative Average	2016 End of Period
Euro	**1.14**	**1.13**	1.22	1.17
Singapore Dollar	**1.78**	**1.81**	1.87	1.79
Canadian Dollar	**1.67**	**1.70**	1.79	1.66
United States Dollar	**1.29**	**1.35**	1.35	1.24

The profit and loss account contains net loss of £(855,000) (2016: gain of £4,633,000) on the retranslation of foreign currency items.

5 Segmental Information

a) by business class

2017	**Group re-insurance provider for marine & property treaties £'000**	**Other re-insurance business £'000**	**Total £'000**
Gross written premiums	**33,411**	**239,389**	**272,800**
Gross premiums earned	**34,171**	**240,763**	**274,934**
Gross claims incurred	**(34,713)**	**(183,939)**	**(218,652)**
Gross operating expenses	**(492)**	**(23,760)**	**(24,252)**
Gross technical result	**(1,034)**	**33,064**	**32,030**
Reinsurance balance	**1,697**	**(33,064)**	**(31,367)**
Net technical result	**663**	**-**	**663**

2016	Group re-insurance provider for marine & property treaties £'000	Other re-insurance business £'000	Total £'000
Gross written premiums	28,624	219,962	248,586
Gross premiums earned	31,676	220,274	251,950
Gross claims incurred	(31,694)	(121,979)	(153,673)
Gross operating expenses	(157)	(21,976)	(22,133)
Gross technical result	(175)	76,319	76,144
Reinsurance balance	889	(76,319)	(75,430)
Net technical result	714	-	714

5 b) by geographical segment

Gross premiums written	2017 £'000	2016 £'000
UK	**86,004**	76,305
Other EEA	**118,138**	115,586
Far East and Australasia	**12,662**	10,388
Canada	**36,959**	32,687
Other	**19,037**	13,620
	272,800	248,586

(Loss)/Profit on ordinary activities before taxation	2017 £'000	2016 £'000
UK	**(144)**	4,689
Other EEA	**49**	281
Far East and Australasia	**-**	(1)
Canada	**78**	232
Other	**5**	310
	(12)	5,511

Net assets as at 31 December	2017 £'000	2016 £'000
UK	**76,082**	76,371
Other EEA	**1,533**	1,484
Far East and Australasia	**10,391**	10,391
Canada	**751**	673
Other	**660**	725
	89,417	89,644

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.

6. Auditor's remuneration

Fees payable to KPMG LLP for the audit of the Company's accounts for the year ended 31 December 2017 were £32,500 (31 December 2016: £17,500) which were borne by a parent company, Royal & Sun Alliance Insurance plc. Fees payable to KPMG LLP for the provision of non-audit services in relation to Solvency II for the year ended 31 December 2017 were £25,000 (31 December: £25,000).

7. Directors' emoluments

The directors were all remunerated by Royal & Sun Alliance Insurance plc, a fellow subsidiary of RSAIG, for their services to the Group as a whole. They were not remunerated for their services as directors of the Company and the amount of time spent performing their duties is incidental to their roles across the Group. This is consistent with prior years.

8. Employees and staff costs

The Company did not employ anyone during the period (2016: none). All administrative duties are performed by employees of Royal & Sun Alliance Insurance plc at no cost to the Company (2016: £nil).

9. Investment income, expenses and charges

	2017 £'000	2016 £'000
Income from cash at bank and in hand	**56**	55
Investment Income from debt & fixed income securities	**237**	109
	293	164

10. Taxation

The tax amounts charged in the profit and loss account are as follows:

	2017 £'000	2016 £'000
Current tax		
UK corporation tax	**81**	1,102
Adjustments in respect of prior periods	**105**	-
Total current tax	**186**	1,102
Deferred tax		
Temporary differences - origination and reversal	-	3
Total deferred tax (see note 15)	-	3
Total tax charge	**186**	1,105

The UK corporation tax for the current year is based on a rate of 19.2% (2016: 20%). The rate of corporation tax has reduced from 20% to 19% effective 1 April 2017, and as a result a composite rate of 19.2% has been used in the accounts.

Reconciliation of the total tax charge

The tax charge for the year is less than 19.2% (2016: more than 20%) due to the items set out in the reconciliation below:

	2017 £'000	2016 £'000
(Loss)/profit on ordinary activities before tax	**(12)**	5,511
Tax at the UK rate of 19.2% (2016: 20%)	**(2)**	1,102
Factors affecting the tax charge:		
Fiscal adjustments	**83**	-
Adjustment to tax charge in respect of previous periods	**105**	-
Movement in deferred tax assets not recognised	-	3
Total tax charge	**186**	1,105

The current tax and deferred income tax credit to each component of other comprehensive income is as follows:

	2017 Current Tax	2017 Deferred Tax	2017 Total	2016 Current Tax	2016 Deferred Tax	2016 Total
Fair value gains and losses	-	**41**	**41**	-	-	-
Total credit to other comprehensive income	-	**41**	**41**	-	-	-

11. Other financial investments

	2017 £'000	2016 £'000
Debt securities and other fixed income securities:	**17,890**	18,275
	17,890	18,275
Listed investments included in the above are as follows:		
Debt securities and other fixed income securities:	**17,890**	18,275
	17,890	18,275

The historical cost of investments is £18,648,544 (2016: £17,839,398). All investments are listed.

12. Reinsurer's share of provision for outstanding claims

The following changes have occurred in the reinsurer's share of provision for outstanding claims during the year:-

	2017	2016
	£'000	£'000
Reinsurer's share of provisions for losses and loss adjustment expenses at 1 January	**319,329**	271,355
Reinsurer's share of total claims incurred	**218,652**	153,673
Total reinsurance recoveries received	**(166,546)**	(150,181)
Exchange adjustment	**(10,073)**	44,482
Total Reinsurer's share of provisions for losses and loss adjustment expenses at 31 December	**361,362**	319,329

As all business is fully reinsured, reinsurers share of outstanding claims is the same as outstanding claims and therefore the Gross outstanding claims reconciliation is consistent with the disclosure above and has not been presented separately.

Loss development tables have not been disclosed in the notes to these financial statements , as in the view of the directors the Company substitutes insurance risk for reinsurer credit risk, through its reinsurance programme into Royal & Sun Alliance Insurance plc.

13. Reinsurer's share of provision for unearned premiums

The following changes have occurred in the reinsurer's share of provision for unearned premiums during the year:-

	2017	2016
	£'000	£'000
Reinsurer's share of provisions for unearned premiums at 1 January	**77,873**	70,298
Premiums ceded to reinsurers	**(2,134)**	(3,364)
Changes in reinsurance asset	**(2,134)**	(3,364)
Exchange adjustment	**(932)**	10,939
Reinsurer's share of provision for unearned premiums at 31 December	**74,807**	77,873
Total Reinsurer's share of provision for unearned premiums at 31 December	**74,807**	77,873

As all business is fully reinsured, reinsurers share of unearned premiums is the same as unearned premiums and therefore the Gross unearned premiums reconciliation is consistent with the disclosure above and has not been presented separately.

14. Other Debtors

	2017	2016
	£'000	£'000
Other debtors	**7**	-
Deferred tax (see note 15)	**41**	-
	48	-

15. Deferred Tax

Deferred tax for the current year is based on a rate of 17% (2016: 17%)

	2017	2016
	£'000	£'000
Unrealised investment gains	**41**	-
Deferred tax asset	**41**	-

	2017	2016
	£'000	£'000
Deferred tax assets at 1 January	**-**	3
Amounts credited/(charged) to the profit and loss account	**-**	(3)
Amounts credited to other comprehensive income	**41**	-
Deferred tax asset at 31 December	**41**	-

15. Deferred tax (continued)

At the end of the reporting period, the Company has other deferred tax reliefs of £15,000 (2016: £191,000) for which no deferred tax asset is being recognised due to the unpredictability of future profit streams.

16. Deferred acquisition costs

The Company has recognised deferred acquisition costs (DAC) assets of £7,867,000 (2016: £8,181,000) and reinsurance share of DAC of £7,867,000 (2016: £8,181,000)

17. Other creditors (including taxation)

	2017	2016
	£'000	£'000
UK corporation tax	186	1,102
	186	1,102

18. Share capital

	2017	2016
	£'000	£'000
Allotted, issued and fully paid		
70,000,000 (2016: 70,000,000) ordinary shares of £1 each	70,000	70,000
	70,000	70,000

19. Parent companies

The Company's immediate parent company is Royal & Sun Alliance Insurance plc, a company incorporated 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 17th Floor, 20 Fenchurch Street, London, EC3M 3AU.