Registered Number: 00100097

Royal & Sun Alliance Reinsurance Limited

Annual Report and Accounts

for the year ended 31 December 2018

Royal & Sun Alliance Reinsurance Limited

Contents

Company Information

Directors

Mr S Egan

Mr S Lewis (resigned 5 February 2019)

Mr W R B McDonnell

Mr N P Williams

Mr A Buckle (appointed 27 June 2018)

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 2018

The directors present their annual report on the affairs of Royal & Sun Alliance Reinsurance Limited ('the Company') and the audited financial statements for the year ended 31 December 2018.

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 profit on ordinary activities before tax of £748,000 (2017 loss: £12,000) for the year. Gross premiums written of £260,432,000 (2017: £272,800,000). The shareholders' funds of the Company as at 31 December 2018 were £71,106,000 (2017: £89,417,000).

Key performance indicators

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 rules. The Solvency II coverage ratio is a measure of the capital adequacy of insurance companies. The SCR reflects our risk profile using the Company's approved Internal Model. Throughout 2018 the Solvency II SCR coverage ratio was at least 9 times based on the Group's approved Internal Model.

The directors of the RSA insurance Group plc (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

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.

Anti-bribery and corruption

We take our commitments to preventing bribery and corruption risk very seriously. Bribery and corruption are not tolerated anywhere in our business and this standard, led by our Board and Group Executive, applies globally.

Our Anti-Corruption, Conflicts of Interest, Gifts and Hospitality Policies apply Group-wide and are supported by extensive resources and guidance, including our anti-bribery toolkit, which is available to all our businesses. Our mandatory Group-wide Anti-bribery and Corruption training is supplemented by targeted training for staff in higher risk roles, and all employees are required to complete training on whistleblowing. As a result, our employees are equipped to identify and escalate issues and behaviours which may constitute corruption. We seek to maintain the right culture by regular reminders of our expectations.

All operating countries must complete regular anti-corruption risk assessments covering all aspects of their businesses, including procedures and HR matters and the high expectations we have of our partners. Our operating countries are all given guidance to support them to continuously improve their anti-corruption controls.

We strongly encourage our people to speak out if they have concerns about Anti Bribery and Corruption. Our annually-reviewed Group-wide whistleblowing policy, available on our intranet, sets out the procedure for colleagues to confidentially raise concerns about suspected wrongdoing and malpractice.

Information on policy compliance is escalated to management. Our board receives updates on our anti-corruption controls at least annually. Where a breach is material or not in compliance with regulations, we will report externally.

Post-Brexit transition

The Company recognises that leaving the European Union could extend economic uncertainties and introduce new challenges, especially if disorderly, in the insurance market. In preparing these accounts we have considered the potential impact of Brexit on the assets and liabilities of the Company and deem the risk to be immaterial.

Brexit continues to generate uncertainty, with potential for economic shocks, capital impacts, claims inflation and supply chain disruption. The Company has planned for a range of potential impacts on customers, compliance, strategy and structure, including those associated with a no-deal Brexit.

From 1 January 2019 the Company will be working with the new company RSA Luxembourg for the processing of Freedom of Services business which was previously written through the UK.

The Company is confident in the Group's preparations and continues to monitor developments to refine its plans, although some impacts cannot be meaningfully anticipated and mitigated at this stage.

Human rights

As signatories of the UN Global Compact, we are committed to protecting human rights and eliminating discrimination, and our Human Rights policy outlines the expectations placed on our employees, business partners and suppliers in this regard. To ensure we are taking appropriate steps to address the risk of modern slavery in our supply chains, we have updated our Third Party Contracts Policy and Supplier Code of Conduct to set a clear expectation of compliance. In addition, we have updated our due diligence processes to enable us to assess a supplier's position on human rights and environmental and social issues more effectively.

By order of the Board

C. Smyth

C Smyth
For and on behalf of Roysun Limited
Secretary

Approved by the board of directors on 29 March 2019

Directors' report

For the year ended 31 December 2018

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 6 and is incorporated by reference into this report.

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

Dividends

An interim dividend of £19,000,000 was paid during the year (2017: £nil) The directors did not recommend payment of a final dividend in respect of the year ended 31 December 2018 (2017: £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 (2017: £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.

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. The directors and officers of the Company and its subsidiaries have the benefit of Directors & Officers insurance which provides cover in respect of certain legal actions brought against them.

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,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 2018 financial statements.

Signed by order of the Board

C Smyth
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 and Sun Alliance Reinsurance Limited

1 Our opinion is unmodified

We have audited the financial statements of Royal and Sun Alliance Reinsurance Limited ("the Company") for the year ended 31 December 2018 which comprise the Balance Sheet, as at 31 December 2018, and the Profit and Loss Account, Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2018 and of its profit 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 six financial years ended 31 December 2018. 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: including 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 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.

Valuation of claims outstanding
(Gross £353.2 million; 2017: Gross £361.4 million)

Recurring risk ◄►

Refer to page 16 & 17 (accounting policy) and page 29 (financial disclosures).

The risk	Our response
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. These include Marine, Engineering and Casualty portfolios that can result in larger claims over time and Engineering Liability, Professional and Casualty classes that can be very long tailed and associated reinsurance recoveries in relation to these areas. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of claims outstanding has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. However, considering the reinsurance the Company has, the net effect will not be material. **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 claims outstanding may arise.	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. — **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. — **Reperformance:** We performed recalculations of the claims outstanding to test that the assumptions are accurately applied. — **Sensitivity analysis:** Evaluation of management's sensitivity analysis over key judgements and assumptions, such as the discount rates for longer tail classes of business. In addition to the above we performed procedures to assess the completeness and accuracy of data: — ***Control design, observation and operation:*** 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 the Company's reconciliations. — **Test of detail:** Performing reconciliations between the claims data recorded in the policy administration systems and the data used in the actuarial reserving calculations to ensure the integrity of the data used in the actuarial reserving process. We also compared samples of claims case reserves, including large loss reserves, to appropriate documentation, such

	as reports from loss adjusters in order to test the valuation of individual claims reserves. — **Assessing transparency:** Assessing the Company's disclosures relating to claims outstanding, in particular in relation to key and sensitive assumptions. **Our results** — We found the valuation of the claims outstanding to be acceptable (2017 result: acceptable).

IT systems and control environment **Recurring risk ◄►**	
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, implementation and operating effectiveness 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 are not operating 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 to test the integrity of the transactional level data that is flowing into the financial statements. **Our results** — Our testing identified deficiencies in the design and operation of controls. As a result we expanded the extent of our detailed testing over and above that originally planned, and this work was completed satisfactorily. — (2017 result: Our testing identified deficiencies in the design and operation of controls. As a result we expanded the extent of 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 £4.5m (2017: £4.4m), determined with reference to a benchmark of Net Assets, normalised to exclude this year's dividends payed of £19m as disclosed in the Statement of Changes in Equity, of £90m, of which it represents 5% (2017: 4.9%). We believe that net assets is 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 Company's Regulated Board any corrected or uncorrected identified misstatements exceeding £0.2m (2017: £0.2m), 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

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, *had there been a material uncertainty related to going concern*, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, 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 a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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 6, 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.

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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of company's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures we identified actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, 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. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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
29 March 2019

Profit and loss account

for the year ended 31 December 2018

Technical account - general business	Notes	2018 £'000	2017 £'000
Gross premiums written	5	260,432	272,800
Outward reinsurance premiums		(260,432)	(272,800)
Premiums written, net of reinsurance		-	-
Change in the gross provision for unearned premiums		9,261	2,134
Change in provision for unearned premiums, reinsurers' share		(9,261)	(2,134)
Earned premiums, net of reinsurance		-	-
Claims paid			
Gross amount		(183,401)	(166,546)
Reinsurers' share		183,401	166,546
		-	-
Change in the provision for claims			
Gross amount		14,920	(52,106)
Reinsurers' share		(14,920)	52,106
		-	-
Claims incurred, net of reinsurance		-	-
Reinsurance commissions and net acquisition costs		837	663
Net operating expenses		837	663
Balance on the technical account for general business	5	837	663

All figures relate to continuing operations

The notes on pages 16 to 30 form an integral part of these accounts.

Profit and loss account (continued)
for the year ended 31 December 2018

Non technical account	Notes	2018 £'000	2017 £'000
Balance on the technical account for general business		**837**	663
Investment income	9	**405**	293
Realised losses on investments		**(31)**	(112)
Investment expenses		**(1)**	(1)
Foreign exchange losses		**(462)**	(855)
Profit/(loss) on ordinary activities before tax	5	**748**	(12)
Taxation on profit/(loss) on ordinary activities	10	**(149)**	(186)
Profit/(loss) for the financial year		**599**	(198)

All figures relate to continuing operations

Statement of other comprehensive income

	Notes	2018 £'000	2017 £'000
Profit/(loss) for the financial year		**599**	(198)
Unrealised profits/(losses) on other financial instruments classified as available for sale net of tax		**90**	(29)
Total comprehensive income / (expense) for the year		**689**	(227)

The notes on pages 16 to 30 form an integral part of these accounts.

Balance Sheet
as at 31 December 2018

Assets	Notes	2018 £'000	2017 £'000
Other financial investments			
Debt securities and other fixed income securities	11	38,412	17,890
Total investments		**38,412**	17,890
Reinsurers' share of technical provisions			
Provision for unearned premiums	12	66,773	74,807
Claims outstanding	13	353,215	361,362
		419,988	436,169
Debtors			
Debtors arising out of reinsurance operations		32,473	24,788
Amounts owed by group undertakings		2,437	28,705
Other debtors (including deferred taxation)	14	23	48
		34,933	53,541
Other assets			
Cash at bank and in hand		9,596	28,489
		9,596	28,489
Prepayments and accrued income			
Accrued interest and rent		163	71
Deferred acquisition costs	18	6,992	7,867
		7,155	7,938
Total assets		**510,084**	544,027

The notes on pages 16 to 30 form an integral part of these accounts.

Balance Sheet (continued)
as at 31 December 2018

Liabilities	Notes	2018 £'000	2017 £'000
Capital and reserves			
Called up share capital	17	**70,000**	70,000
Available for sale reserve		**(115)**	(205)
Profit and loss account		**1,221**	19,622
Shareholders' funds		**71,106**	89,417
Technical provisions			
Provision for unearned premiums		**66,773**	74,807
Claims outstanding		**353,215**	361,362
		419,988	436,169
Creditors			
Creditors arising out of reinsurance operations		**9,865**	10,388
Amounts owed to group undertakings		**1,984**	-
Other creditors (including taxation and social security)	16	**149**	186
		11,998	10,574
Accruals and deferred income			
Reinsurers deferred acquisition costs	18	**6,992**	7,867
Total liabilities		**510,084**	544,027

The notes on pages 16 to 30 form an integral part of these accounts.

The financial statements were approved 29 March 2019 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 2018

	Called up share capital	Available for sale reserve	Profit and loss account	**Shareholders' funds**
	£'000	£'000	£'000	**£'000**
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 1 January 2018	**70,000**	**(205)**	**19,622**	**89,417**
Profit for the Financial Year	-	-	599	599
Other comprehensive income		90	-	90
Total comprehensive income	-	90	599	689
Dividends paid	-	-	(19,000)	(19,000)
Balance at 31 December 2018	**70,000**	**(115)**	**1,221**	**71,106**

The notes on pages 16 to 30 form an integral part of these accounts.

1. Basis of preparation

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 (the "Group"), which is registered in England and Wales and is the parent company of the smallest and largest group to consolidate these financial statements. The Group 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 strategic plans and updated forecast, capital position, liquidity and credit facilities and investment portfolio. 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.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Selection of significant accounting policies

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.

(i) 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.

(ii) 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 IFRS are classified as investment contracts or derivative contracts, as appropriate.

Premium Income

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.

1. Basis of preparation (continued)

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.

(iii) Financial Instruments

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

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 that 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.

1. Basis of preparation (continued)

(iv) Estimation of the fair value of Financial assets and liabilities

The methods and assumptions used by the company in estimating the fair value of financial assets and liabilities are:

- For fixed maturity securities, fair values are generally based upon quoted market prices. Where market prices are not readily available, fair values are estimated using either values obtained from quoted market prices of comparable securities or estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment.
- For cash, deposits with credit institutions, commercial paper, other assets, liabilities and accruals, carrying amounts approximate to fair values.

For future disclosure purposes, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include significant inputs for the asset or liability that are based on observable market data (unobservable inputs).

(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.

Adoption of new and revised standards

As set out above, the Company takes advantage of the FRS 101 exemption for disclosure of the effects of new but not yet effective IFRSs

IFRS 9 Financial Instruments

The Company qualifies for temporary exemption from applying IFRS 9 'Financial Instruments' on the grounds that it has not previously applied any version of IFRS 9 and its activities are predominantly connected with insurance.

There are also a small number of other narrow scope amendments arising from annual improvements to standards that are applicable to the Company for the first time in 2018, none of which have had a significant impact on these accounts.

2. Critical judgements and major sources of estimation uncertainty

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:-

(i) Valuation of claims outstanding

The Company makes judgements when valuing gross claims outstanding. The methodology of measuring gross claims outstanding is described below.

Provisions for gross losses and loss adjustment expenses are subject to a robust reserving process by the Company and at Group Corporate Centre, as detailed in the Risk Management note below.

There is also considerable uncertainty in regard to the eventual outcome of the gross 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.

The provisions for losses and loss adjustment expenses are estimated using previous claims experience with similar cases, historical payment trends, the volume and nature of the insurance underwritten by the Company and current specific case reserves. Also considered are developing loss payment trends, the potential longer term significance of large events, and the levels of unpaid claims, legislative changes, judicial decisions and economic, political and regulatory conditions.

The Company uses a number of commonly accepted actuarial projection methodologies to determine the appropriate provision to recognise. 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;
- Expected loss ratios;
- *Bornhuetter- Ferguson method, which combines features of the above methods;*
- Bespoke methods for specialist classes of business.

In selecting the method and estimate appropriate to any one class of insurance business, the Company considers the appropriateness of the methods and bases to the individual circumstances of the provision class and accident year.

Individually large and significant claims 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.

All gross claims are 100% reinsured, so at a net level there are more certain. The net provision considers the security of the reinsurers and potential exhaustion of the reinsurance cover.

The level of provision carried by the Company targets the actuarial indication outlined above..

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 risk;
- Market risk including price, interest rate and currency rate risks;
- Liquidity risk.

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.

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 Group 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 Group'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 credit profile of the Company's assets exposed to credit risk is shown below. The credit rating bands are provided by independent rating agencies. The table below sets out the Company's aggregated credit risk exposure for its financial and insurance assets as at 31 December 2018 and 2017.

3. Risk management and capital management (continued)

	Credit rating relating to financial assets that are not impaired						
	AAA	**AA**	**A**	**BBB**	**<BBB**	**Not rated**	**Total *Financial* Assets that are neither past due nor impaired**
As at 31 December 2018	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Debt securities	**18,596**	**7,369**	**12,447**	**-**	**-**	**-**	**38,412**
***Of which would qualify for* SPPI under IFRS 9**	**18,596**	**7,369**	**12,447**	**-**	**-**	**-**	**38,412**
Reinsurance assets (3)	**-**	**5,934**	**370,516**	**43,430**	**-**	**108**	**419,988**
Reinsurance debtors (1)	**-**	**1,719**	**8,627**	**10,943**	**175**	**11,009**	**32,473**
Cash at bank and in hand	**-**	**-**	**9,596**	**-**	**-**	**-**	**9,596**

	Credit rating relating to financial assets that are not impaired						
	AAA	AA	A	BBB	<BBB	Not rated	Total Financial Assets that are neither past due nor impaired
As at 31 December 2017	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Debt securities	8,041	3,074	6,775	-	-	-	17,890
Of which would qualify for SPPI under IFRS 9 (2)	8,041	3,074	6,775	-	-	-	17,890
Reinsurance assets (3)	21,048	1,226	333,411	78,324	-	2,160	436,169
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

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.
2. The debt securities meeting SPPI criteria under IFRS 9 which are below investment grade are stated under IAS 39 at fair value and where loans and receivables are measured using amortised cost as their carrying amounts.
3. DAC is not considered to be an asset that is exposed to credit risk and therefore is not included in the above table. It has also been removed for comparative purposes.

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

The following tables provide 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 2018 and 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 2018	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Debt securities	**38,412**	**-**	**-**	**-**	**-**	**-**	**38,412**	**-**
Reinsurance assets	**426,980**	**-**	**-**	**-**	**-**	**-**	**426,980**	**-**
Reinsurance debtors	**23,193**	**3,272**	**2,376**	**1,401**	**2,231**	**-**	**32,473**	**-**
Cash at bank and in hand	**9,596**	**-**	**-**	**-**	**-**	**-**	**9,596**	**-**

3. Risk management and capital management (continued)

As at 31 December 2017	Neither past due nor impaired £'000	Financial assets that are past due but not impaired: 0-3 months £'000	3-6 months £'000	6-12 months £'000	Greater than 12 months £'000	Impaired Financial Assets £'000	Balance Sheet carrying value £'000	Impairment losses charged to Income Statement £'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	-

Market Risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations of equity and property prices, interest rates and foreign currency exchange rates. Market risk arises in our operations due to the possibility that fluctuations in the value of liabilities are not offset by fluctuations in the value of investments held. Market risk is subject to the Board Risk Committee risk management framework, which is subject to review and approval by the Group Board.

Market risk can be further broken down into the following key components:

(i) Interest Rate Risk

The fair value of the Company's portfolio of fixed income securities is inversely correlated to changes in the market interest rates. Thus, if interest rates fall, the fair value of the portfolio would tend to rise and vice versa as set out in the sensitivity analysis below.

(ii) Currency Risk

The non-investment foreign exchange currency risk resides with Royal and Sun Alliance Insurance plc. whereas the exchange risk relating to securities held in foreign currency resides with the Company.

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 £'000	10% weakening in Pounds Sterling against Euro £'000	10% strengthening in Pounds Sterling against Singapore Dollar £'000	10% weakening in Pounds Sterling against Singapore Dollar £'000	10% strengthening in Pounds Sterling against Canadian Dollar £'000	10% weakening in Pounds Sterling against Canadian Dollar £'000	10% strengthening in Pounds Sterling against US Dollar £'000	10% weakening in Pounds Sterling against US Dollar £'000
Movement in shareholders' funds as at 31 December 2018	**(65)**	**79**	**-**	**-**	**1,667**	**(2,025)**	**1,169**	**(1,429)**
Movement in shareholders' funds as at 31 December 2017	(47)	58	23	(28)	1,626	(1,988)	422	(516)

Liquidity Risk

Liquidity risk refers to the risk of loss to the Company as a result of assets not being available in a form that can immediately be converted into cash, and therefore the consequence of not being able to pay its obligations when due. To help mitigate this risk, the BRC sets limits on assets held by the Company designed to match the maturities of its assets to that of its liabilities.

A large proportion of investments are maintained in short-term (less than one year) highly liquid securities, which are used to manage the Company's operational requirements based on actuarial assessment and allowing for contingencies.

3. Risk management and capital management (continued)

Maturity period or contractual repricing

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

As at 2018	Less than 1 Year £'000	1 - 2 Years £'000	2 - 3 Years £'000	3 - 4 Years £'000	4 - 5 Years £'000	5 - 10 Years £'000	Total £'000	Balance Sheet carrying value £'000
Financial Liabilities								
Reinsurance creditors	**9,258**	**607**	**-**	**-**	**-**	**-**	**9,865**	**-**
Amounts owed to Group undertakings	**1,984**	**-**	**-**	**-**	**-**	**-**	**1,984**	
Total	**11,242**	**607**	**-**	**-**	**-**	**-**	**11,849**	**-**

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

Operational Risk

Operational risk is the risk of direct or indirect losses resulting from human factors, external events and inadequate or failed internal processes and systems. Operational risks are inherent in the Group's operations and are typical of any large enterprise. Major sources of operational risk can include operational process reliability, inform security, outsourcing of operations, dependence on key suppliers, implementation of strategic and operational change, integration of acquisitions, fraud, human error, customer service quality, inadequacy of business continuity arrangements, recruitment, training and retention of staff, and social and environmental impacts.

The Company manages operational risk using a range of techniques and tools to identify monitor and mitigate its operational risk in accordance with Group's risk appetite. These tools include Risk and Control Self Assessments, Key Risk Indicators (e.g. fraud and service indicators), Scenario Analysis and Loss Reporting. In addition, the Group has developed a number of contingency plans including Incident Management and Business Continuity Plans. Quantitative analysis of operational risk exposures material to the Group is used to inform decisions on the overall amount of capital held and the adequacy of contingency arrangements.

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. 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.

Own Risk and Solvency Assessment (ORSA)

The Solvency II directive which is effective from 1 January 2016, introduced a requirement for undertakings to conduct an ORSA.

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.

3. Risk management and capital management (continued)

Papers are presented to the Group 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')

It is a key regulatory requirement that the Company maintains sufficient capital to support its exposure to risk. Accordingly, the Group's and the Company's capital management strategy is closely linked to its monitoring and management of risk. The Group's capital objectives consist of striking the right balance between the need to support claims liabilities and ensure the confidence of policyholders, exposure to other risks, support competitive pricing strategies, meet regulatory capital requirements, and providing adequate returns for its shareholders.

The Company's overall capital position is primarily comprised of shareholders' equity and subordinated loan capital and aims to maximise shareholder value, while maintaining financial strength and maintaining adequate regulatory capital. In addition the Group and the Company also aims to hold sufficient capital so as to maintain its single 'A' credit rating.

Regulatory solvency position during 2018

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 2018, the Company's estimated SCR and corresponding Eligible Own Funds were as follows:

	Estimated (unaudited) 2018 £'000	2017 £'000
Eligible Own Funds	**67**	85
SCR	**8**	8
Coverage (unrounded)	**857%**	1041%

The Solvency and Financial Condition Report as required by Solvency II for the year ended 31 December 2018 will be publicly available in May 2019.

The Company uses a variety of metrics to monitor its capital position including Shareholders' funds, which are £71,106,000 as at 31 December 2018 (2017: £89,417,000).

4. Exchange Rates

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

	2018 Cumulative Average	**2018 End of Period**	2017 Cumulative Average	2017 End of Period
Euro	**1.13**	**1.11**	1.14	1.13
Singapore Dollar	**1.80**	**1.74**	1.78	1.81
Canadian Dollar	**1.73**	**1.74**	1.67	1.70
United States Dollar	**1.33**	**1.27**	1.29	1.35

The non-technical account includes £462,000 net losses (2017: £855,000 net losses) on the retranslation of foreign currency items which is included in current year profit/ (loss)

5 Segmental Information

a) by business class

2018	**Group re-insurance provider for marine & property treaties £'000**	**Global network business £'000**	**Total £'000**
Gross written premiums	**43,085**	**217,347**	**260,432**
Gross premiums earned	**43,575**	**226,118**	**269,693**
Gross claims incurred	**(21,035)**	**(147,446)**	**(168,481)**
Gross operating expenses	**(1,283)**	**(23,009)**	**(24,292)**
Gross technical result	**21,257**	**55,663**	**76,920**
Reinsurance balance	**(20,420)**	**(55,663)**	**(76,083)**
Net technical result	**837**	**-**	**837**

2017	Group re-insurance provider for marine & property treaties £'000	Global Network 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

5 Segmental Information (continued)

b) by geographical segment

Gross premiums written	**2018** £'000	2017 £'000
UK	**86,642**	86,004
Other EEA	**111,712**	118,138
Far East and Australasia	**3,501**	12,662
Canada	**39,128**	36,959
Other	**19,449**	19,037
	260,432	272,800

Profit/ (loss) on ordinary activities before taxation	**2018** £'000	2017 £'000
UK	**361**	(144)
Other EEA	**134**	49
Far East and Australasia	**(6)**	-
Canada	**250**	78
Other	**9**	5
	748	(12)

Net assets as at 31 December	**2018** £'000	2017 £'000
UK	**57,275**	76,082
Other EEA	**1,667**	1,533
Far East and Australasia	**10,385**	10,391
Canada	**1,002**	751
Other	**777**	660
	71,106	89,417

6. Auditor's remuneration

Fees payable to KPMG LLP for the audit of the Company's accounts for the year ended 31 December 2018 were £45,000 (31 December 2017: £32,500) which were borne by a parent company, Royal & Sun Alliance Insurance plc.

7. Directors' emoluments

The directors were all remunerated by Royal & Sun Alliance Insurance plc, a fellow subsidiary of the Group, for their services to the RSA Group as a whole. A minor part of this remuneration detailed below is for services carried out to Royal and Sun Alliance Reinsurance Ltd.

The aggregate emoluments of the directors, including amounts received from subsidiaries, were as follows:	**2018** £000	2017 £000
Salaries and bonuses	**2,469**	3,279
Allowances, benefits and other awards	**499**	525
	2,968	3,804

The criteria for making bonus awards are based on targeted levels of business sector profit and specific business objectives.

The emoluments of the highest paid director were:	**2018** £000	2017 £000
Salary, bonus, allowances, benefits and other awards	**932**	1,179

No amounts were paid into a pension scheme in respect of the highest paid directors' qualifying services during 2018 (2017: none).

During 2018, no retirement benefits accrued under defined benefit schemes for directors (2017: none). During 2018, contributions of £6,875 (2017: £nil) were made to Group defined contribution schemes during the year in respect of one director (2017: none).

During 2018, one director exercised share options (2017: none) and three directors (2017: five directors) had shares awards vesting under long term incentive schemes in respect of ordinary shares of the Company's ultimate parent company.

8. Employees and staff costs

The Company did not employ anyone during the period (2017: none). All administrative duties are performed by employees of Royal & Sun Alliance Insurance plc at no cost to the Company (2017: £nil).

9. Investment income, expenses and charges

	2018	2017
	£'000	£'000
Income from cash at bank and in hand	101	56
Investment Income from debt & fixed income securities	304	237
	405	293

10. Taxation

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

	2018	2017
	£'000	£'000
Current tax		
UK corporation tax	155	81
Adjustments in respect of prior periods	(6)	105
Total current tax	149	186
Deferred tax		
Temporary differences - origination and reversal	-	-
Total deferred tax	-	-
Total tax charge	149	186

The UK corporation tax for the current year is based on a rate of 19.0% (2017: 19.2%). The rate of corporation tax has reduced from 20% to 19% effective 1 April 2017, and as a result a composite rate of 19% has been used in the accounts.

Reconciliation of the total tax charge

The tax charge for the year is more than 19.0% (2017: less than 19.2%) due to the items set out in the reconciliation below:

	2018	2017
	£'000	£'000
Profit/(loss) on ordinary activities before tax	748	(12)
Tax at the UK rate of 19.0% (2017: 19.2%)	142	(2)
Factors affecting the tax charge:		
Tax exempt income and investment gains	1	-
Fiscal adjustments	12	83
Adjustment to tax charge in respect of previous periods	(6)	105
Total tax charge	149	186

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

	2018	2017
	£'000	£'000
Fair value gains and losses	108	(70)
Deferred tax	(18)	41
Total credit / (debit) to other comprehensive income	90	(29)

11. Financial Assets

	2018	2017
	£'000	£'000
AFS Debt and other Fixed Interest Securities:	38,412	17,890
	38,412	17,890
Listed investments included in the above are as follows:		
Debt securities and other fixed income securities:	38,412	17,890
	38,412	17,890

	2018	2017
	£'000	£'000
AFS Debt and other Fixed Interest Securities subject to SPPI test split:	38,412	17,890
	38,412	17,890

The historical cost of investments is £39,988,113 (2017: £18,648,544). All investments are listed.

IFRS9 'Financial Instruments'

The Company qualifies for temporary exemption from applying IFRS 9 'Financial Instruments' on the grounds that it has not previously applied any version of IFRS 9 and its activities are predominantly connected with insurance.

The fair value at 31 December 2018 and change during the year of debt securities that are held to collect cash flows on specified dates that are solely for payment of principle and interest (SPPI) and are not held for trading as defined under IFRS 9, nor are managed or evaluated on a fair value basis, is set out below, together with the same information for all other financial assets:

	SPPI Debt Securities £'000	Other Financial Assets £'000	Total £'000
Fair value at 31 December 2017	17,890	-	17,890
Movement in year	20,522	-	20,522
Fair value at 31 December 2018	**38,412**	**-**	**38,412**

Fair value hierarchy

Fair value for all assets and liabilities which are either measured or disclosed is determined based on available information and categorised according to a three-level fair value hierarchy as detailed below:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from data other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 fair value measurements are those derived from valuation techniques that include significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).

A financial instrument is regarded as quoted in an active market (level 1) if quoted prices for that financial instrument are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Company uses prices received from external providers who calculate these prices from quotes available at the reporting date for the particular investment being valued. For investments that are actively traded the Company determines whether the prices meet the criteria for classification as a level 1 valuation. The price provided is classified as a level 1 valuation when it represents the price at which the investment traded at the reporting date taking into account the frequency and volume of trading of the individual investment together with the spread of prices that are quoted at the reporting date for such trades. Typically investments in frequently traded government debt would meet the criteria for classification in the level 1 category. Where the prices provided do not meet the criteria for classification in the level 1 category, the prices are classified in the level 2 category.

In limited circumstances, the Company does not receive pricing information from an external provider for its financial investments. In such circumstances the Company calculates fair value based which may be based on input parameters that are not based on observable market data. Unobservable inputs are based on assumptions that are neither supported by prices from observable current market transactions for the same instrument nor based on available market data. In these cases, judgment is required to establish fair values. Valuations that require the significant use of unobservable data are classified as level 3 valuations. In addition, the valuations used for investment properties and for group occupied properties are classified in the level 3 category.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

11. Financial Assets (continued)

	Fair Value Hierarchy			
	Level 1 2018 £'000	**Level 2 2018 £'000**	**Level 3 2018 £'000**	**Total 2018 £'000**
Debt securities	**9,334**	**29,078**	**-**	**38,412**
Total	**9,334**	**29,078**	**-**	**38,412**

	Fair Value Hierarchy			
	Level 1 2017 £'000	Level 2 2017 £'000	Level 3 2017 £'000	Total 2017 £'000
Debt securities	2,066	15,824	-	17,890
Total	2,066	15,824	-	17,890

None of the Company's insurance liabilities are measured at fair value.
There are no financial assets or liabilities measured at fair value using Level 3 fair value measurements.

12. 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:-

	2018 £'000	2017 £'000
Reinsurer's share of provisions for unearned premiums at 1 January	**74,807**	77,873
Premiums ceded to reinsurers	**260,432**	272,800
Reinsurer's share of premiums earned	**(269,693)**	(274,934)
Changes in reinsurance asset	**(9,261)**	(2,134)
Exchange adjustment	**1,227**	(932)
Reinsurer's share of provision for unearned premiums at 31 December	**66,773**	74,807

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.

13. 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:-

	2018 £'000	2017 £'000
Reinsurer's share of provisions for losses and loss adjustment expenses at 1 January	**361,362**	319,329
Reinsurer's share of total claims incurred	**168,481**	218,652
Total insurance recoveries received	**(183,401)**	(166,546)
Exchange adjustment	**6,773**	(10,073)
Total Reinsurer's share of provisions for losses and loss adjustment expenses at 31 December	**353,215**	361,362

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, predominantly through its reinsurance programme into Royal & Sun Alliance Insurance plc.

14. Other Debtors

	2018 £'000	2017 £'000
Other debtors	-	7
Deferred tax (see note 15)	23	41
	23	48

15. Deferred Tax

Deferred tax for the current year is based on a rate of 17% (2017: 17%)

	2018 £'000	2017 £'000
Unrealised investment gains	23	41
Deferred tax asset	23	41

	2018 £'000	2017 £'000
Deferred tax assets at 1 January	41	-
Amounts (charged)/credited to other comprehensive income	(18)	41
Deferred tax asset at 31 December	23	41

At the end of the reporting period, the Company has other deferred tax reliefs of £15,000 (2017: £15,000) for which no deferred tax asset is being recognised due to the unpredictability of future profit streams.

16. Other creditors (including taxation)

	2018 £'000	2017 £'000
UK corporation tax	149	186
	149	186

17. Share capital

	2018 £'000	2017 £'000
Allotted, issued and fully paid		
70,000,000 (2017: 70,000,000) ordinary shares of £1 each	70,000	70,000
	70,000	70,000

18. Deferred acquisition costs

The Company has recognised deferred acquisition costs (DAC) assets of £6,992,000 (2017: £7,867,000) and reinsurance share of DAC of £6,992,000 (2017: £7,867,000)

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.