Registered No. 121651

ROYAL & SUN ALLIANCE INSURANCE (GLOBAL) LIMITED

Annual Report and Accounts

for the year ended 31 December 2007

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Company information

Directors

N G P Donaldson

I A Craston

M G Culmer

M Harris

D P Cockrem

R J Clayton

P L Miles

Company secretary

J Possener

Registered office

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

Auditors

Deloitte & Touche LLP
London

The directors present their report and the audited financial statements for the year ended 31 December 2007

Business review and principal activity
The principal activity of the Company is the writing of general insurance business, including multinational business, in the Netherlands and Belgium

Future outlook
The directors are satisfied with both the level of business and the financial position of the Company

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

Result and dividend
The result for the year is shown in the profit and loss account on page 8 The directors do not recommend the payment of a dividend (2006 £nil)

Principal risks and uncertainties
From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the RSA Insurance Group plc (previously Royal & Sun Alliance Insurance Group plc) (the Group) and are not managed separately Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are set out in the estimation techniques, uncertainties and contingencies on pages 70 to 72, and in the risk framework on pages 27 to 28 of the Annual Report & Accounts of the Group, which do not form part of this report

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

Key performance indicators
The directors of RSA Insurance Group plc (previously Royal & Sun Alliance Insurance Group plc) manage the Group's operations on a divisional basis For this reason the Company's directors believe that analysis using key performance indicators (KPIs) for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company Financial KPIs are detailed in the Annual Report & Accounts of the Group (which do not form part of this report) within the Group CEO review on pages 6 to 10 and the regional business review on pages 14 to 22 This document also includes non-financial KPIs which are detailed in the regional business reviews on pages 14 to 22, the corporate responsibility report on pages 30 to 31 and the directors' report on pages 37 to 39

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

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

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

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

Directors
The names of the current directors are listed on page 2 R J Clayton and P L Miles were appointed as directors of the Company on 8 January 2008 and 22 May 2008 respectively I A Craston, M G Culmer, M Harris and D P Cockrem all served as directors throughout the year B J McManus resigned as a director on 31 July 2007

Auditors
At the Extraordinary General Meeting of the Company held on 21 June 2007, PricewaterhouseCoopers LLP stepped down as auditors of the Company and Deloitte & Touche LLP were appointed PricewaterhouseCoopers LLP have confirmed that there are no circumstances connected with their ceasing to hold office which should be brought to the notice of the shareholders or creditors of the Company pursuant to section 394 of the Companies Act 1985

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

- so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

- the director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of, and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Deloitte & Touche LLP have confirmed their willingness to continue in office as auditors of the Company The Company has in place an elective resolution made under section 386 of the Companies Act 1985 which continues in force under the Companies Act 2006

By order of the board

J. Possener

J Possener
Company Secretary
30 October 2008

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to 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 then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditors' report to the members of Royal & Sun Alliance Insurance (Global) Limited

We have audited the financial statements of Royal & Sun Alliance Insurance (Global) Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 21 including the accounting policies and estimation techniques, uncertainties and contingencies These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 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 auditors' 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

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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

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

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

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

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

Equalisation provision

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation provisions in respect of general insurance business The nature of equalisation provisions, the amounts set aside at 31 December 2007 and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and the profit before tax are disclosed in note 15

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
31 October 2008

Profit and loss account
for the year ended 31 December 2007

Technical account - General business

	Notes	2007 £000	2006 £000
Gross premiums written	2	52,188	56,308
Outward reinsurance premiums		(28,687)	(32,887)
Premiums written, net of reinsurance		23,501	23,421
Change in the gross provision for unearned premiums		(1,009)	64
Change in the provision for unearned premiums, reinsurers' share		799	162
Earned premiums, net of reinsurance		23,291	23,647
Claims paid			
Gross amount		(33,082)	(24,498)
Reinsurers' share		16,220	12,710
		(16,862)	(11,788)
Change in the provision for claims			
Gross amount		(12,422)	4,237
Reinsurers' share		7,389	(2,808)
		(5,033)	1,429
Claims incurred, net of reinsurance		(21,895)	(10,359)
Acquisition costs		(2,763)	(2,805)
Change in deferred acquisition costs		(12)	102
Administrative expenses		(5,458)	(8,295)
Reinsurance commissions and profit participation		2,919	2,813
Net operating expenses	3	(5,314)	(8,185)
Balance on the technical account before change in the equalisation provision		(3,918)	5,103
Change in the equalisation provision		1,991	(575)
Balance on the technical account for general business	2(b)	(1,927)	4,528

Profit and loss account (continued)

for the year ended 31 December 2007

Non-technical account

	Notes	2007 £000	2006 (restated) £000
Balance on the general business technical account		(1,927)	4,528
Investment income	9	11,190	2,157
Unrealised gains on investments		7,120	3,456
Unrealised losses on investments		(28)	(1,299)
Profit on ordinary activities before taxation	2a	16,355	8,842
Taxation on profit on ordinary activities	10	(1,261)	(2,161)
Profit for the financial year		15,094	6,681

All figures relate to continuing operations and are analysed in note 2

Statement of total recognised gains and losses for the year ended 31 December 2007

		2007 £000	2006 £000
Profit for the financial year		15,094	6,681
Exchange adjustments (net of tax £(341,000), 2006 £nil)		(188)	(871)
Unrealised (loss)/gain on investments in group undertakings	11	(7,809)	2,729
Total recognised gains and losses relating to the year		7,097	8,539

Balance sheet
as at 31 December 2007

	Notes	2007 £000	2006 (restated) £000
Assets			
Investments			
Investments in group undertakings and participating interests	11	**12,216**	20,025
Other financial investments	12	**160,538**	152,503
		172,754	172,528
Reinsurers' share of technical provisions			
Provision for unearned premiums		**6,034**	4,810
Claims outstanding		**36,824**	26,926
		42,858	31,736
Debtors			
Debtors arising out of direct insurance operations –intermediaries		**6,028**	4,647
Debtors arising out of direct insurance operations –policyholders		**217**	1
Debtors arising out of reinsurance operations		**7,056**	3,855
Amounts owed by group undertakings		**588**	27,393
Other debtors	13	**457**	821
		14,346	36,717
Other assets			
Tangible assets	14	**-**	9
Cash at bank and in hand		**2,630**	2,708
		2,630	2,717
Prepayments and accrued income			
Accrued interest and rent		**617**	574
Deferred acquisition costs		**233**	255
Other prepayments and accrued income		**84**	49
		934	878
Total assets		**233,522**	244,576

Balance sheet (continued)

as at 31 December 2007

	Notes	2007 £000	2006 £000
Liabilities			
Capital and reserves			
Called up share capital	16	**36,367**	36,367
Share premium account	17	**28,355**	28,355
Revaluation reserve	17	**7,176**	14,985
Profit and loss account	17	**5,682**	(9,224)
Shareholder's funds		**77,580**	70,483
Technical provisions			
Provision for unearned premiums		**11,312**	9,454
Claims outstanding		**79,973**	62,304
Equalisation provision	15	**-**	1,991
		91,285	73,749
Creditors			
Creditors arising out of direct insurance operations		**2,326**	1,411
Creditors arising out of reinsurance operations		**3,272**	6,135
Amounts owed to group undertakings		**56,204**	89,705
Other creditors including taxation and social security		**2,855**	3,093
		64,657	100,344
Total liabilities excluding pension fund liability		**233,522**	244,576
Pension fund liability	8	**-**	-
Total liabilities		**233,522**	244,576

The financial statements on pages 7 to 23 were approved by the Board of Directors and signed on its behalf by -

Paul Miles.

P L Miles
Director
30 October 2008

Financial Statements

The financial statements of the Company have been prepared in accordance with applicable UK Accounting Standards, the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005 (as amended in December 2006) The financial statements have been prepared under the current value rules, as permitted by Schedule 9A of the Companies Act 1985, on the going concern basis

The presentation of investments within these accounts reflects the fact that the Company has a share in an investment pool Previously, this interest was disclosed in respect of the underlying investments The comparative figures for investments, accrued income and investment income have been restated to reflect this change in presentation

A summary of the major accounting policies, which have been applied consistently throughout the year and the preceding year save for the restatement noted above, is set out below

(a) General insurance business

(i) Underwriting results

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

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

The balance on the general business technical account is arrived at after taking account of changes in the equalisation provision

(ii) Technical provisions

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

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

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

Provision is made, based on information available at the balance sheet date, for any estimated future underwriting losses relating to unexpired risks, after taking into account future investment income on relevant technical provisions The unexpired risk provision is assessed in aggregate for business classes, which in the opinion of the directors are managed together When considering any requirement for a provision for unexpired risks, no account is taken of any new claims events occurring after the balance sheet date other than those that can be expected during the unexpired period of risk at the balance sheet date

Equalisation provisions are established in accordance with the Financial Services Authority's rules for insurers in the UK These provisions, notwithstanding that they do not represent liabilities at the balance sheet date as they are over and above the anticipated ultimate cost of outstanding claims, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet and any change in the provisions during the year is required to be shown in the General Business Technical Account

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

(iii) Reinsurance recoveries

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

(b) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses

Dividends are recorded on the date on which the shares are quoted ex-dividend

Realised gains and losses on investments are calculated as the difference between net sales proceeds and purchase price

Movements in unrealised gains and losses on investments represent the difference between their carrying value at the balance sheet date and their purchase price or their carrying value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period

(c) Taxation

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

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

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

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

(d) Investments

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

Investments in group undertakings are included in the balance sheet at net asset value and unrealised gains and losses are dealt with in the revaluation reserve

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

(e) Translation of foreign currencies

Assets and liabilities of businesses denominated in foreign currencies are translated into sterling at rates ruling at the year-end and results of businesses denominated in foreign currencies are translated at the average rate for the period, the resulting exchange differences are taken to reserves Transactions denominated in foreign currencies are translated at the prevailing rate at the date of the transaction and the resulting exchange differences are taken to the non-technical account and are included in the current year retained profit or loss

(f) Tangible assets and depreciation

Tangible assets comprise fixtures, fittings and equipment, which are stated at cost and depreciated on a straight line basis over periods not exceeding their useful economic lives (between three and ten years) after taking into account residual value

(g) Operating leases

Payments made under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease

(h) Pension costs

A defined contribution scheme is a pension scheme under which the Company pays fixed contributions into a separate entity A defined benefit scheme is a pension scheme that defines an amount of pension benefit that an employee will receive on retirement, usually dependant on one or more factors such as age, years of service and level of salary

Contributions to defined contribution pension schemes are charged in the period in which the employment services qualifying for the benefit are provided

The amounts charged (or credited where relevant) in the profit and loss account relating to post retirement benefits in respect of defined benefit schemes are as follows

- The current service cost,
- The past service costs for additional benefits granted in the current or earlier periods,
- The interest cost for the period,
- The impact of any curtailments or settlements during the period, and
- The expected return on scheme assets (where relevant)

The current service cost in respect of defined benefit schemes comprises the present value of the additional benefits attributable to employees' services provided during the period

The present value of defined benefit obligations and the present values of additional benefits accruing during the period are calculated using the Projected Unit Method

Past service costs arise where additional benefits are granted The cost of providing additional benefits is recognised on a straight-line basis over the remaining period of service until such benefits vest The cost of providing additional benefits that vest on their introduction are recognised immediately

The calculation of the present value of accrued benefits includes an actuarial assumption of future interest rates, which is used to discount the expected ultimate cost of providing the benefits The discount rate is determined at each balance sheet date by reference to current market yields on high quality corporate bonds identified to match the currency and estimated term of the obligations The interest cost for the period is calculated by multiplying the discount rate determined at the start of the period by the defined benefit obligations during the period

The change in the present value of the defined benefit obligation and the changes in the fair value of scheme assets resulting from any curtailments and settlements of scheme liabilities during the period are recognised in the profit and loss account Additionally, any previously unrecognised past service costs related to these liabilities are recognised in the gains or losses on settlement and curtailment

The expected return on scheme assets is calculated, based upon the average rate of return (including both income and changes in fair value), net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme

Actuarial gains and losses arise from changes to actuarial assumptions when revaluing future benefits, and from actual experience in respect of scheme liabilities and investment performance of scheme assets being different from previous assumptions Actuarial gains and losses are recognised in the Statement of Total Recognised Gains and Losses

The value recognised in the balance sheet for each individual post retirement scheme is calculated as follows

- The present value of defined benefit obligation of the scheme at the balance sheet date,
- Minus any past service cost not yet recognised,
- Minus the fair value at the balance sheet date of the scheme assets out of which the obligations are to be settled directly, and
- Plus or minus the deferred tax liability or asset respectively relating to the defined benefit asset or liability

Estimation techniques, uncertainties and contingencies

Introduction

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

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

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

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

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

Estimation techniques

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

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 Group also uses bespoke methods for specialist classes of business In selecting its best estimate, the Group 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 collectibility

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

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

The pension assets and pension and post retirement liabilities are calculated in accordance with Financial Reporting Standard 17 (FRS17) The assets, liabilities and profit and loss account charge, calculated in accordance with FRS17, are sensitive to the assumptions made from time to time, including inflation, interest rate, investment return and mortality FRS17 compares, at a given date, the current market value of a pensions fund's assets with its long term liabilities, which are calculated using a discount rate in line with yields on 'AA' rated bonds of suitable duration and currency As such, the financial position of a pension fund on this basis is highly sensitive to changes in bond rates and equity markets

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 judgements that broaden policy coverage beyond the intent of the original insurance, legislative changes and claims handling procedures.

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

The Company 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 Group

Litigation, mediation and arbitration

The Company, in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectoral inquiries in the normal course of its business The directors do not believe that any current mediation, arbitration, regulatory, governmental or sectoral inquiries and pending or threatened litigation or dispute, as outlined elsewhere in this note, will have a material adverse effect on the Company's financial position, although there can be no assurance that losses resulting from any pending mediation, arbitration, regulatory, governmental or sectoral inquiries and 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 restraints In selecting the reinsurers with whom we do business our strategy is to seek reinsurers with the best combination of credit rating, price and capacity We publish internally a list of authorised reinsurers who pass our selection process and which our operations may use for new transactions

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

Investment risk

The Company is exposed to credit risk on its invested assets 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 and deposits Our insurance investment portfolios are concentrated in listed securities with very low levels of exposure to assets without quoted market prices We use model based analysis to verify asset values when market values are not readily available

Changes in foreign exchange rates may impact our results

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

Income and expenses for each profit and loss account item are translated at average exchange rates Balance sheet assets and liabilities are translated at the closing exchange rates at the balance sheet date

Rating agencies

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 Royal & Sun Alliance Group has the objective of maintaining single 'A ' ratings At the present time the ratings are 'A' (stable) from S&P upgraded from 'A-' in December 2007, 'A- ' (positive outlook) from AM Best and 'A3' (stable) from Moody's Any worsening in the ratings would have an adverse impact on the ability of the Royal & Sun Alliance Group and the Company to write certain types of general insurance business

Regulatory environment

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

In particular the Company is continuing to monitor and respond to ongoing consultation following publication of the Solvency II Framework Directive, which is intended, in the medium term, to achieve greater harmonisation of approach across European member states to assessing capital resources and requirements The directors are confident that the Company will continue to meet all future regulatory capital requirements

1. Exchange rates

The rates of exchange used in these accounts in respect of major overseas currencies are

	2007 Cumulative Average	2007 End of Period	2006 End of Period
Euro	**1.46**	**1.36**	1 48
US Dollar	**2.00**	**1.99**	1 96

The non-technical account includes £nil (2006 £nil) of net gains and losses on the retranslation of foreign currency items

2. (a) Segmental analysis of business by geographical area

	2007 £000	2006 £000
Gross premiums written		
Europe	**52,188**	56,308
Rest of World	**-**	-
	52,188	56,308
Profit / (Loss) on ordinary activities before tax		
Europe	**16,141**	9,248
Rest of World	**214**	(406)
	16,355	8,842
Net assets as at 31 December		
Europe	**92,047**	83,893
Rest of World	**(14,467)**	(13,410)
	77,580	70,483

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)

2. (b) Segmental analysis of business by class

	Direct fire & other damage to property £000	Direct Liability £000	Direct Total £000
2007			
Gross premiums written	44,064	8,124	52,188
Gross premiums earned	43,055	8,124	51,179
Gross claims incurred	(36,042)	(9,462)	(45,504)
Gross operating expenses	(6,714)	(1,519)	(8,233)
Gross technical result	299	(2,857)	(2,558)
Reinsurance balance	(2,293)	933	(1,360)
Change in the equalisation provision	1,991	-	1,991
Net technical result	(3)	(1,924)	(1,927)
2006			
Gross premiums written	48,578	7,730	56,308
Gross premiums earned	48,009	8,363	56,372
Gross claims incurred	(18,264)	(1,997)	(20,261)
Gross operating expenses	(8,962)	(2,036)	(10,998)
Gross technical result	20,783	4,330	25,113
Reinsurance balance	(17,715)	(2,295)	(20,010)
Change in the equalisation provision	(575)	-	(575)
Net technical result	2,493	2,035	4,528

In the Company's capacity as a global network service provider, gross premiums written of £8,032,000 (2006 £7,896,000), and gross claims paid of £2,475,000 (2006 £3,392,000) do not result in a significant transfer of insurance risk to the Company In respect of this business underlying insurance risk is retained by other group Companies and the external network partners

3. Net operating expenses: technical account - general business

Total commissions for direct insurance business accounted for by the Company during the year, excluding payments to employees, amounted to £686,000 (2006 £872,000)

4. Prior year's claims provision

The movement in net incurred claims arising from the difference between the net claims provision at the beginning of the year, and subsequent payments and the provision at the end of the year, was a surplus of £5,974,000 (2006 £7,935,000)

5. Auditors' remuneration

The fee for the audit of the Company's financial statements was £8,800 (2006 PricewaterhouseCoopers LLP £8,000) which was borne by the parent company, Royal & Sun Alliance Insurance plc

6. Directors' emoluments

None of the directors received any emoluments from the Company during the year (2006 £nil) All the directors receive remuneration from Royal & Sun Alliance Insurance plc as employees of that company, and it is not appropriate, because of the non-executive nature of their services, to make an apportionment of their emoluments in respect of the Company

7. Employees and staff costs

	2007 £000	2006 £000
Staff costs for all employees, consist of		
Wages and salaries	2,211	2,150
Social security costs	374	321
Pension costs (see note 8 below)	335	413
	2,920	2,884

	2007 Number	2006 Number (restated)
Claims	8	9
Finance	10	11
Overhead	9	9
Underwriting	22	18
Average number of employees of the Company during the year	49	47

8. Foreign pension schemes

Pension costs relating to foreign schemes are charged in accordance with local best practice using different accounting policies

The Netherlands scheme is a defined contribution scheme and requires contributions to be made to a separately administered fund This scheme is accounted for using the applicable Netherlands accounting standard The cost of obtaining actuarial valuations for the purpose of adjusting to the applicable UK accounting standard is considered to be out of proportion to the benefits to be gained The pension charge is based on final salaries and is booked to profit and loss on an accruals basis The charge for the year was £292,000 (2006 £369,000)

The Belgium scheme is a defined benefit scheme and contributions are made to a separately administered fund, which is used to purchase individual insurance contracts that are assigned to each member of the scheme A minimum return is guaranteed under local legislation and any surplus arising on these contracts is retained for the benefit of the member In the event that the return on assets is below the guaranteed minimum return, Royal & Sun Alliance Insurance Plc would need to fund this deficit through monthly contributions or to pay into the fund an amount to clear the deficit

As at 31 December 2007 there was a surplus of £1,409 (2006 a deficit of £1,348) which was in respect of one member and the RSA fund had a balance of nil (2006 £nil) As a result of the immateriality of the surplus and the low risk to the company of a material deficit arising due to the guaranteed income and regular adjustments to the contributions, the full disclosure requirements of Financial Reporting Standard 17 Retirement Benefits have not been provided The pension charge is based on annual salaries and is booked to profit and loss on an accruals basis The charge for the year was £43,000 (2006 £44,000)

9. Investment income

	2007 £000	2006 (restated) £000
Income from group undertakings	8,638	-
Income from other financial investments (see note 12)	2,552	2,157
	11,190	2,157

10. Taxation

The charge for taxation in the profit and loss account comprises	2007 £000	2006 £000
Current tax		
UK Corporation tax	1,067	1,854
Adjustment in respect of prior periods	(374)	-
Double taxation relief	(276)	(1,330)
Foreign tax	221	1,582
Total current tax	638	2,106
Deferred tax		
Timing differences – origination and reversal	594	(152)
Adjustments in respect of prior periods	-	207
Adjustment for change in tax rates	29	-
Total deferred tax	623	55
Tax charge	1,261	2,161

The UK corporation tax for the current year is based on a rate of 30% (2006 30%)

Factors affecting the current tax charge

The current tax charge for the year is less than (2006 less than) 30% due to the items set out in the reconciliation below

	2007 £000	2006 £000
Profit on ordinary activities before taxation	16,355	8,842
Tax at 30%	4,906	2,653
Factors affecting charge		
Disallowed expenditure	278	228
Tax exempt income and investment gains/losses	(2,591)	-
Fiscal adjustment	(1,141)	(1,179)
Adjustment to prior year provisions	(374)	-
Other timing differences	(385)	152
Unrelieved foreign tax credits	(55)	252
Current tax charge for the year	638	2,106

The tax charge in future periods will be impacted by the change in the UK corporation tax rate to 28% with effect from 1 April 2008

Balance sheet presentation of the deferred tax asset

Deferred tax for the current year is based on a rate of 28% (2006 30%)

	2007 £000	2006 £000
Accelerated capital allowances	53	35
Claims discounting	-	641
Deferred tax asset (see below)	53	676

A deferred tax asset has not been recognised in respect of unrelieved foreign tax with an estimate tax value of £909,933 (2006 £909,933 restated) as it is not considered likely that suitable profits will arise to utilise this tax in the near future

10. Taxation (continued)

Other debtors in the balance sheet includes £53,400 (2006 £676,584) relating to deferred tax (see note 13)

	2007 £000	2006 £000
As at 1 January	676	731
Charged	(623)	(55)
As at 31 December	53	676

11. Investments in group undertakings and participating interests

	2007 £000	2006 £000
Net asset value		
At 1 January	20,025	17,296
Revaluation	(7,809)	2,729
At 31 December	12,216	20,025

The Company holds investments in British and Foreign Marine Insurance Company Limited and The Marine Insurance Company Limited, both of which are subsidiaries of RSA Insurance Group plc (previously Royal & Sun Alliance Insurance Group plc)

The principal activity of the British and Foreign Marine Insurance Company Limited is the transaction of marine insurance business through agencies in Europe

The principal activity of the Marine Insurance Company is the writing of direct marine, aviation and transport insurance business

Investment	Number of ordinary shares held	Percentage of shares held	Cost of investment £'000
British and Foreign Marine Insurance Company Limited	66,999	14%	1,340
The Marine Insurance Company Limited	147,997	15%	3,700
Total investment			5,040

12. Other financial investments

	2007 £000	2006 (restated) £000
Other financial investments		
Listed debt securities and other fixed income securities	24,506	20,283
Participation in investment pool	96,911	89,791
Deposits with credit institutions	39,121	42,429
	160,538	152,503

13. Other debtors

	2007 £000	2006 £000
Prepaid operating expenses	-	145
Sundry debtors	404	-
Deferred tax (see note 10)	53	676
	457	821

14. Tangible assets

	2007 £000	2006 £000
Cost		
At 1 January	274	280
Exchange adjustments	25	(6)
At 31 December	299	274
Depreciation		
At 1 January	265	259
Charge for the year	9	12
Exchange adjustments	25	(6)
At 31 December	299	265
Net book value		
At 31 December	-	9

All tangible assets relate to fixtures, fittings and equipment

15. Equalisation provision

	2007 £000	2006 £000
Provision as at 1 January	1,991	1,416
Change in the year	(1,991)	575
Provision as at 31 December	-	1,991

The decrease in the provision during the year had the effect of increasing (2006 decreasing) the balance on the technical account for general business and the profit on ordinary activities before taxation by £1,991,000 (2006 £575,000)

16. Share capital

	2007 £000	2006 £000
Authorised		
100,000,000 ordinary shares of £1 each	100,000	100,000
Allotted, issued and fully paid up		
36,367,172 ordinary shares of £1 each	36,367	36,367

17. Movements in shareholder's funds

	Share capital £000	Share premium £000	Revaluation Reserve £000	Profit & loss account £000	2007 £000	2006 £000
Shareholder's funds at 1 January	36,367	28,355	14,985	(9,224)	70,483	61,944
Profit for the financial year	-	-	-	15,094	15,094	6,681
Foreign exchange losses	-	-	-	(188)	(188)	(871)
Unrealised (loss)/gain on investment in group undertakings	-	-	(7,809)	-	(7,809)	2,729
Shareholder's funds at 31 December	36,367	28,355	7,176	5,682	77,580	70,483

18. Operating lease commitments

Annual commitments in respect of non-cancellable operating leases are as follows

	2007 Land and buildings £000	2007 Other £000	2006 Land and buildings £000	2006 Other £000
Operating leases which expire				
Within 1 year	62	11	-	7
Between 1 and 5 years	-	29	84	34
	62	40	84	41

All material leases of land and buildings are subject to rent review periods of between three and five years.

19. Cash flow statement

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

20. Related party transactions

Advantage has been taken of the exemption provided in FRS 8 'Related Party Disclosures' from disclosing details of transactions with entities that are part of the Royal & Sun Alliance Insurance Group

21. Parent companies

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

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