

Registered Number: 00001471

**NATIONAL VULCAN ENGINEERING INSURANCE
GROUP LIMITED**

**Annual Report and Accounts
for the year ended 31 December 2012**



NATIONAL VULCAN ENGINEERING INSURANCE GROUP LIMITED

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NATIONAL VULCAN ENGINEERING INSURANCE GROUP LIMITED

Company information

Directors

J M Mills

Non-Destructive Testers Limited

Secretary

Roysun Limited

Registered office

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

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
London

NATIONAL VULCAN ENGINEERING INSURANCE GROUP LIMITED

Directors' report for the year ended 31 December 2012

The directors present their annual report on the affairs of the Company and the audited financial statements for the year ended 31 December 2012

Business review, principal activity and future outlook

Until 1 January 2012, the principal activity of the Company is the transaction of general insurance business through its branch in Italy

As part of the RSA Insurance Group's (the Group's) response to the anticipated implementation of the Solvency II Directive and to deliver significant operational efficiencies, the Company undertook an insurance business transfer under Part VII of the Financial Services and Markets Act 2000 whereby all of the business was transferred from the Company to another Group company, Sun Insurance Office Limited, with effect from 1 January 2012. The Company was deauthorised by the Financial Services Authority on 1 January 2012. The Company no longer holds a share in the investment pool.

Accordingly, the financial statements have been drawn up on a basis other than that of a going concern. There is no current intention to wind up the company.

The results for the Company show a loss on ordinary activities before tax of £710,000 (2011 profit £1,250,000) for the year and gross premiums written of (£1,738,000) (2011 £1,942,000). The shareholder funds of the Company were £64,898,000 as at 31 December 2012 (31 December 2011 £65,199,000).

Dividends

The directors do not recommend payment of a dividend in respect of the year ended 31 December 2012 (2011 £nil).

Principal risks and uncertainties

The Company's principal risks and uncertainties are integrated within and managed together with the principal risks of the Group. The principal risks and uncertainties of the Group, which include those of the UK business, and hence the Company until its deauthorisation by the Financial Services Authority on 1 January 2012 and the subsequent transfer of its share in the investment pool to another Group company on the same date, are set out in the estimation techniques, risks, uncertainties and contingencies on pages 88 to 91, and in the risk review on pages 26 to 29 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.

Financial risk management

The Company's management of risk is set at Group level. The Group's approach to financial risk, through its management of credit, market and liquidity risks, is set out below.

Credit risk

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

Market risk

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

Liquidity risk

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

Key performance indicators

The directors of RSA Insurance Group plc manage the Group's operations on a divisional basis. For this reason the Company's directors believe that analysis using key performance indicators (KPIs) for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. Further information on financial KPIs is detailed in the Annual Report & Accounts of the Group (which do not form part of this report) within the Group Chief Executive's review on pages 10 to 13 and the regional business reviews on pages 18 to 25. The Annual Report & Accounts of the Group also includes non-financial KPIs which are detailed in the regional business reviews on pages 18 to 25, the corporate responsibility report on pages 30 to 33 and the directors' and corporate governance report on pages 40 to 54.

NATIONAL VULCAN ENGINEERING INSURANCE GROUP LIMITED

Directors' report (continued) for the year ended 31 December 2012

Directors

The names of the current directors are listed on page 1. Mr J M Mills and Ms K A Baily were appointed as directors on 9 March 2012. Non-Destructive Testers Limited was appointed as a director on 28 June 2012. Mrs D P Cockrem, Mr I A Craston, Mr M G Culmer, Mr M Harris and Mr W R B McDonnell served as directors until their resignations on 9 March 2012. Ms K A Baily served as a director until her resignation on 13 June 2012. Mr R J Clayton served as a director until his resignation on 13 February 2013. The other director served throughout the year.

The directors' responsibilities statement appears on page 4 and is incorporated by reference into this report.

Auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information, and to establish that the Company's auditor is aware of that information.

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

At the 2013 Annual General Meeting of RSA Insurance Group plc, the Company's ultimate parent company, KPMG LLP were appointed as external auditor to the Group. Accordingly Deloitte LLP will not be seeking re-appointment as auditors of the Company at the conclusion of their current term of office. There are no circumstances connected with the resignation of Deloitte LLP as external auditor which should be brought to the attention of members or creditors of the Company.

By order of the Board



E C Klonandes
For and on behalf of
Roysun Limited
Secretary

21 June 2013

NATIONAL VULCAN ENGINEERING INSURANCE GROUP LIMITED

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the member of National Vulcan Engineering Insurance Group Limited

We have audited the financial statements of National Vulcan Engineering Insurance Group Limited for the year ended 31 December 2012 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. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), having regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2012 and the effect of the movement in those provisions during the year on shareholder funds, the balance on the general business technical account and the profit before tax are disclosed in notes 1 and 17.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – financial statements prepared other than on a going concern basis

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made within note 1 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Mark McQueen (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

28 June 2013

NATIONAL VULCAN ENGINEERING INSURANCE GROUP LIMITED

Profit & loss account for the year ended 31 December 2012

Technical account – general business

	Notes	2012 £000	2011 £000
Gross premiums written	4	(1,738)	1,942
Outward reinsurance premiums		131	(159)
Premiums written, net of reinsurance		(1,607)	1,783
Change in the gross provision for unearned premiums		1,738	1,032
Change in the provision for unearned premiums, reinsurers' share		(131)	(161)
Earned premiums, net of reinsurance			2,654
Claims paid			
Gross amount		(7,244)	(3,142)
Reinsurers' share		1,701	324
		(5,543)	(2,818)
Change in the provision for claims			
Gross amount		7,244	2,163
Reinsurers' share		(1,701)	(549)
	5	5,543	1,614
Claims incurred, net of reinsurance			(1,204)
Acquisition costs		395	(436)
Change in deferred acquisition costs		(395)	(160)
Administrative expenses		-	(97)
Reinsurance commissions and profit participation		-	(5)
Net operating expenses			(698)
Balance on the technical account before change in equalisation provision		-	752
Change in the equalisation provision	17	24	3
Balance on the technical account for general business		24	755

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

NATIONAL VULCAN ENGINEERING INSURANCE GROUP LIMITED

Profit & loss account (continued) for the year ended 31 December 2012

Non-technical account

	Notes	2012 £000	2011 £000
Balance on the technical account for general business		24	755
Investment income	9	21	625
Realised losses on investments	10	(819)	(12)
Unrealised gains/(losses) on investments		64	(118)
Operating (loss)/profit		(710)	1,250
Gain on disposal of subsidiary undertakings		668	-
(Loss)/profit on ordinary activities before tax		(42)	1,250
Taxation on profit on ordinary activities	11	(217)	(869)
(Loss)/profit for the financial year		(259)	381

All figures relate to discontinued operations

Statement of total recognised gains and losses for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
(Loss)/profit for the financial year		(259)	381
Foreign exchange losses net of tax	3	(42)	(220)
Total recognised (losses)/gains		(301)	161

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

NATIONAL VULCAN ENGINEERING INSURANCE GROUP LIMITED**Balance sheet**

as at 31 December 2012

Assets

	Notes	2012 £000	2011 £000
Investments			
Other financial investments	12	-	14,862
Reinsurers' share of technical provisions			
Provision for unearned premiums			134
Claims outstanding		-	1,753
			1,887
Debtors			
Debtors arising out of direct insurance operations - policyholders			1,292
Debtors arising out of direct insurance operations - intermediaries			95
Debtors arising out of reinsurance operations			288
Amounts owed by group undertakings		64,393	52,344
Other debtors	13	765	1,573
		65,158	55,592
Other assets			
Cash at bank and in hand			2,673
			2,673
Prepayments and accrued income			
Accrued interest and rent		21	179
Deferred acquisition costs			407
		21	586
Total assets		65,179	75,600

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

NATIONAL VULCAN ENGINEERING INSURANCE GROUP LIMITED**Balance sheet (continued)**

as at 31 December 2012

Liabilities	Notes	2012 £000	2011 £000
Capital and reserves			
Called up share capital	15	1,000	1,000
Profit and loss account	16	63,898	64,199
Shareholder funds	16	64,898	65,199
Technical provisions			
Provision for unearned premiums			1,790
Claims outstanding			7,462
Equalisation provision	17		24
			9,276
Creditors			
Creditors arising out of direct insurance operations			337
Amounts owed to group undertakings		72	71
Other creditors including taxation and social security	18	209	659
		281	1,067
Accruals and deferred income			58
Total liabilities		65,179	75,600

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

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



J M Mills
Director
21 June 2013

NATIONAL VULCAN ENGINEERING INSURANCE GROUP LIMITED

Notes to the accounts

1 Financial Statements

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

The Company ceased trading, through the transfer of insurance business from the Company by way of a Part VII transfer to another Group Company, with effect from 1 January 2012. Accordingly the financial statements have been drawn up on a basis other than that of a going concern. The directors are satisfied that no change is required to the carrying value of the Company's assets and liabilities.

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

a) General insurance business

i Underwriting results

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

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

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 and settlement of claims.

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

Provision is made, based on information available at the balance sheet date, for any estimated future underwriting losses relating to unexpired risks after taking into account future investment income that is expected to be earned from the assets backing the provision for unearned premiums (net of deferred acquisition costs). The unexpired risk provision is assessed in aggregate for business classes which, in the opinion of the directors, are managed together. When considering any requirement for a provision for unexpired risks, no account is taken of any new claims events occurring after the balance sheet date other than those that can be expected during the unexpired period of risk at the balance sheet date.

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 3 of the accounting regulations to the Companies Act 2006 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 Technical account – general business.

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

iii Reinsurance recoveries

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

b) Translation of foreign currencies

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

The results of overseas operations are translated at the average rates for the period and their balance sheets at the rates ruling at the balance sheet date. The resulting exchange differences are taken to reserves.

NATIONAL VULCAN ENGINEERING INSURANCE GROUP LIMITED

Notes to the accounts (continued)

1 Financial Statements (continued)

c) *Investment return*

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

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

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

d) *Taxation*

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

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

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

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

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

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

e) *Investments*

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

Other investments are stated in the balance sheet at market values comprising stock exchange values for listed securities and directors' valuations for non-listed investments.

2 Estimation Techniques, Risks, Uncertainties & Contingencies

Introduction

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

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

The insurance contract liabilities of an insurance company include the provision for unearned premiums and unexpired risks and the provision for 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 end of the reporting period. Outstanding claims represents the company's estimate of the cost of settlement of claims that have occurred by the end of the reporting period but have not yet been finally settled.

NATIONAL VULCAN ENGINEERING INSURANCE GROUP LIMITED

Notes to the accounts (continued)

2 Estimation techniques, uncertainties & contingencies (continued)

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

Estimation techniques

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

Where possible the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The Company's estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies and a number of different bases to determine these provisions. These include methods based upon the following:

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

In addition, the Company uses other methods such as the Bornhuetter-Ferguson method, which combines features of the above methods. The Company also uses bespoke methods for specialist classes of business. In selecting its best estimate, the Company considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year. The process is designed to select the most appropriate best estimate.

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

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

The claims provisions are subject to close scrutiny both within the Company's business units and at 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 contract liabilities involve obtaining corroborative evidence from as wide a range of sources as possible and combining these to form the overall estimate. This technique means that the estimate is inevitably deterministic rather than stochastic.

Uncertainties and contingencies

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

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

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

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

The establishment of insurance contract liabilities is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates, particularly for the Company's long tail lines of business. The Company seeks to provide appropriate levels of 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 Company. This is only applicable to prior year business.

NATIONAL VULCAN ENGINEERING INSURANCE GROUP LIMITED

Notes to the accounts (continued)

3 Exchange rates

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

	2012 Cumulative Average	2012 End of Period	2011 End of Period
Euro	1 23	1 23	1 20

The statement of total recognised gains and losses includes net of tax loss of £42,000 (2011 net of tax losses of £220,000) on the retranslation of foreign currency items

4 Segmental information

All business was written in Europe and was within the direct fire and property class

Total commissions for direct insurance business accounted for by the Company during the year amounted to £nil (2011 £358,000)

5 Movement in prior year's provision for claims outstanding

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 claims provision at the end of the year, was a surplus of £nil (2011 £0.5m)

6 Auditor's remuneration

Fees payable to Deloitte LLP for the audit of the Company's annual accounts were £3,000 (2011 £3,000) which were borne by a Group company, Royal & Sun Alliance Insurance plc. Details of non-audit fees payable to Deloitte LLP are disclosed in the RSA Insurance Group plc 2012 Annual Report & Accounts

7 Directors' emoluments

None of the directors received any emoluments from the Company during the year (2011 £nil). All the directors receive remuneration from Royal & Sun Alliance Insurance plc as employees of that company, and it is not appropriate, because of the non-executive nature of their services, to make an apportionment of their emoluments in respect of the Company

8 Employees and staff costs

The Company did not employ anyone during the year (2011 nil). All administrative duties are performed by employees of Royal & Sun Alliance Assicurazioni Ltd at no cost to the Company (2011 £nil)

9 Investment income

	2012 £000	2011 £000
Income from other investments	-	625
Interest receivable from Group undertakings	21	-
	<u>21</u>	<u>625</u>

10 Investment expense

	2012 £000	2011 £000
Losses on the realisation of investments	(64)	(12)
Losses on sale of subsidiary	(755)	-
	<u>(819)</u>	<u>(12)</u>

NATIONAL VULCAN ENGINEERING INSURANCE GROUP LIMITED

Notes to the accounts (continued)

11 Taxation

The charge for taxation in the profit and loss account comprises

	2012 £000	2011 £000
Current tax		
UK corporation tax	376	767
Double taxation relief	-	(280)
Overseas taxation	-	372
Adjustments in respect of prior periods	(167)	-
Total current tax	209	859
Deferred tax		
Timing differences - origination and reversal	-	2
Adjustments for change in tax rates	8	8
Total deferred tax (see note 14)	8	10
Tax charge for the year	217	869

The UK corporation tax for the current year is based on a rate of 24.5% (2011 26.5%). The rate of corporation tax has reduced from 26% to 24% effective 1 April 2012, and as a result a composite rate of 24.5% has been used in the accounts.

Factors affecting the current tax charge

The current tax charge for the year is less than 24.5% (2011 more than 26.5%) due to the items set out in the reconciliation below.

	2012 £000	2011 £000
Profit on ordinary activities before tax	(42)	1,250
Tax at 24.5% (2011 26.5%)	(10)	331
Factors affecting charge		
Expenses not deductible for tax purposes	185	-
Tax exempt income and investment gains/losses	(164)	-
Fiscal adjustments	365	435
Adjustment to tax charge in respect of previous periods	(167)	-
Other timing differences	-	1
Unrelieved foreign tax credits	-	92
Current tax charge for the year	209	859

12 Investments

Subsidiary

	2012 £000	2011 £000
Net asset value at 1 January	7,978	-
Disposal	(7,978)	-
Net asset value at 31 December	-	-

On 1 January 2012, business from Italian branch was transferred to Sun Insurance Office Limited in exchange of 6,437,966 of ordinary shares at £1 each in that Company. During the year shares in Sun Insurance Office were sold to Sun Alliance Insurance Overseas Limited.

Other financial investments

	2012 £000	2011 £000
Debt securities and other fixed income securities	-	9,647
Participation in investment pool	-	5,215
	-	14,862
Listed investments included in the above are as follows		
Debt securities and other fixed income securities	-	14,277
	-	14,277

The investment pool was wound up on 1 January 2012, and balance sheet asset of £14,862,000 was transferred to another Group Company.

The composition of the investment pool is nil (2011 32%) British government stocks, nil (2011 59%) other government and corporate bonds and nil (2011 9%) deposits with credit institutions. The historical cost of other investments is £nil (2011 £14,930,000).

NATIONAL VULCAN ENGINEERING INSURANCE GROUP LIMITED

Notes to the accounts (continued)

13 Other debtors

Other debtors includes £nil (2011 £94,000) relating to deferred tax (see note 14) and £765,000 (2011 £788,000) relating to foreign tax receivable

14 Deferred tax

Deferred tax for the current year is based on a rate of 23% (2011 25%)

	2012 £000	2011 £000
Accelerated capital allowances	-	3
General provisions	-	91
Deferred tax asset	-	94

	2012 £000	2011 £000
Deferred tax asset at 1 January	94	104
Transfer to Sun Insurance Office Ltd	(86)	
Charge for the year (see note 11)	-	(10)
Effect of change of rate on opening balances	(8)	
Deferred tax asset at 31 December	-	94

At the balance sheet date, the Company has unused tax credits of £nil (2011 £213,351) No deferred tax asset was recognised in respect of the tax credit of £213,351 in 2011 due to the unpredictability of future profit streams

15 Share capital

	2012 £000	2011 £000
Allotted, issued and fully paid up		
100,002 (2011 100,002) ordinary shares of £10 each	1,000	1,000
	1,000	1,000

16 Movements in shareholder funds

	Share capital £000	Profit & loss account £000	2012 £000	2011 £000
Shareholder funds at 1 January	1,000	64,199	65,199	65,038
Total recognised (losses)/gains	-	(301)	(301)	161
Shareholder funds at 31 December	1,000	63,898	64,898	65,199

NATIONAL VULCAN ENGINEERING INSURANCE GROUP LIMITED

Notes to the accounts (continued)

17 Equalisation provisions

	2012 £000	2011 £000
Provision as at 1 January	24	27
Released	(24)	(3)
Provision as at 31 December	-	24

The provision was released during the year as the company was deauthorised on 1 January 2012. This effectively increased the balance on the technical account for general business and the profit on ordinary activities before taxation by £24,000 (2011 £3,000).

18 Other creditors

Other creditors including taxation and social security includes £nil (2011 £487,000) in respect of corporation tax payable and £nil (2011 £nil) relating to foreign tax payable.

19 Cash flow statement

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

20 Related party transactions

Advantage has been taken of the exemption provided in FRS 8 'Related Party Disclosures' from disclosing details of transactions with RSA Insurance Group plc and its subsidiaries and associated undertakings. There were no other related party transactions requiring disclosure.

21 Parent companies

The Company's immediate parent company is Sun Alliance Insurance International Limited, which is registered in England and Wales.

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