Registered Number: 00014809

The Marine Insurance Company Limited

Annual Report and Accounts

for the year ended 31 December 2012

Contents

The Marine Insurance Company Limited

Company information

Directors

A P Brown (appointed13th February 2013)

R D Houghton (appointed13th February 2013)

S P G Lee (appointed13th February 2013)

D A Weymouth (appointed13th February 2013)

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

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 and principal activities

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

The results for the Company show a loss on ordinary activities before tax of (£1 297 000) (2011 profit of £476,000) for the year and gross premiums written of £21,268,000 (2011 £7,709,000) The shareholders' funds of the Company were £30,530,000 as at 31 December 2012 (31 December 2011 £81,062,000) A share capital reduction has been completed in the year in line with a group policy to transfer excess capital to the parent company Royal & Sun Alliance Insurance plc

As part of the RSA Insurance Group plc's (the Group) 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 some or all of the business of certain Group companies transferred to the Company with effect from 1 January 2012 A number of RSA Group companies transferred their Legacy Marine Business to the Company, and the legacy general insurance business of PA(GI) Limited ("PAGI") (a former Group company that is currently a member of the Phoenix Group of companies) was transferred to the Company and Royal & Sun Alliance Insurance plc under two separate insurance business transfer schemes

Effective 1 January 2012, the Company entered into an aggregate excess of loss agreement and a quota share agreement with Royal & Sun Alliance Insurance plc under which the insurance risk of the Company's business is transferred to Royal & Sun Alliance Insurance plc

Future outlook

There are not expected to be any changes to the company's activities

Dividends

A dividend of £50,000,000 was paid 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, 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 New reinsurance cover is placed with reinsurers that are authorised as Approved Reinsurance Counterparties recommended by the Group Reinsurance Credit Committee

Market risk

Market risk arises from the Group's investment portfolios The Group committee oversees the Group's investment strategy and sets appropriate risk limits to ensure that no significant concentrations to individual companies or sectors arise

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 the Group manage the Group's operations on a divisional basis as described in the Annual Report & Accounts of the Group For this reason the Company's directors believe that analysis using key performance indicators (KPIs) for the UK business in aggregate is relevant to the Company A key measure used by the Company in managing the business is the technical result This measure is calculated by aggregating earned premiums less claims incurred less expenses 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 and 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

Directors

The names of the current directors at the date of signing the financial statements are listed on page 1 The directors who held office during the year are listed below

R J Clayton	(resigned 13th Feb 2013)
I A Craston	(resigned 13th Feb 2013)
N G P Donaldson	(resigned 13th Feb 2013)
W R B McDonnell	(resigned 13th Feb 2013)
D P Cockrem	(resigned 10th Oct 2012)
M G Culmer	(resigned 14th May 2012)
Mr M Harris	(resigned 31st May 2013)

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

Going concern

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

By order of the Board

J Mills
For and on behalf of
Roysun Limited
Secretary
28 June 2013

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

Independent auditor's report to the member of The Marine Insurance Company Limited

We have audited the financial statements of The Marine Insurance Company 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 19 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 shareholders' funds, the balance on the general business technical account and profit before tax are disclosed in notes 1 and 16

This report is made solely to the Company's member, as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's 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 as a body 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 obtained 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

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Alexander Arterton BSc ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
28 June 2013

The Marine Insurance Company Limited
Profit & loss account
for the year ended 31 December 2012

Technical account - general business

	Notes	2012 £000	2011 £000
Gross premiums written	4	21,268	7,709
Outward reinsurance premiums		(109,513)	1 494
Premiums written, net of reinsurance		(88,245)	9 203
Change in the gross provision for unearned premiums		(3,850)	887
Change in the provision for unearned premiums, reinsurers' share		8,406	(582)
Earned premiums, net of reinsurance		(83,689)	9 508
Claims paid			
Gross amount		107,748	(8,947)
Reinsurers share		(38,515)	4 504
		69,233	(4,443)
Change in the provision for claims			
Gross amount		(110,981)	7,403
Reinsurers' share		121,486	(9 789)
		10,505	(2 386)
Claims incurred, net of reinsurance		79,738	(6,829)
Acquisition costs		(5,530)	(2 572)
Change in deferred acquisition costs		(1,223)	(254)
Administrative expenses		2,538	(488)
Reinsurance commissions and profit participation		3,893	19
Net operating expenses		(322)	(3,295)
Balance on the technical account before change in equalisation provision		(4,273)	(616)
Change in the equalisation provision	16	2,041	94
Balance on the technical account for general business		(2,232)	(522)

All figures relate to continuing operations

The notes on pages 10 to 18 form an integral part of these accounts

The Marine Insurance Company Limited
Profit & loss account (continued)
for the year ended 31 December 2012

Non-technical account	Notes	2012 £000	2011 £000
Balance on the techincal account for general business		(2,232)	(522)
Investment income	9	2,249	3,457
Investment expenses and charges		(1,053)	-
Unrealised losses on investments		(88)	(2,194)
Other charges	3	(173)	(265)
Operating (Loss)/ profit		(1,297)	476
Taxation on (loss)/ profit on ordinary activities	10	365	(250)
(Loss)/ profit for the financial year	15	(932)	226

All figures relate to continuing operations

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

	2012 £000	2011 £000
(Loss)/ profit for the financial year	(932)	226
Total recognised gains and losses arising in the year	(932)	226
Total recognised gains and losses since last annual accounts	(932)	226

The notes on pages 10 to 18 form an integral part of these accounts

The Marine Insurance Company Limited
Registered Number: 00014809

Balance sheet
as at 31 December 2012

Assets	Notes	2012 £000	2011 £000
Investments			
Other financial investments	11	62,230	70,438
Reinsurers' share of technical provisions			
Provision for unearned premiums		8,163	2
Claims outstanding		236,985	124,383
		245,148	124,385
Debtors			
Debtors arising out of direct insurance operations - intermediaries		7,227	5,724
Debtors arising out of reinsurance operations		13,368	42
Amounts owed by group undertakings		7,184	16,629
Other debtors including taxation		1,195	-
Deferred tax		-	131
		28,974	22,526
Other assets			
Cash at bank and in hand		32,468	5,336
Prepayments and accrued income			
Accrued interest and rent		954	1,048
Deferred acquisition costs		-	1,246
		954	2,294
Total assets		369,774	224,979

The notes on pages 10 to 18 form an integral part of these accounts

The Marine Insurance Company Limited
Registered number· 00014809

Balance sheet (continued)
as at 31 December 2012

Liabilities	Notes	2012 £000	2011 £000
Capital and reserves			
Called up share capital	15	**12,333**	24,267
Share premium account	16	**-**	26,333
Profit and loss account	16	**18,197**	30 462
Equity shareholders' funds	16	**30,530**	81 062
Technical provisions			
Provision for unearned premiums		**8,163**	4,643
Claims outstanding		**236,985**	136,473
Equalisation provision	17	**-**	2,041
		245,148	143,157
Creditors			
Creditors arising out of direct insurance operations		**357**	298
Creditors arising out of reinsurance operations		**6,637**	28
Amounts owed to group undertakings		**84,611**	219
Other creditors including taxation	13	**783**	215
Provisions	14	**1,708**	-
		94,096	760
Total liabilities		**369,774**	224,979

The notes on pages 10 to 18 form an integral part of these accounts

The financial statements of The Marine Insurance Company Limited (registered number 00014809) were approved on 28 June 2013 by the Board of Directors and are signed on its behalf by

R Houghton
Director
28 June 2013

1 Financial statements

The financial statements are prepared in accordance with applicable law and UK accounting standards and in compliance with the Companies Act 2006 The financial statements have been prepared under the current value rules, as permitted by Schedule 3 of the accounting regulations issued under the Act and the Statement of Recommended Practice (SORP) on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 (as amended in December 2006), having regard to the statutory requirement for insurance companies to maintain equalisation provisions They are prepared on the going concern basis

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

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

a) ***General insurance business***

i **Underwriting results**

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

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

The balance on the Technical account - general business 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

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 Chapter 6 of 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

ii **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 Non monetary items are translated at the rate of exchange at the date of the transaction and are not subsequently retranslated

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 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 was 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 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

2 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 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 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 The results of these reviews are considered when establishing the appropriate levels of provisions for outstanding claims and unexpired periods of risk As an example, the Company's exposure to asbestos and environmental pollution is examined on this basis The results of these reviews are considered when establishing the appropriate levels of provisions for outstanding claims and unexpired periods of risk

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

Uncertainties and contingencies

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

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

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

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

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

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

Litigation, disputes and investigations

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

2 Estimation techniques, uncertainties and contingencies (continued)

Reinsurance

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

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

Investment risk

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

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

Our insurance investments 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

Rating environment

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

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

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

Regulatory environment

The legal, regulatory and accounting environment is subject to significant change in many of the jurisdictions in which the Company operates, including developments in response to changes in the economic and political environment and the recent financial crisis The Company continues to monitor the developments and react accordingly

The new solvency framework for insurers being developed by the EU, referred to as 'Solvency II' is intended in the medium term to achieve greater harmonisation of approach across EU member states to assessing capital resources and requirements There remains continued uncertainty as delays in agreeing the rules have caused the planned implementation date of 2014 to be delayed The Company is actively participating in shaping the outcome through its involvement with European and UK regulators and industry bodies whilst appropriately progressing its implementation plans and the directors are confident that the Company will continue to meet all future regulatory capital requirements

3 Exchange rates

The rates of exchange used ın these accounts ın respect of the major overseas currencıes are

	2012 Cumulative Average	2011 Cumulative Average	2012 End of Penod	2011 End of Penod
US Dollar	**1 59**	1 6	**1 63**	1 55
Euro	**1 23**	1 15	**1 23**	1 2
Canadıan Dollar	**1 58**	1 59	**1 62**	1 58

Other charges ın the non-technıcal account ıncludes £173,000 of net losses (2011 £265,000 of net losses) on the retranslatıon of foreıgn currency ıtems, whıch ıs ıncluded ın current year retaıned loss

4 Segmental ınformatıon by busıness class and geographıcal area

a) by busıness class

The Company wrıtes marıne avıatıon and transport ınsurance busıness

b) by geographıcal segment

	2012 £000	2011 £000
Gross premıums wrıtten		
EU member states	**21,268**	7,709
	21,268	7,709

	2012 £000	2011 £000
(Loss)/ profit on ordınary actıvıtıes before taxatıon		
EU member states	**(1,297)**	476
	(1,297)	476

	2012 £000	2011 £000
Net assets as at 31st December		
EU member states	**30,530**	81,062
	30,530	81,062

Gross premıums are dısclosed by orıgın The destınatıon of the premıum ıs deemed to be the US as all polıcyholders are based ın the US All busıness wrıtten ıs wıthın the marıne, avıatıon and transport class

Total commıssıons for dırect ınsurance busıness accounted for by the Company durıng the year, excludıng payments to employees amounted to £3,891 000 (2011 £1,736,000)

Included wıthın gross wrıtten premıum and reınsurance wrıtten premıum recognısed ın the year are £1 394,000 (2011 £(3,524,000)) and £112,000 (2011 £(1,484,000)) respectıvely relatıng to re-estımatıon of prıor year pıpelıne premıums

5 Movement ın prıor year's provısıon for claıms outstandıng

The movement ın net ıncurred claıms arısıng from the dıfference between the net claıms provısıon at the begınnıng of the year, and subsequent payments and the provısıon at the end of the year amounted to £3,098,000 favourable (2011 £2,123,000 unfavourable)

6 Audıtor's remuneratıon

Fees payable to Deloıtte LLP for the audıt of the Company's annual accounts were £7,700 (2011 £7,700) whıch were borne by a parent company, Royal & Sun Allıance Insurance plc Fees payable to Deloıtte LLP and theır assocıates for non-audıt servıces to the company are not requıred to be dısclosed because the consolıdated fınancıal statements are requıred to dısclose such fees on a consolıdated basıs

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 none) All administrative duties are performed by employees of Royal & Sun Alliance Insurance plc at a cost to the Company of £722,000 (2011 £488,000)

9 Investment income, expenses and charges

	2012 £'000	2011 £'000
Income from other investments	2 249	3 457
Investment expenses and charges	(1 053)	-
	1,196	3 457

10 Taxation

The charge for taxation in the profit and loss acount comprises

	2012 £'000	2011 £'000
Current tax		
UK corporation tax	(496)	199
Adjustments in respect of prior periods	-	16
Total current tax	(496)	215
Deferred tax		
Origination and reversal of timing differences	120	23
Adjustment for change in tax rates	11	12
Total deferred tax	131	35
Tax (credit) /charge	(365)	250

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 (credit) /charge

The current tax (credit) /charge for the year is more than 24 5% (2011 more than 26 5%) due to the items set out in the reconciliation below

	2012 £000	2011 £000
(Loss) /profit on ordinary activities before tax	(1,297)	476
Tax at 24 5% (2011 26 5%)	(318)	126
Factors affecting (credit) /charge		
Fiscal adjustments	(50)	98
Adjustment to tax in respect of prior periods	-	16
Other timing differences	(128)	(25)
Current tax (credit) /charge for the year	(496)	215

Other debtors includes £nil (2011 £130,500) relating to deferred tax (see note 12)

11 Other financial investments

	2012 £'000	2011 £'000
Debt securities and other fixed income securities	**62,230**	70 438
	62,230	70,438
Listed investments included in the above are as follows		
Debt securities and other fixed income securities	**62,230**	70,438
	62,230	70 438

The historical cost of other financial investments is £61,261,000 (2011 £69,075,000)

12 Deferred tax

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

	2012 £'000	2011 £'000
Other timing differences - claims equalisation reserve	-	131
Deferred tax asset	-	131

	2012 £'000	2011 £'000
Deferred tax asset at 1 January	**131**	166
Charge for the year - Profit and loss	**(120)**	(23)
Effect of change of rate on opening balances	**(11)**	(12)
Deferred tax asset at 31 December	-	131

13 Other creditors including taxation

	2012 £'000	2011 £'000
UK corporation tax	-	215
Other creditors	**783**	-
	783	215

14 Provisions for liabilities

	2012 £'000	2011 £'000
At 1st January	-	-
Provision transferred in	**1,708**	-
At 31st December	**1,708**	-

A provision has been made in respect of a reinsurance reinstatement premium The amount represents the best estimate available at the date of the accounts

15 Share capital

	2012	2011
	£000	£000
Allotted, issued and fully paid up		
986,666 (2011 946,666) fully paid up ordinary shares of £12 50 each (2011 £25 each)	**12,333**	23,667
Allotted, issued and partly paid up		
Nil (2011 40,000 £15 called up and paid ordinary shares of £25 each)	-	600
	12,333	24,267

A share capital reduction has been completed in the year as part of a group policy to transfer excess capital to the parent company Royal & Sun Alliance Insurance plc

40,000 partly paid shares were fully paid up, and the par value of the share capital was reduced to £12 50 per share The share premium account was also transferred to retained earnings to provide sufficient distributable profits for a £50m dividend

16 Reconciliation of movements in shareholders' funds

	Share Capital	Share premium	Profit and Loss Account	2012	2011
	£'000	£'000	£'000	£'000	£'000
Shareholders' funds at 1 January	**24,267**	**26,333**	**30,462**	**81,062**	80,836
(Loss)/profit for the financial year	-	-	(932)	(932)	226
Payment of part paid shares	400	-	-	400	-
Share capital reduction	(12,334)	(26,333)	38 667	-	-
Dividends paid	-	-	(50,000)	(50,000)	-
Shareholders' funds at 31 December	**12,333**	**-**	**18,197**	**30,530**	81,062

17 Equalisation provisions

	2012	2011
	£'000	£'000
Provision as at 1 January	**2,041**	2,135
Charged	(2,041)	(94)
Provision as at 31 December	-	2,041

There is no requirement for an equalisation provision in 2012 as the 5 year average net written premium is negative (2011 CER provision £2 041,000) The release of the provision during the year had the effect of increasing the balance on the Technical account and the profit on ordinary activities before taxation by £2 041,000 (2011 increasing by £94,000)

18 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

19 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

20 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 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