2014 PRELIMINARY RESULTS

26 February 2015

2014 pre-tax profit of £275 million, up from £244 million loss in 2013

Good progress on implementing new strategy and laying foundations for stronger future performance

Medium-term performance targets reaffirmed. Dividend recommencing

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Stephen Hester, RSA Group Chief Executive, commented:

"2014 was an important year for RSA. The Company made good progress in the face of some tough realities. We can look to the coming years with much sounder strategic and financial foundations. We have created far reaching and detailed plans for operational improvement. Actions are well underway and beginning to benefit both the underlying potential and performance of our businesses.

"RSA returned to profit in 2014 and to paying a dividend. Our customer franchises proved resilient. Current year underwriting profit (ex-Ireland) was improved to record levels. Successful disposals realised strong gains. Costs were cut and savings targets increased. However, the clean-up of past weaknesses was also expensive; and market headwinds, especially from exchange rate changes and low interest rates, are a drag on results.

"RSA is much better positioned than before to make continued good progress. We are determined to do just that in 2015 and beyond."

Trading results

- Tangible equity up 74% to £2.9bn (31 December 2013: £1.7bn).
- Net written premiums of £7.5bn down 8%[1] (down 2% underlying[2]) reflecting disposals, our portfolio action plan and competitive market conditions.
- Foreign exchange movements, notably the weakening of key currencies against Sterling, translated reported premiums down 14%.
- Group operating profit was £365m (2013: £349m) with core business operating profit of £367m up 17% from 2013 £315m). Scandinavia £251m; Canada £107m; and UK £147m.
- Headline Group underwriting profit was £90m (2013: £57m), comprising strong current year results reduced by losses in Ireland and UK charges for prior year reserve strengthening. The combined ratio[3] was 98.8% (2013: 99.4%).
- Current year core business underwriting profit improved sharply to a record £190m excluding Ireland (2013: £97m); underlying current year loss ratio of 56.2%, 1.0pts better than prior year (2013: 57.2%).

- Prior year underwriting loss was £31m. Excluding Ireland and non-core operations, prior year profit was £25m (2013: £150m profit ex Ireland). This reflected various adjustments, particularly reserve additions in the UK, but also the unsustainable level of past reserve releases.
- Ireland underwriting loss of £107m as remediation continued. Our goal is to return Ireland to underwriting profitability in 2016 with significant loss reduction in 2015.
- Net gains of £476m include £342m from completed disposals. Gains were partly offset by £405m charges including £99m write down of goodwill and intangibles and £73m redundancy costs.
- Pre-tax profit was £275m (2013: £244m loss). Post tax profit of £76m (2013: £338m loss) after tax charge that included a deferred tax asset write down of £92m.
- Capital metrics at 31 December 2014: IGD surplus c.£1.8bn with coverage of 2.2 times; ECA surplus c.£0.9bn with coverage of 1.3 times.
- Reserve margin for the core Group is unchanged at 5% of booked reserves.
- Return on tangible equity 3.6% (2013: (16.7)%). Underlying return on tangible equity[4] of 9.7% (2013: 6.9%).
- Dividend payments are proposed to recommence with a final dividend recommendation of 2p per ordinary share.

Strategic update

- Good progress in executing our Action Plan; to tighten strategic focus, build capital strength, and put in place the foundations to improve business performance.
- Completed disposals of the Baltics, Poland, Noraxis and Thailand. Sales agreed for China, Hong Kong, Singapore, Italy and India businesses.
- Total announced disposal proceeds to date of £800m; expected disposal gains of c.£500m (£342m booked from disposals already completed).
- Successfully completed £773m rights issue in April, and £400m subordinated bond issue refinancing in early October with a coupon of 5.1%.
- Tangible equity to premiums ratio of 39% (31 December 2013: 19%).
- Detailed plans for operational improvement now in place across the business, including activity to sustain and improve our customer franchises, to improve underwriting, to reduce costs, and to invest in technology, product and service initiatives.
- Controllable costs are down 6% at constant exchange to £2.1bn. Core business costs were down 4% (comprising 6% cost reductions offset by 2% inflation).
- Existing 2016 annualised cost reduction target is increased to greater than £210m (up from greater than £180m) and a new target of greater than £250m set for 2017.
- Medium term performance targets reaffirmed: underlying return on tangible equity of 12-15%; tangible equity to be 35-45%[5] of net written premiums; dividend payout ratio of 40-50% in time.

[1] At constant FX
[2] At constant FX & excluding Motability, Group ADC and completed disposals
[3] Stated on an 'earned' basis, please refer to the appendix for further details
[4] Please refer to the appendix for a detailed calculation of underlying return on tangible equity
[5] Capital target to be updated at end 2015 once Solvency II impacts are assessed
Note: On an IFRS basis, pre-tax profit of £275m comprises profits from both continuing and discontinued operations. Please refer to page 42 for further details.

MANAGEMENT REPORT – KEY FINANCIAL PERFORMANCE DATA

Management basis

Net Written Premiums	FY 2014 £m Personal	FY 2014 £m Commercial	FY 2014 £m Total	FY 2013 £m Constant FX Total	FY 2013 £m Reported FX Total
Scandinavia	969	790	1,759	1,713	1,863
Canada	1,039	471	1,510	1,553	1,755
UK	1,176	1,393	2,569	3,034	3,041
Ireland	194	101	295	312	327
Latin America	259	431	690	662	837
Group Re[1]	-	(42)	(42)	54	54
Total Core Group	**3,637**	**3,144**	**6,781**	**7,328**	**7,877**
Discontinued & non-core[2]	*328*	*356*	*684*	*743*	*787*
Total Group net written premiums	**3,965**	**3,500**	**7,465**	**8,071**	**8,664**

Underwriting performance	Combined operating ratio (%)[3] FY 2014	Combined operating ratio (%)[3] FY 2013	FY 2014 £m	FY 2013 £m Constant FX	FY 2013 £m Reported FX
Scandinavia	89.4	88.1	187	207	225
Canada (ex Noraxis)	98.0	100.7	30	(12)	(13)
UK (ex Legacy)	99.5	99.6	15	15	13
Ireland	132.3	166.2	(107)	(209)	(220)
Latin America	100.3	97.5	(2)	12	20
Group Re[1]	-	-	(15)	2	2
Total Core Group	**98.6**	**99.6**	**108**	**15**	**27**
Discontinued & non-core[2]	-	-	*(18)*	*26*	*30*
Total Grp underwriting performance	**98.8**	**99.4**	**90**	**41**	**57**
Investment result			327		365
Insurance result			417		422
Operating result			**365**		**349**
Profit / (Loss) before tax			**275**		**(244)**
Profit / (Loss) after tax			**76**		**(338)**
Earnings per share – basic (pence)			6.2p		(43.7)p
Recommended dividend per share (pence)			2.0p		10.2p
Return on tangible equity (%)			3.6%		(16.7)%
Underlying return on tangible equity (%)[4]			9.7		6.9
			31 Dec 2014		31 Dec 2013
Net asset value (£m)			3,825		2,893
Tangible net asset value (£m)			2,900		1,665
Net asset value per share (pence)			365		335
Tangible net asset value per share (pence)			286		202
IGD surplus (£bn)			1.8		0.2
IGD coverage ratio (times)			2.2		1.1
ECA surplus (S&P 'A' curve calibration) (£bn)			0.9		0.7
ECA coverage ratio (times)			1.3		1.3

[1] Includes Adverse Development Cover written premium of £67m

[2] Discontinued operations include Poland, Baltics, Italy, Hong Kong, Singapore, China, Italy and Thailand. Non-core operations include Noraxis, UK Legacy, Russia, Middle East and India

[3] The combined ratio calculation methodology is presented on an 'earned' basis, please refer to the appendix for further details

[4] Refer to the appendix for detailed calculation

CHIEF EXECUTIVE'S STATEMENT

2014 was an important year for RSA. The Company made good progress in the face of some tough realities. We can look to the coming years with much sounder strategic and financial foundations. We have created far reaching and detailed plans for operational improvement. Actions are well underway and beginning to benefit both the underlying potential and performance of our businesses.

Strategy and Focus

RSA is a leading international insurer. Our refocused business has leadership positions in Scandinavia, Canada, UK/Ireland and parts of Latin America. Where we do business, we are determined to do it well and be known for our service and appeal to customers. In volatile and competitive markets, our balance of geography, customer, product and distribution channels are valuable and distinctive attributes.

We have three interrelated priorities. Customers are our lifeblood; serving them well is our purpose. We need to operate with financial strength and transparency; and have the discipline to sustain it. Our shareholders own the Company; we are concentrating intensely on building strong, long-term performance to make RSA the best investment proposition we can achieve.

Industry Conditions

We operate in relatively mature, stable and consolidated markets. These continue to underpin our ambition of good and improving customer service - offering vital risk management and value for money. We see continued evolution as digital and other trends are harnessed to improve the scope of how we operate. Despite economic challenges, industry conditions also allow us to realistically target a cash generative business, returning greater than the cost of capital for shareholders.

RSA's diversity helps protect our performance potential. However, like industry competitors and many other businesses, low interest rates, exchange rate moves and modest growth rates create significant performance headwinds. Strong price competition, intensified by third party capital seeking alternative outlets from stock and bond markets, has led to sharper price/volume trade-offs than before in a number of segments. As a result, in each of our larger markets there are some competitors reporting falls in or static like-for-like premium income. Five year bond yields are down a further 0.8-1.6% since the start of 2014 across our principal markets, impacting the outlook for investment returns. Around two thirds of RSA's premiums lie outside the UK. January 2015 month-end spot exchange rates would imply a c.3% reduction in the reported Sterling figures versus the premiums reported for 2014, with the impact being larger in profitability terms.

2014 Actions

I joined RSA in February 2014 with a mandate to lead the Company in three urgent tasks. These were: to thoroughly identify the sources of RSA's performance weaknesses; to devise plans to fix these and address internal and external challenges to realising RSA's potential; and then to implement those plans. The first two tasks are largely done. The third is well in hand, but with much tough and disciplined work ahead to follow through.

As so often in corporate turnarounds, the cost of remediation has proven greater than we hoped, especially in the form of reserving and non-cash charges. But we have been able to pay for this through outperformance in divestment proceeds. We have refocused RSA on its most important businesses, with a well executed divestment programme already substantially completed.

We raised £773m in May thanks to shareholder support via a rights issue and a further £810m of proceeds from announced divestments to date (of which £550m already completed) at prices well above tangible book value. We also successfully refinanced £400m of long-term subordinated debt and saw credit ratings restored.

Across our core business, determined action has set a course for improved underwriting results with current year loss ratios (ex-volatile items) improving versus 2013, overall and in most major business units, and expected to do so again in 2015. Alongside this is activity across our business to sustain and improve the health of our customer franchise and to invest in technology, product and service initiatives. These efforts mitigated the customer impact of RSA's 2013/14 problems and are expected to improve performance further in coming years, also returning us to moderate top line growth.

The cost base is being tackled vigorously and investment plans to facilitate this and improve customer capabilities have been set out for the next five years. Total controllable costs are down 12% to £2.1bn versus 2013 (down 6% in real terms ex disposals and FX). Our 2016 target of greater than £180m underlying cost reduction has been raised to greater than £210m and a new target of greater than £250m set for 2017. Our linked ambition is to lift productivity measures (Premiums:FTE) by 15-20% by the end of 2017 versus 2013 numbers.

RSA needed a substantial financial overhaul. This has focused on improving both the quality and the health of its balance sheet and profits. The on-going drag of costs below the underwriting line is also being addressed through reducing central overhead, interest and non-cash amortisation. Intangible assets and deferred acquisition costs have been written down where no longer well supported, with action on booked values of discounted liabilities and deferred tax assets to better reflect current circumstances, though both are still potentially vulnerable to future economic conditions and business performance. We still have significant volatile accounting items in the form of unrealised bond gains as well as off-balance sheet pension liabilities (which are now reporting a surplus under IFRS for the UK, but with latent risk).

Financial Results

Headline profits at £275m pre-tax compare to a £244m pre-tax loss in 2013, yet still represent a fraction of what we seek to achieve as RSA improves performance in coming years.

Net tangible assets have improved by £1.2bn (74%) to £2.9bn in 2014 (from 19% to 39% of net written premiums) and now lie within our target range from a capital perspective, though still at the lower end. We are pleased to recommence dividend payments with a final dividend recommendation of 2p per share. This is a modest level reflecting the work remaining on profit and capital build. We reiterate a medium term ambition of 40-50% dividend payouts plus further capital distributions if excess capital arises.

Behind the 2014 headline figures are many moving parts, reflecting market movements and the actions we have taken.

Premium income is down 2% on an underlying level at constant exchange (8% headline including completed disposals, Motability changes and the Group ADC). Scandinavia did well (up 3%), UK saw most portfolio restructuring (down 6% underlying) with Canada also down a little (down 3%). At reported exchange rates premiums were down 14%.

Current year core business underwriting profit (ex-Ireland) was a record £190m (2013 £97m) reflecting a one point improvement in underlying loss ratios, and after a relatively normal weather and large loss charge. The core business current year underlying loss ratio (ex-Ireland) was 56.2% (2013: 57.2%) and has improved in each quarter during 2014.

Total underwriting profit was £90m (2013 £57m). The figure was depressed by significant reserve strengthening which impacted prior year profits (prior year underwriting profit ex Ireland £14m; 2013: £172m) and an Irish underwriting loss of £107m. The latter mainly relates to the development of issues from 2013 and prior. Both items have proven more costly than was estimated at the start of the year. We expect them to improve sharply in 2015.

Disposal gains of £342m were offset by the charges outlined above, albeit much of the latter being non-cash items.

Plans for the Future

RSA's new and focused strategy was set out a year ago. We believe it is the right one. Our medium-term performance targets are also unchanged; 12-15% underlying return on net tangible assets, 35-45% tangible equity/net premiums, though the latter is sensitive to Solvency II outcomes as well as market factors and may need to be updated at the end of 2015.

Thanks

Managing major transformations is not easy. Sincere thanks and appreciation are due to all our stakeholders; customers and brokers for their support in the uncertainties of early 2014; shareholders for support through disappointing past news and equity fundraising; and of equally vital importance, my RSA colleagues. The steadfast and dedicated service of our 19,000 staff towards customers and to improving our Company is hugely appreciated. There have been significant changes to our executive management team, and talented people have stepped up internally and have joined us from elsewhere. To all I am grateful.

We know where we want to take RSA and how to do it. We will face challenges and setbacks. But we believe in this Company, in its place in our industry and its performance potential.

Stephen Hester

Group Chief Executive

25 February 2015

MANAGEMENT REPORT

INCOME STATEMENT

Management basis - year ended 31 December 2014

	Group FY 2014 £m	*Core*[5] *£m*	*Total 'non-core': 'Non-core'*[6] *£m*	*Total 'non-core': Discontinued operations*[6] *£m*	Group FY 2013 £m
Net Written Premiums	**7,465**	***6,781***	***186***	***498***	**8,664**
Net Earned Premiums	7,874	*7,183*	*178*	*513*	8,594
Net Incurred Claims[1]	(5,381)	*(4,896)*	*(174)*	*(311)*	(5,970)
Commissions[7]	(1,195)	*(1,097)*	*(20)*	*(78)*	(1,218)
Operating expenses[7]	(1,208)	*(1,082)*	*(31)*	*(95)*	(1,349)
Underwriting result	**90**	***108***	***(47)***	***29***	**57**
Investment income	439	*397*	*28*	*14*	493
Investment expenses	(29)	*(27)*	*-*	*(2)*	(31)
Unwind of discount	(83)	*(60)*	*(23)*	*-*	(97)
Investment result	**327**	***310***	***5***	***12***	**365**
Insurance result	**417**	***418***	***(42)***	***41***	**422**
Central expenses	(52)	*(51)*	*(6)*	*5*	(73)
Operating result	**365**	***367***	***(48)***	***46***	**349**
Net gains/losses/exchange	476				32
Interest	(119)				(117)
Non-operating charges[2]	(42)				(57)
Non-recurring charges[3]	(405)				(451)
Profit before tax	**275**				**(244)**
Tax	(199)				(94)
Profit after tax	**76**				**(338)**
Loss ratio (%)	68.3	*68.2*			69.5
Weather loss ratio	*3.2*	*3.3*			*3.5*
Large loss ratio	*7.4*	*7.7*			*7.9*
Current year underlying loss ratio[4]	*57.6*	*57.2*			*58.7*
Prior year effect on loss ratio	*0.1*	*-*			*(0.6)*
Commission ratio (%)[7]	15.2	*15.3*			14.2
Expense ratio (%)[7]	15.3	*15.1*			15.7
Combined ratio (%)	**98.8**	***98.6***			**99.4**
Reported ROTE	**3.6%**				**(16.7)%**
Underlying ROTE	**9.7%**				**6.9%**
Notes:					
[1] Of which: claims handling costs	*(460)*				*484*
[2] Amortisation	*(32)*				*(42)*
[2] Pension net interest costs	*(10)*				*(15)*
[3] Solvency II costs	*(25)*				*(20)*
[3] Reorganisation costs	*(276)*				*(356)*
[3] Transaction costs	*(6)*				*(12)*
[3] Economic assumption changes	*(98)*				*(63)*

[4] Current year underlying loss ratio excludes weather and large losses.
[5] 'Core' comprises Scandinavia, Canada (ex Noraxis), UK (ex Legacy), Ireland, Latin America and central functions.
[6] Discontinued operations include Poland, Baltics, Italy, Hong Kong, Singapore, China and Thailand. Non-core operations include Noraxis, UK Legacy, Middle East, India and Russia
[7] The combined ratio calculation methodology is presented on an 'earned' basis, please refer to the appendix for further details

Note: please refer to appendix for FY 2013 comparatives

SEGMENTAL ANALYSIS

Management basis - year ended 31 December 2014

	Scandinavia £m	Canada[4] £m	UK[5] £m	Ireland £m	Latin America £m	Central functions £m	Total 'non-core'[1] £m	**Group FY 2014 £m**
Net Written Premiums	**1,759**	**1,510**	**2,569**	**295**	**690**	**(42)**	**684**	**7,465**
Net Earned Premiums	1,752	1,536	2,850	328	700	17	691	7,874
Net Incurred Claims	(1,219)	(1,056)	(1,861)	(340)	(400)	(20)	(485)	(5,381)
Commissions[2]	(68)	(215)	(587)	(42)	(178)	(7)	(98)	(1,195)
Operating expenses[2]	(278)	(235)	(387)	(53)	(124)	(5)	(126)	(1,208)
Underwriting result	**187**	**30**	**15**	**(107)**	**(2)**	**(15)**	**(18)**	**90**
Investment income	112	82	144	11	46	2	42	439
Investment expenses	(11)	(3)	(7)	(1)	(5)	-	(2)	(29)
Unwind of discount	(37)	(2)	(5)	-	(14)	(2)	(23)	(83)
Investment result	**64**	**77**	**132**	**10**	**27**	**-**	**17**	**327**
Insurance result	**251**	**107**	**147**	**(97)**	**25**	**(15)**	**(1)**	**417**
Central expenses	-	-	-	-	-	(51)	(1)	(52)
Operating result	**251**	**107**	**147**	**(97)**	**25**	**(66)**	**(2)**	**365**
Net gains/losses/exchange								476
Interest								(119)
Non-operating charges								(42)
Non-recurring charges								(405)
Profit before tax								**275**
Tax								(199)
Profit after tax								**76**
Loss ratio (%)	69.6	68.7	65.3	103.5	57.2			68.3
Weather loss ratio	*1.6*	*5.0*	*3.8*	*5.8*	*0.3*			*3.2*
Large loss ratio	*4.7*	*3.6*	*12.9*	*3.4*	*3.6*			*7.4*
Current year underlying loss ratio[3]	*64.8*	*62.8*	*49.0*	*80.3*	*52.2*			*57.6*
Prior year effect on loss ratio	*(1.5)*	*(2.7)*	*(0.4)*	*14.0*	*1.1*			*0.1*
Commission ratio (%)[2]	3.9	14.0	20.6	12.6	25.5			15.2
Expense ratio (%)[2]	15.9	15.3	13.6	16.2	17.6			15.3
Combined ratio (%)	**89.4**	**98.0**	**99.5**	**132.3**	**100.3**			**98.8**

[1] Total 'non-core' comprises discontinued operations of Poland, Baltics, Italy, Hong Kong, Singapore, China and Thailand and other non-core operations of Noraxis, UK Legacy, Middle East, India and Russia
[2] The combined ratio calculation methodology is presented on an 'earned' basis, please refer to the appendix for further details
[3] Current year underlying loss ratio excludes weather and large losses
[4] Excluding Noraxis
[5] Excluding Legacy

Note: please refer to appendix for FY 2013 comparatives

Market conditions

Insurance market conditions during 2014 remained competitive. Low interest rates, exchange rate moves and modest economic growth rates continue to create headwinds for our industry.

Price competition, intensified by third party capital seeking alternative outlets from stock and bond markets, has led to sharper price/volume trade-offs than before in a number of segments. As a result, in each of our larger markets there are some major competitors reporting falls in or static like-for-like premium income.

Five-year bond yields are down a further 0.8-1.6% since the start of 2014 across our principal markets. This impacts the outlook for investment returns, discount rates on liabilities and inflates certain elements of capital requirement.

Around two thirds of RSA's core premiums lie outside the UK (more in profitability terms). Foreign exchange movements, notably the strengthening of Sterling during 2014, have impacted reported results, with premiums down 8% on a constant exchange rate basis (2% underlying), but down 14% at reported exchange rates. January 2015 month-end spot exchange rates would imply a c.3% reduction in the reported Sterling figures versus the premiums reported for 2014, with the impact being larger in profitability terms.

Premiums

2014 net written premiums were down 8% from 2013 at constant exchange rates and down 2% on an underlying basis, with the key movements being:

%	Scandinavia	Canada	UK	Ireland	Latin America	**Total**
Volume change including portfolio actions	-	(5)	(8)	(10)	1	**(4)**
Rate increases	3	2	2	5	3	**2**
Underlying movement at CFX	**3**	**(3)**	**(6)**	**(5)**	**4**	**(2)**
Group Adverse Development cover	-	-	-	-	-	**(1)**
Changes to Motability contract	-	-	(9)	-	-	**(4)**
Completed disposals	-	-	-	-	-	**(1)**
Total 2014 movement at constant FX	**3**	**(3)**	**(15)**	**(5)**	**4**	**(8)**

Regional highlights (at constant FX) include:

- Premiums in Scandinavia were up 3%, with good focus on increasing rates across the book;
- Canadian premiums were down 3% driven by a 5% reduction in Commercial premiums due to the underwriting actions we have been taking on the portfolio;
- UK premiums were down 6% (down 15% including Motability). During 2014 we have taken significant portfolio actions in the UK, with particular focus on UK Personal Motor where premiums were down 26% as we remain focused on achieving our target returns;
- Ireland premiums were down 5% following strong rate increases during the year in key lines requiring remediation, which affected retention rates; and
- Latin American premiums grew 4% at constant exchange with inflation-led growth in Argentina partly offset by the impact of restructuring actions elsewhere in the region.

Customer sentiment has remained supportive in 2014 across our core regions as reflected in our customer satisfaction scores. Accordingly, retention trends have remained broadly stable with overall retention across the Group of around 80%.

Underwriting result

2014 has been a year to rebuild quality foundations from which our Action Plan can deliver future improvements. Group underwriting profit of £90m (2013: £57m) comprised £108m from core operations, and a £18m loss from discontinued and non-core operations. Excluding Ireland, the core operations delivered £215m of underwriting profit.

	Total UW result		**Current Year UW**		**Prior Year UW**	
£m	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Scandinavia	187	225	166	102	21	123
Canada (ex Noraxis)	30	(13)	(8)	(32)	38	19
UK (ex Legacy)	15	13	17	2	(2)	11
Ireland	(107)	(220)	(62)	(93)	(45)	(127)
Latin America	(2)	20	6	17	(8)	3
Group Re	(15)	2	9	8	(24)	(6)
Total Core	**108**	**27**	**128**	**4**	**(20)**	**23**
Memo: total core ex Ireland	*215*	*247*	*190*	*97*	*25*	*150*
Non-core & discontinued	(18)	30	(7)	8	(11)	22
Total Group	**90**	**57**	**121**	**12**	**(31)**	**45**

Current year profit of £121m (2013: £12m):

- Excluding Ireland, current year profits were up 96% to £190m (2013: £97m);
- The current year underlying loss ratio was 57.6% (2013: 58.7%) and has improved in each quarter during 2014. Excluding Ireland the underlying current year loss ratio was 56.2% which is 1.0 points better than 2013;
- Total weather costs for 2014 were £253m representing a weather loss ratio of 3.2% (2013: £303m or 3.5%; five year average: 3.0%). Weather was worse than trend following the impact of flooding and storms in the UK (weather ratio 3.8%) and Ireland (5.8%) in Q1, and severe winter weather in Canada (5.0%) also in Q1; and
- The large loss ratio of 7.4% (2013: 7.8%) was lower than the five year average of 8.4%[1], reflecting business mix improvements and relatively benign experience in Scandinavia, partly offset by the earthquake in Chile which impacted the Latin America and Group Re result.

Prior year loss of £31m includes the following specific items:

- Ireland prior year underwriting loss of £45m;
- UK Legacy reserve additions of £32m for asbestos, abuse and deafness claims;
- UK Professional Indemnity reserve additions of £46m; and
- £30m for further UK 2013 weather claims and Marine premiums.

We expect sustainable prior year releases to be generally below 1% of premiums, but there is the potential for volatility given our commitment to transparent reserve margins.

[1] *The 5 year large loss average has been restated to include UK Professional Indemnity large losses which were previously reported within underlying.*

Investment result

The investment result, which now includes investment expenses of £29m (previously reported below the insurance result), was £327m (2013: £365m).

Investment income of £439m (2013: £493m) was offset by investment expenses of £29m (2013: £31m) and the liability discount unwind of £83m (2013: £97m). The liability discount unwind was lower than 2013 following the reduction in UK discount rates from 5% to 4% at FY 2013. The discount unwind will fall further in 2015 following the reduction in Scandinavian discount rates (see page 12 for further details).

Investment income of £439m is in line with our expectations but down 11% on prior year, primarily reflecting the continued impact of the low bond yield environment.

Average book yield across the whole portfolio fell from 3.5% to 3.1% year on year.

Total controllable costs

Total Group controllable costs were down 12% in 2014 (down 6% at constant exchange) to £2.1bn. Core business controllable costs were down 4% at constant exchange to £1.85bn (comprising 6% cost reductions, offset by 2% inflation).

The majority of the 2014 core business cost reduction has come from our UK business, with good progress in headcount reductions (510 (7%) UK FTE reduction in 2014). Further detailed cost reduction plans are in place for our core businesses. Group FTE was down 16% in 2014 to 19,006 (2013: 22,664), and within our core businesses FTE was down 7% to 17,509 (2013: 18,801).

Central expenses were £52m. Going forward we intend to allocate significantly more central and investment expenses to the underwriting result to allow for more transparent market comparisons.

We have raised our 2016 target of greater than £180m underlying cost reduction[1] to greater than £210m. We have also set a new target of greater than £250m reduction by 2017. Our linked ambition is to lift productivity measures (Premiums:FTE) by 15-20% by the end of 2017 versus 2013 (£363k[2] NWP per FTE).

Non-operating items

Net gains of £476m include:

- £342m of disposal gains (comprising Noraxis £164m; Baltics £124m; Poland £29m; Thailand £21m; Scandinavian Agriculture book £4 m);
- £69m of gains in respect of the sale of equities mainly in January;
- £25m relating to the sale and leaseback of our Swedish head office; and
- £30m of unrealised gains on property assets.

Non-operating charges of £42m comprise £32m of customer list amortisation and £10m of pension net interest costs.

Non-recurring charges of £405m include:

- Reorganisation costs of £276m as follows:
    - £55m goodwill write downs (£44m in Ireland and £11m in Russia);
    - £44m intangible asset write downs mainly relating to software write downs in the UK, Ireland and Scandinavia;

[1] Core business pre disposals, FX and inflation

[2] Adjusted to remove the impact of the changes to the Motability contract

- £110m of redundancy and restructuring costs (£73m relating to redundancy); and
- A further £67m primarily relating to the revision of estimates. This includes the re-estimation of deferred acquisition costs and dilapidation provisions in respect of leasehold properties, resulting in charges of £17m and £5m respectively. A review of the Group's reinsurance accounting resulted in a charge of £22m. Finally, as a result of a remediation process, better information has become available which has resulted in revisions to certain accounting estimates and a charge of £23m which predominately relates to Ireland.

- Economic assumption changes - £98m charge relating to a change in the rate used to discount long-tail liabilities in Sweden and Denmark. The decline in market yields for the assets we hold backing these liabilities has required this adjustment. As a result, the discount rate has been lowered in Sweden and Denmark (see table below for changes). The full year impact of this on Scandinavia is expected to be around a £6-7m reduction in underwriting profit, with a £12m benefit to the discount unwind.

  The UK discount rate of 4% (lowered from 5% at FY 2013) remains unchanged as this remains broadly matched by the yields on the assets backing these liabilities.

  The assumptions will be re-examined bi-annually going forward and necessary changes made. Discount rates for our major long term portfolios (total net discounted reserves: £2,008m at 31 December 2014) are as follows:

	31 Dec 2014	31 Dec 2013
UK	4.00%	4.00%
Sweden Personal Accident	1.25%	3.75%
Sweden annuities[1]	1.00%	1.50%
Denmark Workers Compensation	1.75%	3.70%
Canada	3.50%	3.50%

[1] real discount rate (i.e. net of indexation)

- Solvency II implementation costs of £25m (2013: £20m), and transaction costs of £6m (2013: £12m).

Tax

The Group has recognised a tax charge of £199m for the year.

Included in this is a deferred tax asset impairment charge of £92m (£84m relating to the UK and £8m relating to Ireland). This follows the conclusion that the carrying value of the deferred tax assets in the UK and Ireland are no long fully supportable following the re-setting of the Group strategy in 2014 together with the issues faced in Ireland. This accounting charge has no economic consequences as the tax losses remain available to us.

The carrying value of the remaining deferred tax asset in the UK is £95m, and in Ireland is £5m.

Dividend

We are pleased to recommence dividend payments with a final dividend recommendation of 2p per ordinary share. This is a modest absolute level reflecting 2014 profitability still depressed as well as the work remaining on capital build. We reiterate a medium term ambition of 40-50% dividend payouts.

BALANCE SHEET

Movement in Net Assets

	Shareholders' funds £m	Non controlling interests £m	Loan capital £m	Equity plus loan capital £m	TNAV £m
Balance at 1 January 2014	2,893	121	1,309	**4,323**	**1,665**
Profit/(loss) after tax	69	7	-	**76**	**403**
Exchange gains/(losses) net of tax	(139)	2	-	**(137)**	**(85)**
Fair value gains/(losses) net of tax	255	(2)	-	**253**	**255**
Pension fund gains/(losses) net of tax	(7)	-	-	**(7)**	**(7)**
Debt issue	-	-	385	**385**	**-**
Repayment & amortisation of loan capital	-	-	(451)	**(451)**	**-**
Share issue	753	-	-	**753**	**753**
Changes in shareholders' interests in subsidiaries	-	(14)	-	**(14)**	**-**
Share based payments	10	-	-	**10**	**10**
Prior year final dividend	-	(6)	-	**(6)**	**-**
Preference dividend	(9)	-	-	**(9)**	**(9)**
Goodwill and intangible additions	-	-	-	**-**	**(85)**
Balance at 31 December 2014	**3,825**	**108**	**1,243**	**5,176**	**2,900**
Per share (pence)					
At 1 January 2014[1]	335				202
At 31 December 2014	**365**				**286**

[1] *Restated to include the bonus element of the subsequent rights issue in accordance with IAS 33, and the impact of the share consolidation.*

Tangible net assets have increased by 74% to £2.9bn during 2014. The most significant driver of this is the proceeds from the rights issue (£747m net of costs). There were also £474m of post-tax disposal benefit and £255m of fair value gains on available for sale assets. Foreign exchange movements on the retranslation of the balance sheets of non-sterling denominated operations gave rise to foreign exchange losses of £85m.

CAPITAL POSITION

		Requirement £bn	Surplus £bn	Coverage (times)
Insurance Groups Directive[1]	**31 December 2014**	**1.4**	**1.8**	**2.2**
	31 December 2014 (plus announced disposals)	1.4	2.0	2.4
	31 December 2013	1.5	0.2	1.1
Economic Capital[2] (S&P 'A' curve)	**31 December 2014**	**3.4**	**0.9**	**1.3**
	31 December 2014 (plus announced disposals)	3.4	1.1	1.3
	31 December 2013	2.4	0.7	1.3

[1] *The IGD position at 31 December 2014 is estimated.*
[2] *The economic capital position at 31 December 2014 is estimated, pending the outcome of the next full model run.*

Preliminary reconciliation of IFRS capital to IGD and ECA capital

	IGD £bn	ECA £bn
Total IFRS equity plus loan capital at 31 December 2014	5.2	5.2
Adjust for:		
Non-controlling interests	(0.1)	-
Goodwill and intangibles	(0.8)	(0.8)
Deferred tax	(0.2)	(0.1)
Discounting	(0.5)	-
Claims equalisation reserve	(0.3)	-
IAS 19 pension accounting	-	0.1
Other	(0.1)	(0.1)
Total available capital at 31 December 2014	**3.2**	**4.3**

At 31 December 2014 the Group's estimated IGD surplus was £1.8bn giving coverage of 2.2 times the capital requirement. The £1.6bn increase in the surplus during 2014 mainly reflects the impact of capital financing (including the rights issue) of £0.7bn, capital generated (including disposal gains) of £0.5bn, the reversal of a hybrid debt restriction of £0.3bn which took effect at the end of 2013, and mark-to-market gains of £0.2bn, partly offset by £(0.1)bn of adverse foreign exchange movements.

The Group's estimated economic capital surplus was £0.9bn at 31 December 2014 giving coverage of 1.3 times the capital requirement. The movement in the year was driven by capital generated including disposal gains of £0.3bn and capital financing of £0.7bn, partly offset by the impact of lower yields £(0.4)bn, adverse foreign exchange movements £(0.2)bn, and pension and other movements of £(0.2)bn. Allowing for announced disposals, the surplus was £1.1bn with coverage of 1.3 times.

During the year the economic capital requirement has increased by £1.0bn to £3.4bn with available capital up by £1.2bn to £4.3bn. The movement in the requirement was driven mainly by the impact of lower yields, adverse foreign exchange movements, and the removal of a credit for the modelled disposal value of Noraxis from our capital assessment.

Diversification provides a significant credit to RSA within our economic capital model. We analyse our main modelled risks, including underwriting, catastrophe, reserve, market, credit and currency, pension and operational risks. On this basis, the level of diversification generated within our capital model, resulting from the nature of the different types of business written, geographic spread of our business, and the non-correlation of risk events affecting the Group, is around 40% of the undiversified capital requirement. This level of diversification is broadly consistent with the credit that the Group receives under other internally modelled Group measures.

GROUP OUTLOOK

In 2015 we aim to substantially complete the Group's strategic restructuring and related 'inorganic' capital improvements. Focus will continue on actions to improve core business performance on a sustainable basis.

Our operational improvement programmes set a long-term ambition of upper quartile / 'best in class' underwriting results versus comparable companies. This targets improving customer metrics, profitability measures and building solid capital and related foundations.

Foreign exchange moves will continue to impact Sterling reported results. Market conditions permitting, in 2015 we target an end to the shrinkage of core business written premiums. Underlying loss ratios should improve again and costs continue to reduce. Weather and large loss items will remain unpredictable but volatility should be below that of extreme prior years due to reinsurance actions. We expect sustainable prior year releases to be below 1% of premiums, but potentially volatile given our commitment to transparent reserve margins.

We hope to report combined ratios, on an underlying basis, closer to 'market' performance than in recent times. Investment income should trend downwards reflecting market conditions. We anticipate disposal profits from completing non-core transactions, broadly offset by on-going restructuring and cost programme expenses.

Our medium term 12-15% underlying return on tangible equity target remains in place. Foreign exchange and interest rate impacts from the last 12 months suggest it is more likely to be met in 2017 than 2016 despite a broadly unchanged ambition for combined ratios.

BUSINESS REVIEW – INVESTMENT PERFORMANCE

Management basis

Investment result	2014 £m	2013 £m	Change %
Bonds	354	381	(7)
Equities	23	47	(51)
Cash and cash equivalents	29	26	12
Property	28	28	-
Other	5	11	(55)
Investment income	**439**	**493**	**(11)**
Investment expenses	(29)	(31)	6
Unwind of discount	(83)	(97)	14
Investment result	**327**	**365**	**(10)**

Balance sheet unrealised gains	31 Dec 2014 (£m)	31 Dec 2013 (£m)	Change %
Bonds	634	299	112
Equities	35	86	(59)
Other	3	7	(57)
Total	**672**	**392**	**71**

Investment portfolio	Value 31 Dec 2013 £m	Foreign exchange £m	Mark to market £m	Other movements £m	Transfer to assets held for sale £m	Value 31 Dec 2014 £m
Government bonds	4,168	(230)	141	195	(111)	4,163
Non-Government bonds	7,083	(325)	152	1,526	(351)	8,085
Cash	1,162	(61)	-	34	(124)	1,011
Equities	582	(26)	19	(415)	-	160
Property	331	(2)	32	(15)	-	346
Prefs & CIVs	280	(5)	(9)	69	-	335
Other	146	(5)	-	(44)	-	97
Total	**13,752**	**(654)**	**335**	**1,350**	**(586)**	**14,197**
Split by currency:						
Sterling	3,493					4,466
Danish Krone	1,302					1,229
Swedish Krona	2,287					2,344
Canadian Dollar	2,947					3,128
Euro	1,763					1,308
Other	1,960					1,722
Total	**13,752**					**14,197**

Credit quality – bond portfolio	Non-government		Government	
	31 Dec 2014 %	31 Dec 2013 %	31 Dec 2014 %	31 Dec 2013 %
AAA	31	34	81	74
AA	21	24	10	14
A	38	33	3	2
BBB	8	7	5	9
< BBB	1	1	1	1
Non rated	1	1	-	-
Total	**100**	**100**	**100**	**100**

Investment income of £439m (2013: £493m) was offset by investment expenses of £29m (2013: £31m) and the liability discount unwind of £83m (2013: £97m). Investment income of £439m is in line with our expectations but down 11% on prior year, primarily reflecting the continued impact of the low bond yield environment.

The average book yield on the total portfolio was 3.1% (2013: 3.5%), with average yield on the bond portfolios of 3.0% (2013: 3.3%). Reinvestment rates in the Group's major bond portfolios at 31 December 2014 were approximately 1.3%.

Average duration is 4.0 years (31 December 2013: 3.8 years).

The investment portfolio grew 3% during 2014 to £14.2bn. The movement was driven by the rights issue proceeds, other net cash inflows including disposal proceeds, and positive mark-to-market movements, partly offset by foreign exchange translation losses and transfers into assets held for sale relating to the announced disposals of our Hong Kong, Singapore, China, Thailand, and Italy businesses.

At 31 December 2014, high quality widely diversified fixed income securities represented 86% of the portfolio (31 December 2013: 82%). As reported at our 2013 Preliminary Results, we reduced our exposure to equities during the first quarter of 2014 with equities now representing 1% of the total portfolio (31 December 2013: 4%). We also agreed the sale and leaseback of our Swedish head office. These proceeds together with the rights issue and disposal proceeds have been invested into high quality fixed income assets. Cash accounts for 7% of the total portfolio (31 December 2013: 8%).

The quality of the bond portfolio remains very high with 98% investment grade and 66% rated AA or above. We remain well diversified by sector and geography.

Balance sheet unrealised gains of £672m (pre-tax) increased by £280m during the year (31 December 2013: £392m); an increase in bond unrealised gains driven by lower yields was partly offset by a reduction in unrealised equity gains as we crystalised these by reducing our exposure to equities during the first quarter. Assuming yields at 2014 year end remained constant, the unrealised gains would 'pull to par' at a rate of around £150m per annum (over the next three years).

Outlook

Based on current forward bond yields and foreign exchange rates, it is estimated that investment income will be in the order of £380m for 2015, falling to around £350m in 2016 and 2017. However, with yields at historic lows, these income numbers are sensitive to market changes. This outlook reflects the combined impact of sharply lower bond yields and depreciation of our major overseas operating currencies compared to 2014, together with the ongoing impact of maturing high yield bond positions.

REGIONAL REVIEW – SCANDINAVIA

Management basis

	Net written premiums 2014 £m	Net written premiums 2013 £m	Change Constant FX (%)	Underwriting result 2014 £m	Underwriting result 2013 £m
Split by country					
Sweden	956	1,032	2	138	153
Denmark	633	656	1	47	63
Norway	170	175	9	2	9
Total Scandinavia	**1,759**	**1,863**	**3**	**187**	**225**
Split by class					
Household	307	320	4	3	10
Personal Motor	360	398	(1)	55	108
Personal Accident & Other	302	310	7	104	118
Total Scandinavia Personal	**969**	**1,028**	**3**	**162**	**236**
Property	306	310	6	(2)	(28)
Liability	133	134	7	29	22
Commercial Motor	206	224	-	-	(13)
Marine & Other	145	167	(6)	(2)	8
Total Scandinavia Commercial	**790**	**835**	**2**	**25**	**(11)**
Total Scandinavia	**1,759**	**1,863**	**3**	**187**	**225**
Investment result				64	85
Scandinavia insurance result				**251**	**310**

Operating Ratios[1] (%)	Claims 2014	Claims 2013	Commission 2014	Commission 2013	Op Expenses 2014	Op Expenses 2013	Combined 2014	Combined 2013
Household							99.0	97.0
Personal Motor							84.8	73.3
Personal Accident & Other							64.7	60.9
Total Scandinavia Personal	**66.3**	**61.0**	**3.4**	**2.8**	**13.3**	**13.1**	**83.0**	**76.9**
Property							100.4	108.4
Liability							78.2	83.1
Commercial Motor							99.9	105.8
Marine & Other							101.9	95.7
Total Scandinavia Commercial	**73.5**	**78.5**	**4.5**	**3.8**	**18.9**	**19.0**	**96.9**	**101.3**
Total Scandinavia	**69.6**	**69.0**	**3.9**	**3.3**	**15.9**	**15.8**	**89.4**	**88.1**
Of which:			***5yr ave***					
Weather loss ratio	*1.6*	*1.8*	*1.6*					
Large loss ratio	*4.7*	*6.6*	*5.6*					
Current year underlying loss ratio	*64.8*	*67.5*						
Prior year effect on loss ratio	*(1.5)*	*(6.9)*						

YTD rate increases[2] (%)	**At Dec 2014**	At Sept 2014	At June 2014	At March 2014
Personal Household	**4**	4	4	3
Personal Motor	**3**	3	2	1
Commercial Property	**2**	4	5	5
Commercial Liability	**4**	4	4	3
Commercial Motor	**4**	4	4	4

[1] *The combined ratio calculation methodology is presented on an 'earned' basis, please refer to the appendix for further details*

[2] *Rating increases reflect rate movements achieved for risks renewing in the year-to-date versus comparable risks renewing in the same period the previous year*

SCANDINAVIA

Our Scandinavian business performed strongly at an underlying level in 2014. Underwriting profits were £187m (2013: £225m) and the combined ratio was 89.4% (2013: 88.1%).

Net written premiums of £1,759m were up 3% at constant exchange (2013: £1,863m as reported; £1,713m at constant exchange), with volumes flat across the region and rate increases contributing 3% growth.

Personal premiums were up 3% with strong growth of 6% in Swedish Personal driven by Household and Personal Accident due to a combination of good new business levels and rate increases. Danish Personal premiums were down 4% as we continued our work in 2014 to return that business to stronger profitability. Norway Personal premiums were up 2%.

Commercial premiums were up 2% with growth of 5% in Denmark reflecting strong retention across the portfolio, good new business levels in Workers Compensation and good growth in Renewable Energy. Our strategic partnership in Norwegian Hospital Care insurance continues strongly, and as a result Norway Commercial premiums were up 16% in the year. In Sweden, premiums were down 4% as we continued to take actions to rationalise our Commercial portfolio and increase rate.

The Scandinavian underwriting result was a profit of £187m (2013: £225m) with a current year profit of £166m (2013: £102m) and a prior year profit of £21m (2013: £123m). After including investment returns net of discount unwind of £64m (2013: £85m), the insurance result was £251m (2013: £310m).

In Personal, underwriting profits were £162m with a combined ratio of 83.0%. This mainly reflects a strong performance in Swedish Personal Accident following product enhancements and rate actions. Personal Motor profitability was lower than 2013, partly reflecting an increase in H1 to prior year Swedish Motor annuity reserves of £19m in anticipation of an upcoming market review of longevity assumptions. Scandinavia Commercial made a 2014 underwriting profit of £25m and a combined ratio of 96.9%, with good underlying performances across our Danish business and in Swedish Liability and Motor.

The combined ratio in 2014 was 89.4% (2013: 88.1%). Weather and large loss experience was broadly in line with expectations. The weather ratio of 1.6% is in line with the five year average, whilst large losses of 4.7% compare to a long term average of 5.6% and in part benefit from a change in underwriting mix. The underlying current year loss ratio was noticeably improved in 2014 at 64.8%, 2.7 points better than 2013, and there were good improvements in both Sweden and Denmark. Prior year claims were 1.5%, significantly below 2013 levels but now more normalised for likely future outlook. Controllable expenses are in line with our expectations, and in 2014 we reduced FTE by around 5%.

Scandinavia – Outlook

We expect the Scandinavian P&C markets to grow in line with local GDP growth, and we target top line performance broadly in line with the market. Our focus is on sustaining strong Personal lines results in Sweden and improving Commercial lines profitability; achieving significant cost improvements in Denmark; and focusing on profitable growth in Norway.

REGIONAL REVIEW – CANADA

Management basis

	Net written premiums 2014 £m	2013 £m	Change Constant FX (%)	Underwriting result 2014 £m	2013 £m
Household	433	464	5	(7)	(18)
Personal Motor	606	729	(6)	18	47
Total Canada Personal	**1,039**	**1,193**	**(2)**	**11**	**29**
Property	211	252	(5)	(23)	(64)
Liability	114	143	(10)	2	-
Commercial Motor	92	108	(3)	28	12
Marine & Other	54	59	4	12	10
Total Canada Commercial	**471**	**562**	**(5)**	**19**	**(42)**
Total Canada	**1,510**	**1,755**	**(3)**	**30**	**(13)**
Investment result				77	93
Canada insurance result				**107**	**80**

Operating Ratios[1] (%)	**Claims 2014**	2013	**Commission 2014**	2013	**Op Expense 2014**	2013	**Combined 2014**	2013
Household							101.5	104.3
Personal Motor							97.2	93.7
Total Canada Personal	**73.3**	**72.5**	**11.6**	**11.5**	**14.1**	**13.6**	**99.0**	**97.6**
Property							110.4	125.8
Liability							98.1	99.7
Commercial Motor							70.2	88.1
Marine & Other							78.3	82.9
Total Canada Commercial	**59.0**	**70.1**	**19.1**	**19.8**	**17.9**	**17.6**	**96.0**	**107.5**
Total Canada	**68.7**	**71.7**	**14.0**	**14.1**	**15.3**	**14.9**	**98.0**	**100.7**
Of which:			***5yr ave***					
Weather loss ratio	*5.0*	*8.0*	*4.3*					
Large loss ratio	*3.6*	*3.3*	*3.0*					
Current year underlying loss ratio	*62.8*	*62.1*						
Prior year effect on loss ratio	*(2.7)*	*(1.7)*						

YTD rate increases[2] (%)	**At Dec 2014**	At Sept 2014	At June 2014	At March 2014
Personal Household	**10**	10	9	9
Personal Motor	**(2)**	(1)	(1)	-
Commercial Property	**5**	4	4	4
Commercial Liability	**3**	3	3	3
Commercial Motor	**1**	2	1	1

[1] *The combined ratio calculation methodology is presented on an 'earned' basis, please refer to the appendix for further details*

[2] *Rating increases reflect rate movements achieved for risks renewing in the year-to-date versus comparable risks renewing in the same period the previous year*

CANADA

After a record bad year for weather events in Canada in 2013, adverse weather conditions continued into the first quarter of 2014. As a result, 2014 has been challenging for our Canadian business. However, the underlying performance of our Canadian business remains supportive of improved future results.

Net written premiums in Canada were down 3% on a constant exchange rate basis to £1,510m (2013: £1,755m as reported; £1,553m at constant exchange) with 5% volume reductions partly offset by 2% rate growth.

Personal premiums were down 2%, with a 6% reduction in Motor partly offset by growth of 5% in Household. Household premiums included double digit rate increases (on renewal business) as the market responded to the weather events of 2013 and early 2014; volumes were down 3%. In Motor, premium reductions reflected the exit of certain broker relationships, lower new business and rate in Ontario, and competitive conditions in Quebec.

In Commercial, premiums were down 5% driven mainly by the actions we have been taking on the portfolio, particularly where we have been re-underwriting or exiting poorer performing accounts. Property reductions of 5% are mainly driven by underwriting actions taken in Quebec, and Liability reductions of 10% are due to the exit of unprofitable programs and market leading rating action.

Underwriting profit was £30m (2013: £13m loss) with a current year loss of £8m and a prior year profit of £38m. The combined ratio was 98.0% (2013: 100.7%). After including investment returns of £77m (2013: £93m), the insurance result was £107m (2013: £80m). Ongoing balance sheet work across the Group has included in Canada a more granular segmentation of the portfolio for reserving purposes. This has led to a reallocation of reserves (as reported in August) to better reflect the risk profile of the book, and a £19m release of margin.

The level of weather losses, although lower than 2013, was higher than trend, impacting profitability. The weather loss ratio of 5.0% for the year compares to a five year average for our Canadian business of 4.3%. Personal Household and Motor were both affected by the weather, with Motor experiencing elevated claims frequency as a result of severe driving conditions in the first quarter.

In Commercial, the reallocation of reserves in H1 resulted in an increase in Liability reserves and a release in Motor, impacting their respective results. Property profitability remains under pressure given a highly competitive market, with adverse weather and large loss experience impacting results. At a total Canadian level, the large loss ratio was 3.6% in 2014 compared to a five year average of 3.0% and a 2013 ratio of 3.3%. The current year underlying loss ratio was 62.8% (2013: 62.1%).

Canada – Outlook

2014 has been a challenging year for RSA in Canada. However, we anticipate the business returning to better performance patterns, subject to volatile items such as weather trends. Our focus will be on delivering operational improvement, particularly underwriting and claims improvements, process simplification and modernisation of technology and infrastructure.

REGIONAL REVIEW – UK (excluding Legacy)

Management basis

	Net written premiums 2014 £m	Net written premiums 2013 £m	Change Constant FX (%)	Underwriting result 2014 £m	Underwriting result 2013 £m
Household	644	665	(3)	65	82
Personal Motor	270	366	(26)	(7)	(41)
Pet	262	226	16	(9)	3
Total UK Personal	**1,176**	**1,257**	**(6)**	**49**	**44**
Property	611	628	(2)	(8)	58
Liability	296	303	(2)	(43)	(104)
Commercial Motor	214	532	(60)	25	8
Marine & Other	272	321	(15)	(8)	7
Total UK Commercial	**1,393**	**1,784**	**(22)**	**(34)**	**(31)**
Total UK	**2,569**	**3,041**	**(15)**	**15**	**13**
Investment result				132	128
UK insurance result				**147**	**141**

Operating Ratios[1] (%)	Claims 2014	Claims 2013	Commission 2014	Commission 2013	Op Expenses 2014	Op Expenses 2013	Combined 2014	Combined 2013
Household							90.1	87.0
Personal Motor							102.4	110.6
Pet							103.5	98.6
Total UK Personal	**58.5**	**59.4**	**22.0**	**20.4**	**15.4**	**16.6**	**95.9**	**96.4**
Property							101.5	90.8
Liability							115.1	134.3
Commercial Motor							94.7	98.6
Marine & Other							102.9	97.7
Total UK Commercial	**70.4**	**70.6**	**19.5**	**17.2**	**12.2**	**13.9**	**102.1**	**101.7**
Total UK	**65.3**	**66.1**	**20.6**	**18.5**	**13.6**	**15.0**	**99.5**	**99.6**
Of which:			***5yr ave***					
Weather loss ratio	*3.8*	*3.0*	*3.3*					
Large loss ratio	*12.9*	*13.2*	*14.9*					
Current year underlying loss ratio	*49.0*	*50.2*						
Prior year effect on loss ratio	*(0.4)*	*(0.3)*						

YTD rate increases[2] (%)	At Dec 2014	At Sept 2014	At June 2014	At March 2014
Personal Household	**(1)**	-	-	-
Personal Motor	**2**	3	3	2
Commercial Property	**2**	3	3	3
Commercial Liability	**4**	5	5	4
Commercial Motor	**2**	3	3	5

[1] *The combined ratio calculation methodology is presented on an 'earned' basis, please refer to the appendix for further details*

[2] *Rating increases reflect rate movements achieved for risks renewing in the year-to-date versus comparable risks renewing in the same period the previous year*

UK

In the UK we have made progress with management action on pricing and underwriting that included both planned exits and focused growth. Adverse weather in the first quarter together with reserve additions in Commercial have affected profitability. However, expenses are coming down and the good progress made with cost reductions in the first half has continued into the second half, including a reduction of over 500 (7%) FTE during the year.

At a headline level, UK premiums of £2,569m were down 15%. However, premiums excluding Motability were down 6% with Personal down 6% and Commercial down 6%.

Household premiums were down 3% reflecting competitive conditions and a softening rate environment. In Personal Motor, premiums were down 26% as a result of our portfolio actions and pricing discipline, although the steep declines seen in the first half have now begun to slow. Excluding planned exits, Motor premiums were down 11%. In 2014 we launched our MORE TH>N Smart Wheels 'black box' telematics product aimed at young drivers and MORE TH>N Drive, an app that allows drivers to track their driving behaviour, which are showing promising growth. Pet premiums were up 16% although the underlying movement after removing prior period accounting premium adjustments was 9%, mainly driven by rate increases.

Across Commercial we have maintained underwriting discipline in a competitive market and a soft rate environment. Reported premiums were down 22% to £1,393m primarily driven by a reduction in Motability premiums as a result of our new contract terms which took effect from 1 October 2013 (Motability net written premiums in 2014 were £57m versus £351m in 2013) and a reduction in Marine mainly due to adjustments to prior year premiums after the change in accounting methodology we have reported previously. We ceased writing Specialty Lines business in Germany with effect from 1 October 2014, but continue to actively write and grow our Marine business there. SME, one of our areas of focused growth, grew 9% over last year and targeted activity in Engineering delivered 4% growth.

The UK underwriting result was a profit of £15m (2013: £13m loss). The current year profit of £17m represents our strongest current year result in the UK since 2005, and includes a Personal profit of £26m and a Commercial loss of £9m. The prior year loss of £2m includes a loss of £25m in Commercial and a profit of £23m in Personal.

Household continued to perform strongly with a £65m profit despite adverse weather in the first quarter, while a £7m loss in Motor reflected a highly competitive market but nevertheless a significant improvement from the 2013 loss of £41m. Pet profitability was disappointing due to higher than expected claims inflation, for which we have implemented rating and indemnity actions to address.

The UK Commercial underwriting loss of £34m is driven by the adverse development of the prior year Professional Indemnity book (£46m) which we reported on at both H1 and Q3. Our Property book suffered an underwriting loss of £8m driven by heavy weather losses, following storms in January/February and also in June in Europe, plus marginally elevated large losses. Commercial Motor produced a significantly improved COR of 94.7% reflecting better performance across the book.

The UK combined ratio was 99.5% (2013: 99.6%). The weather ratio of 3.8% was 0.8 points higher than 2013 and 0.5 points higher than the five year average for the UK business. The large loss ratio of 12.9% was 0.3 points lower than 2013 and 2.0 points lower than the five year average. The current year underlying loss ratio improved by 1.2 points against the same period last year to 49.0%.

UK – Outlook

Continuing improvements in our core UK trading performance together with ongoing cost actions give us confidence as we look out to 2015. We target improving profitability and a return to modest top line growth.

REGIONAL REVIEW – IRELAND

Management basis

	Net written premiums 2014 £m	Net written premiums 2013 £m	Change Constant FX (%)	Underwriting result 2014 £m	Underwriting result 2013 £m
Personal	194	210	(3)	(58)	(139)
Commercial	101	117	(11)	(49)	(81)
Total Ireland	**295**	**327**	**(5)**	**(107)**	**(220)**
Investment result				10	14
Ireland insurance result				**(97)**	**(206)**

Operating Ratios[1] (%)	Claims 2014	Claims 2013	Commission 2014	Commission 2013	Op Expenses 2014	Op Expenses 2013	Combined 2014	Combined 2013
Personal							126.5	163.2
Commercial							144.1	172.2
Total Ireland	**103.5**	**132.1**	**12.6**	**17.1**	**16.2**	**17.0**	**132.3**	**166.2**
Of which:			***5yr ave***					
Weather loss ratio	*5.8*	*4.2*	*5.8*					
Large loss ratio	*3.4*	*5.7*	*2.3*					
Current year underlying loss ratio	*80.3*	*84.2*						
Prior year effect on loss ratio	*14.0*	*38.0*						

YTD rate increases[2] (%)	At Dec 2014	At Sept 2014	At June 2014	At March 2014
Personal Household	**-**	-	-	(2)
Personal Motor	**14**	14	13	6
Commercial Property	**1**	1	2	-
Commercial Liability	**13**	14	15	9
Commercial Motor	**8**	5	3	1

[1] The combined ratio calculation methodology is presented on an 'earned' basis, please refer to the appendix for further details

[2] Rating increases reflect rate movements achieved for risks renewing in the year-to-date versus comparable risks renewing in the same period the previous year

IRELAND

In Ireland, it has been a difficult year for RSA in recognising further losses for events announced in 2013 and beginning the recovery process. The 2014 underwriting loss was £107m, recorded as a current year loss of £62m and a prior year loss of £45m.

No substantive new issues were found in 2014, however the cost of remediation, reserve strengthening and the level of required underwriting improvement has been greater than that expected at the start of the year.

The current year loss of £62m reflects the ongoing impact of the issues identified in 2013, in particular inadequate pricing on pre-remediation business that came through in earned premiums. Once claims reserving was more fully remediated during 2014, it became apparent that in key portfolios loss ratios were higher than expected and loss patterns have remained volatile as data is cleansed and new patterns established. Pricing and underwriting action taken in 2014 should earn through into significant further loss ratio improvement in 2015.

The 2014 weather ratio of 5.8% was in line with long term trends but marginally worse than plan, while the large loss ratio of 3.4% was 1.1points worse than trend.

The prior year loss of £45m reflects a combination of updated reserving judgements from 2013 events in light of the latest development experience, and some specific factors including the remediation of a specific delegated authority scheme, changes to reinsurance retentions, and the impact of lower discount rates following a High Court ruling in December.

Our remediation work is ongoing, and we remain confident that the actions we are taking will restore the business to profitability.

The Irish executive management team has been completely restructured and we have made good progress in filling critical management vacancies with a new CEO, CFO, COO and Chief Underwriting Officer now in place.

Cost reduction plans are in place, and underwriting actions should improve current year underwriting performance to a profit in 2016. Reserving actions are now largely complete, although some 2015 impact remains possible.

On pricing we have applied strong rate increases during 2014 in key lines requiring remediation, with year-on-year rate increases of c.25% in Motor and c.15% in Liability. As a result of this focus, premiums for the year were down 5% at constant exchange.

As reported at our half year results in August, we have undertaken an impairment review of the carrying value of Irish goodwill and intangible assets. In 2014 we have written down £44m relating to goodwill and £17m relating to software and customer lists. This leaves £48m of goodwill and intangible assets in the Irish business. In addition to this we have also written down our Irish deferred tax asset by £8m leaving a remaining tax asset of £5m.

Ireland - Outlook

Our goal remains to return the business to profitability in 2016 through underwriting improvement and cost reduction, and from there to return to greater than cost of capital returns in the future.

REGIONAL REVIEW – LATIN AMERICA

Management basis

	Net written premiums 2014 £m	Net written premiums 2013 £m	Change Constant FX (%)	Underwriting result 2014 £m	Underwriting result 2013 £m
Chile	166	205	-	(4)	17
Argentina	210	248	32	10	(1)
Brazil	119	134	2	(13)	3
Mexico	88	102	(4)	2	3
Colombia	61	100	(31)	1	(1)
Uruguay	46	48	15	2	(1)
Total Latin America	**690**	**837**	**4**	**(2)**	**20**
Investment result				27	26
Latin America insurance result				**25**	**46**

Operating Ratios[1] (%)	Claims 2014	Claims 2013	Commission 2014	Commission 2013	Op Expenses 2014	Op Expenses 2013	Combined 2014	Combined 2013
Chile							*102.4*	*90.8*
Argentina							*94.9*	*100.4*
Brazil							*110.9*	*97.5*
Mexico							*97.2*	*96.8*
Colombia							*99.1*	*101.2*
Uruguay							*94.7*	*102.5*
Total Latin America	**57.2**	**55.2**	**25.5**	**24.2**	**17.6**	**18.1**	**100.3**	**97.5**
Of which:			***5yr ave***					
Weather loss ratio	*0.3*	*0.4*	*0.9*					
Large loss ratio	*3.6*	*2.7*	*2.4*					
Current year underlying loss ratio	*52.2*	*51.5*						
Prior year effect on loss ratio	*1.1*	*0.6*						

[1] *The combined ratio calculation methodology is presented on an 'earned' basis, please refer to the appendix for further details*

LATIN AMERICA

Net written premiums in Latin America were up 4% on a constant exchange rate basis to £690m (2013: £837m as reported; £662m at constant exchange) with 1% volume growth and 3% rate growth. The impact of foreign exchange has been significant, with premiums down 18% at reported exchange rates.

There was strong growth in Argentina of 32% driven by the high inflation environment, and growth of 15% (or £6m) in Uruguay. Brazil premiums were up 2% in a competitive market. We have also taken action to restructure the business which include the exit of Risk Managed Property, Construction & Engineering and Liability. In Chile premiums were flat due to soft market conditions and actions taken on our Motor portfolio.

During the year we have restructured our business in Colombia. We have announced the exit of Personal and Commercial Motor, and intend to pursue profitable growth in non-Motor Commercial lines and affinity schemes. As a result, premiums were down 31% in the year.

The underwriting loss of £2m includes £10m in respect of the Chile earthquake in April (a further £8m is included in the Group Re result bringing the total event cost to £18m) and several other large losses. The large loss ratio of 3.6% is 1.2pts higher than the five year average, while weather losses of 0.3% are better than the five year average of 0.9%.

Latin America - Outlook

In Latin America, the markets we operate in continue to be attractive on a fundamental basis, though competitive, driven by low insurance penetration and a growing middle class across the region. Given the softer economic outlook, we anticipate growth continuing at a more subdued pace than historical levels, with improving profitability targeted.

DISCONTINUED & NON-CORE OPERATIONS

	Net written premiums		Underwriting result	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Asia	145	151	5	7
CEE&ME	343	415	4	20
Italy	196	221	10	(1)
Noraxis	-	-	11	23
UK Legacy	-	-	(48)	(19)
Total Discontinued & Non-Core	**684**	**787**	**(18)**	**30**

Note: Non-core operations also include our Indian associate, which generated 2014 NWP of £130m (2013: £141m) at 100% level, and our Thailand associate holding, which generated 2014 NWP of £179m (2013: £176m) at 100% level.

Disposal programme

In 2014, the Group adopted a fresh strategy, one element of which was to tighten the strategic focus of the Group in order to concentrate more effectively on performing sustainably well in core businesses. During the year we commenced a disposal programme with the intention of divesting our non-core businesses. Significant progress has been, as follows:

Completed disposals:

- **Baltics** (Lithuania, Latvia, Estonia): announced 17 April 2014, completed 30 June 2014 Latvia, 31 October 2014 Lithuania and Estonia. Total proceeds: £215m. Gain on sale: £124m.
- **Poland**: announced 17 April 2014, completed 15 September 2014. Total proceeds: £74m. Gain on sale: £29m.
- **Noraxis**: announced 19 May 2014, completed 2 July 2014. Total proceeds: £220m. Gain on sale: £164m.
- **Thailand associate**: announced and completed 19 December 2014. Total proceeds: £37m. Gain on sale: £21m.

Announced disposals pending completion:

- **China**: announced 3 July 2014. Expected total proceeds: £71m.
- **Hong Kong & Singapore**: announced 21 August 2014. Expected total proceeds: £130m.
- **Italy**: announced 17 October 2014. Expected total proceeds: £19m.
- **India associate**: announced 18 February 2015. Expected total proceeds: £46m.

Remaining discontinued and non-core operations[1]:

- Middle East
- Russia
- UK Legacy

[1] *Not all will necessarily be disposed*

UK Legacy

The UK Legacy underwriting result for 2014 was a loss of £48m (2013: £19m loss) and was primarily driven by a combination of asbestos, deafness and 'abuse' reserve additions. The asbestos additions are mainly due to revisions to estimates of reinsurance recoveries to reflect the latest experience of claims across accident years.

Asbestos

The technical provisions (before discounting) include £829m (31 December 2013: £831m) for asbestos in the UK comprising £778m (31 December 2013: £778m) for UK risks and £50m (31 December 2013: £52m) for US risks written in the UK. As in previous years, and as a standard part of our reserving practices, these asbestos provisions have been reviewed by external consultants. These provisions can be analysed by survival ratio. Survival ratio is an industry standard measure of a company's reserves, expressing the number of years that carried reserves will be available if the recent year payment or notification levels continue. The following table outlines the asbestos provisions as at 31 December 2014 analysed by risk and survival ratio:

	Total	UK risks written in the UK	US risks written in the UK
Provisions in £m			
Net of reinsurance	**829**	**778**	**50**
Net of discount	**506**	**465**	**41**
Survival ratios (Gross of discount) - On payment			
One year	**29**	**32**	**12**
Three year average	**30**	**32**	**14**
Survival ratios (Gross of discount) - On notifications			
One year	**25**	**25**	**18**
Three year average	**23**	**25**	**10**

One year average ratios are inherently more volatile and impacted by the size and timing of payments or notifications in the year, with the three year average providing a more stable benchmark. For UK risks written in the UK, the paid survival ratios have remained stable, with the incurred survival ratio impacted by changes in the level of notifications from year to year. We continue to monitor notification levels closely. For US risks written in the UK, the remaining reserves are relatively small in total and will therefore be particularly sensitive to changes in notifications or the size and timing of claims payments and settlements during the year.

APPENDIX

RATIOS, DEFINITIONS AND OTHER INFORMATION

Changes to management basis reporting

During 2014 the Group has made certain changes to enhance and improve the transparency of its financial disclosure.

The presentation of the Group's financial performance has been separated between its 'core' operations and its 'discontinued & non-core' operations. 'Core' operations comprise Scandinavia, Canada (excluding Noraxis), UK (excluding Legacy), Ireland, Latin America and Group Re. 'Discontinued & non-core' operations comprise the Baltics, Poland, Noraxis, Hong Kong, Singapore, China, Italy, Middle East, Russia, UK Legacy, and associate holdings in Thailand and India.

The combined ratio is now stated on an 'earned' basis. See below for further details

Investment expenses have been reclassified from Other Activities into the Investment Result. The Investment Result now includes investment income, investment expenses and the discount unwind. Other Activities has been renamed as Central Expenses.

Below the Operating Result, amortisation and pension costs have been grouped into 'non-operating charges' whilst Solvency II costs, reorganisation costs, transaction costs, and economic assumption changes have been grouped into 'non-recurring charges'.

Economic assumption changes is a new line item in management basis reporting and in 2014 captures the impact following the changes to discount rates.

European Specialty Lines (ESL) previously reported within Western Europe, has been reclassified into UK Commercial in order to better reflect the way in which the ESL businesses are managed.

Combined operating ratio

The Group's combined operating ratio (COR) is now calculated on an 'earned' basis, as follows:

COR = loss ratio + commission ratio + expense ratio

Where:

Loss ratio = net incurred claims / net earned premiums

Commission ratio = earned commissions / net earned premiums

Expense ratio = earned operating expenses / net earned premiums

Net asset value and tangible net asset value per share

Net asset value per share data at 31 December 2014 was based on total shareholders' funds of £3,825m, adjusted by £125m for preference shares. Tangible net asset value per share was based on a tangible book value of £2,900m.

Earnings per share

The earnings per share is calculated by reference to the result attributable to the ordinary shareholders of the Parent Company and the weighted average number of shares in issue during the period. These were 961,657,975 on both a basic and diluted basis (net of RSA owned shares). The number of shares in issue at 31 December 2014 was 1,014,264,898 (net of RSA owned shares).

Return on equity and tangible equity

		2014 £m	2013[1] £m
	Profit/(loss) after tax	**76**	**(338)**
	Less: non-controlling interest	(7)	(9)
	Less: preference dividend	(9)	(9)
A	**Profit/(loss) attributable to ordinary shareholders**	**60**	**(356)**
	Operating profit/(loss) before tax	**365**	**349**
	Less: interest costs	(119)	(117)
	Underlying profit/(loss) before tax	**246**	**232**
	Less: tax[2]	(69)	(67)
	Less: non-controlling interest	(7)	(9)
	Less: preference dividend	(9)	(9)
B	**Underlying profit/(loss) after tax attributable to ordinary shareholders**	**161**	**147**
	Opening shareholders' funds	**2,893**	**3,750**
	Less: preference share capital	(125)	(125)
C	**Opening ordinary shareholders' funds**	**2,768**	**3,625**
	Less: goodwill & intangibles	(1,103)	(1,489)
D	**Opening tangible ordinary shareholders' funds**	**1,665**	**2,136**
	Return on equity		
A/C	Reported	2.2%	(9.8)%
B/C	Underlying	5.8%	4.0%
	Return on tangible equity		
A/D	Reported	3.6%	(16.7)%
B/D	Underlying	9.7%	6.9%

[1] restated for 2014 methodology

[2] using underlying assumed tax rate of 28% for 2014 and 29% for 2013

RSA reports return on tangible equity on both a 'reported' and an 'underlying' basis to aid stakeholder review. In the light of market feedback and to achieve consistency of treatment of charges and gains reported beneath the Operating Profit line, the definition of 'underlying' set out above shows a change from past years and now excludes non-cash customer list amortisation, for which in past years the corresponding intangible asset had already been excluded. By 2017 this is expected to be immaterial in financial results terms. Incentive plans will adjust targets to exclude any benefit from this change.

Related party transactions

In 2014, there have been no related party transactions that have materially affected the financial position of the Group.

NET EARNED PREMIUMS BY CLASS

Management basis

	2014	2013	Change as reported	Change at constant fx
	£m	£m	%	%
Scandinavia				
Household	303	315	(4)	4
Personal Motor	357	401	(11)	(2)
Personal Accident & Other	297	305	(3)	6
Total Personal	**957**	**1,021**	**(6)**	**2**
Property	311	328	(5)	2
Liability	131	131	-	7
Commercial Motor	207	227	(9)	-
Marine & Other	146	174	(16)	(9)
Total Commercial	**795**	**860**	**(8)**	**-**
Total Scandinavia	**1,752**	**1,881**	**(7)**	**1**
Canada				
Household	424	431	(2)	11
Personal Motor	626	735	(15)	(4)
Total Personal	**1,050**	**1,166**	**(10)**	**2**
Property	217	248	(13)	(1)
Liability	120	143	(16)	(5)
Commercial Motor	94	105	(10)	1
Marine & Other	55	58	(5)	8
Total Commercial	**486**	**554**	**(12)**	**(1)**
Total Core Canada	**1,536**	**1,720**	**(11)**	**1**
UK				
Household	659	631	4	4
Personal Motor	306	390	(22)	(22)
Pet	254	217	17	17
Total Personal	**1,219**	**1,238**	**(2)**	**(2)**
Property	597	645	(7)	(7)
Liability	286	305	(6)	(6)
Commercial Motor	479	567	(16)	(16)
Marine	269	301	(11)	(11)
Total Commercial	**1,631**	**1,818**	**(10)**	**(10)**
Total Core UK	**2,850**	**3,056**	**(7)**	**(7)**
Ireland				
Personal	217	220	(1)	4
Commercial	111	113	(2)	4
Total Ireland	**328**	**333**	**(2)**	**4**
Latin America				
Chile	170	187	(9)	13
Argentina	198	235	(16)	32
Brazil	124	133	(7)	7
Mexico	90	96	(6)	3
Uruguay	44	46	(4)	16
Colombia	74	98	(24)	(15)
Total Latin America	**700**	**795**	**(12)**	**11**
Group Re	17	38	(55)	(55)
Total Core Group	**7,183**	**7,823**	**(8)**	**(1)**
Discontinued & non-core	691	771	(10)	(5)
Total Group	**7,874**	**8,594**	**(8)**	**(2)**

LOSS DEVELOPMENT TABLES & RESERVE MARGIN

The table below (for continuing operations) presents the general insurance claims provisions net of reinsurance for the accident years 2004 and prior through to 2014. The top half of the table shows the estimate of cumulative claims at the end of the initial accident year and how these have developed over time. The bottom half of the table shows the value of claims paid for each accident year in each subsequent year. The current year provision for each accident year is calculated as the estimate of cumulative claims at the end of the current year less the cumulative claims paid.

£m	2004 and prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Estimate of Cumulative claims												
At end of accident year	8,034	2,210	2,242	2,282	2,360	2,222	2,311	2,575	2,636	2,769	2,556	
1 year later	7,860	2,088	2,213	2,282	2,340	2,253	2,329	2,571	2,660	2,863		
2 years later	7,981	2,011	2,121	2,254	2,327	2,219	2,320	2,560	2,644			
3 years later	7,768	1,938	2,045	2,192	2,291	2,192	2,351	2,511				
4 years later	7,540	1,860	1,997	2,150	2,273	2,214	2,360					
5 years later	7,409	1,804	1,975	2,132	2,247	2,221						
6 years later	7,253	1,780	1,943	2,132	2,228							
7 years later	7,073	1,755	1,919	2,121								
8 years later	6,971	1,730	1,904									
9 years later	6,960	1,727										
10 years later	7,024											
2014 movement	**(64)**	**3**	**15**	**11**	**19**	**(7)**	**(9)**	**49**	**16**	**(94)**		**(61)**
Less: margin release/(build)	21	2	15	7	11	6	2	23	(5)	(89)		(7)
Discounting	(19)	-	-	(1)	(1)	(1)	-	2	-	(2)		(22)
2014 movement ex margin	**(62)**	**1**	**-**	**3**	**7**	**(14)**	**(11)**	**28**	**21**	**(7)**		**(34)**
Claims paid												
1 year later	1,687	840	872	992	1,136	1,116	1,207	1,196	1,238	1,347		
2 years later	976	263	318	328	339	348	380	401	408			
3 years later	608	150	171	238	230	232	231	261				
4 years later	557	127	160	146	173	183	181					
5 years later	407	96	106	124	103	126						
6 years later	320	74	77	67	68							
7 years later	190	37	54	36								
8 years later	177	22	30									
9 years later	253	11										
10 years later	222											
Cumulative claims paid	**5,397**	**1,620**	**1,788**	**1,931**	**2,049**	**2,005**	**1,999**	**1,858**	**1,646**	**1,347**		
Current year provision before discounting	**1,627**	**107**	**116**	**190**	**179**	**216**	**361**	**653**	**998**	**1,516**	**2,556**	**8,519**
Exchange adjustment to closing rates												(146)
Discounting												(444)
Annuities												673
Present value recognised in the statement of financial position												**8,602**
Held for sale												417
Total Group												**9,019**

In terms of accident year, 2011 and 2012 have shown positive development across most major lines in Scandinavia, UK Commercial Property, UK Personal lines and Canada. 2009 and 2010 have been impacted by UK Professional Indemnity strengthening. 2004 & prior includes strengthening for UK Deafness reserves and also in UK Asbestos, relating to revisions to estimates of reinsurance recoveries to reflect the latest experience of claims across accident years.

Reconciliation to prior year underwriting result:

	£m
2014 net loss development	**(61)**
Discounting	22
Annuities	18
Held for sale entities	30
Other	4
Prior year net incurred claims	**13**
Prior year premiums	(33)
Prior year commissions	(4)
Prior year expenses	(7)
Prior year underwriting result	**(31)**

Reserve margin

Our own assessment of the margin in reserves for the core Group (the difference between our actuarial indication and the booked reserves in the financial statements) is unchanged at 5% of booked claims reserves, though there have been movements between regional businesses during the year. This reserve margin effectively acts as a cushion against stressed claims movements in capital models.

PENSIONS

The table below provides a reconciliation of the movement in the Group's pension fund position under IAS 19 (net of tax) from 1 January 2014 to 31 December 2014.

	UK £m	Other £m	Group £m
Pension fund surplus/(deficit) at 1 January 2014	**(58)**	**(67)**	**(125)**
Actuarial gains/(losses)[1]	35	(39)	(4)
Deficit funding	52	-	52
Other movements[2]	4	1	5
Pension fund surplus/(deficit) at 31 December 2014	**33**	**(105)**	**(72)**

[1] *Actuarial gains/(losses) include pension investment expenses, variance against expected returns, change in actuarial assumptions and experience losses.*
[2] *Other movements include regular contributions, service/administration costs, expected returns and interest costs.*

The IAS 19 pension has improved during the year from a deficit of £125m to a deficit of £72m. The UK pension position has improved by £91m during the year to a surplus of £33m, driven by greater than expected return on assets and contributions, partly offset by changes to actuarial assumptions (the pension inflation rate fell from 3.2% to 2.9% in the year, whilst the discount rate fell from 4.6% to 3.7%), experience losses and service costs. The overseas pension position deteriorated from a deficit of £67m to a deficit of £105m driven primarily by lower discount rates.

At the most recent funding valuations as of 31 March 2012, the three main UK funds had an aggregate funding deficit of £477m, equivalent to a funding level of 93%. The Group and the Trustees agreed funding plans at that time to eliminate the funding deficits by 2022. The funding plans will be reviewed following the next triannual funding valuations, which will have an effective date of 31 March 2015.

The Scheme Actuaries also carry out interim assessments on an annual basis and at the last update as at 31 March 2014 the funding level was estimated to have increased to 97%. This update is not formally agreed between the Group and the Trustees but reflects changes in market conditions and the deficit contributions paid.

For completeness, in addition to calculating the funding valuation, the Scheme Actuaries also provide an estimate of the cost of full risk removal by purchasing annuities from an insurance company to meet the existing retirement obligations. This is a theoretical calculation and does not reflect what we expect to pay into the schemes. In common with most UK defined benefit arrangements, the liabilities and hence deficit on this basis are materially higher than on an ongoing funding basis and as at 31 March 2014 there was estimated to be a shortfall of approximately £3.1bn. This is largely due to the use of more conservative assumptions in relation to future investment return and to a lesser extent, how long members will live. However, the cost of purchasing annuities will also reflect insurers' reserving requirements, cost of capital, profit margins and supply and demand dynamics.

The purchase of annuities would effectively result in full removal of all economic and demographic risks associated with provision of the liabilities. Alternatively, full removal of investment and economic risk on expected benefit payments could also be achieved through the use of a fully matched swaps based investment strategy. This effectively eliminates the assumed return benefits in the funding basis of equity and credit investments which form part of the asset mix of the funds. The Trustee's investment advisers have estimated that as at 31 March 2014 this would have resulted in a shortfall of £2.4bn, however under this approach the funds would remain exposed to longevity and other behavioural and demographic risks.

REINSURANCE

For 2015 we have made some changes to our reinsurance programme.

We have purchased a Group aggregate reinsurance cover, the key terms of which are:

- Events or individual net losses greater than £10m are added together across our financial year (when a loss exceeds £10m it is included in full);
- Cover attaches when total of these retained losses is greater than £180m;
- Limit of cover is £150m in any year;
- 3 year deal with maximum recovery available during that period of £300m;
- £150m limit can also be used if Cat cover is exceeded;
- Profit commission and no claims bonus arrangements in place; and
- Counterparties are high credit quality reinsurers (80% AA- and 20% A or better).

Retentions for our existing Cat and Risk treaties have therefore been adjusted accordingly. The key changes are to increase non-UK Cat retentions from £25m to £50m (Canada C$30m to C$50m), and to increase Property Risk retentions from £25m to £50m. UK Cat retention remains unchanged at £75m.

INCOME STATEMENT

Management basis - year ended 31 December 2013 (re-presented for core, non-core and discontinued split)

	Group FY 2013 £m	Core[5] £m	Total 'non-core': 'Non-core'[6] £m	Total 'non-core': Discontinued operations[6] £m
Net Written Premiums	**8,664**	***7,877***	***188***	***599***
Net Earned Premiums	8,594	*7,823*	*172*	*599*
Net Incurred Claims[1]	(5,970)	*(5,461)*	*(138)*	*(371)*
Commissions[7]	(1,218)	*(1,122)*	*(10)*	*(86)*
Operating expenses[7]	(1,349)	*(1,213)*	*(14)*	*(122)*
Underwriting result	**57**	***27***	***10***	***20***
Investment income	493	*443*	*30*	*20*
Investment expenses	(31)	*(28)*	*(1)*	*(2)*
Unwind of discount	(97)	*(69)*	*(27)*	*(1)*
Investment result	**365**	***346***	***2***	***17***
Insurance result	**422**	***373***	***12***	***37***
Central expenses	(73)	*(58)*	*(18)*	*3*
Operating result	**349**	***315***	***(6)***	***40***
Net gains/losses/exchange	32			
Interest	(117)			
Non-operating charges[2]	(57)			
Non-recurring charges[3]	(451)			
Profit before tax	**(244)**			
Tax	(94)			
Profit after tax	**(338)**			
Loss ratio (%)	69.5	*69.8*		
Weather loss ratio	*3.5*	*3.7*		
Large loss ratio	*7.9*	*8.2*		
Current year underlying loss ratio[4]	*58.7*	*58.3*		
Prior year effect on loss ratio	*(0.6)*	*(0.4)*		
Commission ratio (%)[7]	14.2	*14.3*		
Expense ratio (%)[7]	15.7	*15.5*		
Combined ratio (%)	**99.4**			
Reported ROTE	**(16.7)%**			
Underlying ROTE	**6.9%**			
Notes:				
[1] Of which: claims handling costs	*484*			
[2] Amortisation	*(42)*			
[2] Pension net interest costs	*(15)*			
[3] Solvency II costs	*(20)*			
[3] Reorganisation costs	*(356)*			
[3] Transaction costs	*(12)*			
[3] Economic assumption changes	*(63)*			

[4] Current year underlying loss ratio excludes weather and large losses.

[5] 'Core' comprises Scandinavia, Canada (ex Noraxis), UK (ex Legacy), Ireland, Latin America and central functions.

[6] Discontinued operations include Poland, Baltics, Italy, Hong Kong, Singapore, China and Thailand. Non-core operations include Noraxis, UK Legacy, Middle East, India and Russia

[7] The combined ratio calculation methodology is presented on an 'earned' basis, please refer to the appendix for further details

SEGMENTAL ANALYSIS

Management basis - year ended 31 December 2013 (re-presented onto 2014 segmental split)

	Scandinavia £m	Canada[4] £m	UK[5] £m	Ireland £m	Latin America £m	Central functions £m	Total 'non-core'[1] £m	**Group FY 2013 £m**
Net Written Premiums	**1,863**	**1,755**	**3,041**	**327**	**837**	**54**	**787**	**8,664**
Net Earned Premiums	1,881	1,720	3,056	333	795	38	771	8,594
Net Incurred Claims	(1,298)	(1,233)	(2,019)	(439)	(439)	(33)	(509)	(5,970)
Commissions[2]	(61)	(244)	(565)	(57)	(192)	(3)	(96)	(1,218)
Operating expenses[2]	(297)	(256)	(459)	(57)	(144)	-	(136)	(1,349)
Underwriting result	**225**	**(13)**	**13**	**(220)**	**20**	**2**	**30**	**57**
Investment income	134	100	144	14	42	9	50	493
Investment expenses	(9)	(4)	(9)	-	(6)	-	(3)	(31)
Unwind of discount	(40)	(3)	(7)	-	(10)	(9)	(28)	(97)
Investment result	**85**	**93**	**128**	**14**	**26**	**-**	**19**	**365**
Insurance result	**310**	**80**	**141**	**(206)**	**46**	**2**	**49**	**422**
Central expenses	-	-	-	-	-	(58)	(15)	(73)
Operating result	**310**	**80**	**141**	**(206)**	**46**	**(56)**	**34**	**349**
Net gains/losses/exchange								32
Interest								(117)
Non-operating charges								(57)
Non-recurring charges								(451)
Profit before tax								**(244)**
Tax								(94)
Profit after tax								**(338)**
Loss ratio (%)	69.0	71.7	66.1	132.1	55.2			69.5
Weather loss ratio	*1.8*	*8.0*	*3.0*	*4.2*	*0.4*			*3.5*
Large loss ratio	*6.6*	*3.3*	*13.2*	*5.7*	*2.7*			*7.9*
Current year underlying loss ratio[3]	*67.5*	*62.1*	*50.2*	*84.2*	*51.5*			*58.7*
Prior year effect on loss ratio	*(6.9)*	*(1.7)*	*(0.3)*	*38.0*	*0.6*			*(0.6)*
Commission ratio (%)[2]	3.3	14.1	18.5	17.1	24.2			14.2
Expense ratio (%)[2]	15.8	14.9	15.0	17.0	18.1			15.7
Combined ratio (%)	**88.1**	**100.7**	**99.6**	**166.2**	**97.5**			**99.4**

[1] Total 'non-core' comprises discontinued operations of Poland, Baltics, Italy, Hong Kong, Singapore, China and Thailand and other non-core operations of Noraxis, UK Legacy, Middle East, India and Russia

[2] The combined ratio calculation methodology is presented on an 'earned' basis, please refer to the appendix for further details

[3] Current year underlying loss ratio excludes weather and large losses

[4] Excluding Noraxis

[5] Excluding Legacy

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Management basis – year ended 31 December 2014

	31 December 2014 £m	31 December 2013 £m
Assets		
Goodwill and other intangible assets	800	1,103
Property and equipment	151	160
Investment property	*346*	*331*
Investment in associates	*31*	*44*
Financial assets	*12,840*	*12,259*
Total investments	13,217	12,634
Reinsurers' share of insurance contract liabilities	1,897	2,026
Insurance and reinsurance debtors	3,174	3,593
Deferred tax assets	*180*	*302*
Current tax assets	*21*	*60*
Other debtors and other assets	*759*	*787*
Other assets	960	1,149
Cash and cash equivalents	1,011	1,162
Assets associated with continuing operations	**21,210**	**21,827**
Assets held for sale	808	103
Total assets	**22,018**	**21,930**
Equity and liabilities		
Equity and loan capital		
Shareholders' funds	3,825	2,893
Non-controlling interests	108	121
Total equity	**3,933**	**3,014**
Loan capital	1,243	1,309
Total equity and loan capital	**5,176**	**4,323**
Liabilities (excluding loan capital)		
Insurance contract liabilities	13,266	15,001
Insurance and reinsurance liabilities	904	643
Borrowings	299	301
Deferred tax liabilities	*62*	*82*
Current tax liabilities	*83*	*57*
Provisions	*338*	*366*
Other liabilities	*1,160*	*1,157*
Provisions and other liabilities	1,643	1,662
Liabilities associated with continuing operations	**16,112**	**17,607**
Liabilities held for sale	730	-
Total liabilities (excluding loan capital)	**16,842**	**17,607**
Total equity, loan capital and liabilities	**22,018**	**21,930**

SUMMARY CASH FLOW FOR CONTINUING OPERATIONS

Management basis

	2014 £m	2013 £m
Current year underwriting profit/(loss)	121	12
Adjustment for non-cash items, claims payments/receipts	2	182
Underwriting cash	**123**	**194**
Investment cash	469	534
Underlying operating cash flow	**592**	**728**
Non-operating cash flow (including reorganisation costs)	(187)	(120)
Operating cash flow	**405**	**608**
Tax paid	(83)	(102)
Interest paid	(119)	(117)
Pension deficit funding	(65)	(73)
Cash generation	**138**	**316**
Group dividends	(9)	(157)
Dividend to non-controlling interests	(6)	(14)
Issue of share capital	753	7
Net movement of debt	(66)	4
Corporate activity	678	(42)
Cash movement	**1,488**	**114**
Represented by:		
Increase/(decrease) in cash and cash equivalents	34	(111)
Purchase/(sale) of other investments	1,454	225
Cash movement	**1,488**	**114**

RECONCILIATION: MANAGEMENT BASIS TO STATUTORY REPORTING

Management basis			Discontinued operations	Add back other income		Statutory basis
Net written premiums	7,465		(498)		6,967	Net written premiums
Net earned premiums	7,874		(513)		7,361	Net earned premiums
Net incurred claims	(5,381)		311		(5,070)	Net claims and benefits
Commissions	(1,195)	(2,403)	173	(180)	(2,410)	Underwriting and policy acquisition costs
Operating expenses	(1,208)					
Underwriting result	**90**					
Profit before tax	**275**		(215)		60	**Profit before tax**
Tax	(199)		17		(182)	Tax
Profit from discontinued operations	-		198		198	Profit from discontinued operations
Profit after tax	**76**		-		76	**Profit after tax**

REPORTING AND DIVIDEND TIMETABLE

5 March 2015	Ex dividend date for the 2014 final dividend
5 March 2015	Ex dividend date for the first preference dividend for 2015
6 March 2015	Record date for the 2014 final dividend
6 March 2015	Record date for the record preference dividend for 2015
1 April 2015	Payment date for the first preference dividend for 2015
7 May 2015	Q1 2015 Interim Management Statement
8 May 2015	Annual General Meeting
15 May 2015	Payment date for the 2014 final dividend
6 August 2015	2015 Interim Results

Note: the scrip dividend alternative is not being offered for the 2014 final dividend payment

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Further information

A live webcast of the analyst presentation, including the question and answer session, will be broadcast on the website at 09:00am today and is available via a listen only conference call by dialling +44 (0) 20 3427 1900. Participants should use access code 6917899. A webcast of the call will be available via the company website (www.rsagroup.com).

Important disclaimer

This press release and the associated conference call may contain 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. Generally, words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "aim", "outlook", "believe", "plan", "seek", "continue" or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance. By their nature, all forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation or regulations in the jurisdictions in which the Group and its affiliates operate. As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Group's forward-looking statements. Forward-looking statements in this press release are current only as of the date on which such statements are made. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Nothing in this press release shall be construed as a profit forecast.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ESTIMATION TECHNIQUES, RISKS, UNCERTAINTIES AND CONTINGENCIES

Introduction

These condensed consolidated financial statements have been prepared by applying the accounting policies used in the 2014 Annual Report and Accounts (see note 19).

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

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

The insurance contract liabilities of an insurance company include the provision for unearned premiums and unexpired risks and the provision for losses and loss adjustment expenses. Unearned premiums and unexpired risks represent the amount of income set aside by the company to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the end of the reporting period. Outstanding claims represent the company's estimate of the cost of settlement of claims that have occurred by the end of the reporting period but have not yet been finally settled.

In addition to the inherent uncertainty of having to make provision for future events, there is also considerable uncertainty in regard to 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 Group 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 Group'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
- Expected loss ratios.

In addition, the Group 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 estimate, the Group considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year. The processes lead to the determination of the actuarial indication of the provision. The actuarial indication allows for crystallised risk, it does not allow for uncrystallised risks such the potential change in discount rate for lump sum damages awards described below.

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 provisions for losses and loss adjustment expenses 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 Group's exposure to asbestos related losses is examined on this basis. The results of these reviews are considered when establishing the levels of provisions for losses and loss adjustment expenses and unexpired periods of risk. The level of provision carried by the Group targets the inclusion of a margin of 5%, for the core businesses. The appropriateness of the 5% target is subject to regular review. Margin is defined as the difference between the carried provision and the actuarial indication.

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.

Pensions

The pension assets and post-retirement liabilities are calculated in accordance with International Accounting Standard 19 (IAS 19). The assets, liabilities and income statement charge, calculated in accordance with IAS 19, are sensitive to the assumptions made from time to time, including inflation, interest rate and mortality. IAS 19 compares, at a given date, the current market value of a pension 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 will also be impacted by changes in 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
- 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 Group. 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 Group's long tail lines of business.

The Group has exposures to risks in each class of business within each operating segment that may develop and that could have a material impact upon the Group's financial position. The geographic and insurance risk diversity within the Group's portfolio of issued insurance policies mean it is not possible to predict whether material development will occur and, if it does occur, the location and the timing of such an occurrence. The estimation of insurance contract liabilities involves the use of judgments and assumptions that are specific to the insurance risks within each territory and the particular type of insurance risk covered. The diversity of the insurance risks results in it not being possible to identify individual judgments and assumptions that are more likely than others to have a material impact on the future development of the insurance contract liabilities.

The following section identifies specific risks relating to asbestos and environmental claims. There may be other classes of risk which could develop in the future and that could have a material impact on the Group's financial position.

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

Asbestos and environmental claims

The estimation of the provisions for the ultimate cost of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of insurance business. As a result it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims, particularly in periods when theories of law are in flux. Consequently, traditional techniques for estimating provisions for losses and loss adjustment expenses cannot wholly be relied upon and the Group employs specialised techniques to determine provisions using the extensive knowledge of both internal asbestos and environmental pollution experts and external legal and professional advisors.

Factors contributing to this higher degree of uncertainty include:

- The long delay in reporting claims from the date of exposure (for example, cases of mesothelioma can have a latent period of up to 40 years). This makes estimating the ultimate number of claims the Group will receive particularly difficult
- Issues of allocation of responsibility among potentially responsible parties and insurers
- Emerging court decisions and the possibility of retrospective legislative changes increasing or decreasing insurer liability
- The tendency for social trends and factors to influence court awards
- Developments pertaining to the Group's ability to recover reinsurance for claims of this nature
- For US liabilities from the Group's London market business, developments in the tactics of US plaintiff lawyers and court decisions and awards.

Potential change in discount rate for lump sum damages awards

Legislative changes may affect the Group's liability in respect of unsettled claims in the use of predetermined factors used by courts to calculate compensation claims. For example, in the UK, standard formulae are used as an actuarial measure by the courts to assess lump sum damages awards for future losses (typically loss of earnings arising from personal injuries and fatal accidents). The calibration of these standard formulae can be updated by the UK Government and the Lord Chancellor may review the methodology to be applied in determining the discount rate to calculate the appropriate settlements, or the discount rate itself, in due course. A reduction in the prescribed discount rate would increase the value of future claims settlements.

Potential credit risk for structured settlements

In Canada the Group has purchased annuities from regulated Canadian life insurers in order to pay fixed and recurring payments to certain claimants. This arrangement exposes the group to a credit risk in the event that the life insurers are unable to make these payments which is mitigated by an industry compensation scheme which in that event would assume a significant majority of the remaining outstanding obligations. The likelihood of both a Canadian regulated life insurer and the industry compensation scheme being unable to pay their obligations is considered very remote and so no provision has been recognised in respect of this risk.

Acquisitions and disposals

The Group makes acquisitions and disposals of businesses as part of its normal operations. All acquisitions are made after due diligence, which will include, amongst other matters, assessment of the adequacy of claims reserves, assessment of the recoverability of reinsurance balances, inquiries with regard to outstanding litigation and inquiries of local regulators and taxation authorities. Consideration is also given to potential costs, risks and issues in relation to the integration of any proposed acquisitions with existing Group operations. The Group will seek to receive the benefit of appropriate contractual representations and warranties in connection with any acquisition and, where necessary, additional indemnifications in relation to specific risks although there can be no guarantee that these processes and any such protection will be adequate in all circumstances. The Group may also provide relevant representations, warranties and indemnities to counterparties on any disposal. Further details of the disposals in the year are given in note 3.

These clauses are customary in such contracts and may from time to time lead to the Group receiving claims from counterparties.

Contracts with third parties

The Group enters into outsourcing contracts and distribution arrangements with third parties in the normal course of its business and is reliant upon those third parties being willing and able to perform their obligations in accordance with the terms and conditions of the contracts.

Litigation, disputes and investigations

The Group, in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectoral inquiries and investigations in the normal course of its business. In addition, the Group is exposed to the risk of litigation in connection with its former ownership of the US operation. Based on current information the directors do not believe that any current mediation, arbitration, regulatory, governmental or sectoral inquiries and investigations and pending or threatened litigation or dispute will have a material adverse effect on the Group'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 Group's financial position or cashflows for any period.

Reinsurance

The Group is exposed to disputes on, and defects in, contracts with its reinsurers and the possibility of default by its reinsurers. The Group is also exposed to the credit risk assumed in fronting arrangements and to potential reinsurance capacity constraints. In selecting the reinsurers with whom the Group conducts business its strategy is to seek reinsurers with the appropriate combination of financial strength, price and capacity. The Group Corporate Centre publishes internally a list of authorised reinsurers who pass the Group's selection process and which its operations may use for new transactions.

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

Investment risk

The Group 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 exchange rates. The Group's exposure to market risks is controlled by the setting of investment limits in line with the Group's risk appetite. From time to time the Group also makes use of derivative financial instruments to reduce exposure to adverse fluctuations in foreign exchange rates and equity markets. The 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 Group's overall credit profile and specific concentrations within risk appetite. The Group's insurance investment portfolios are concentrated in listed securities with very low levels of exposure to assets without quoted market prices. The Group uses model based analysis to verify asset values when market values are not readily available.

Rating environment

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

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

Foreign exchange risk

The Group publishes consolidated financial statements in Pounds Sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly the Danish Krone and Swedish Krona, the Euro and the Canadian Dollar, into Pounds Sterling will impact the reported consolidated financial position, results of operations and cashflows from period to period. These fluctuations in exchange rates will also impact the Pound Sterling value of, and the return on, the Group's investments.

Regulatory environment

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

Solvency II, the new solvency framework being introduced by the EU with effect from 1 January 2016 is intended to achieve greater harmonisation of approach across EU member states to assessing capital resources and requirements. Although there still remains some uncertainty as to the final rules, the Group is actively progressing its implementation plans and the Directors are confident the Group will continue to meet regulatory capital requirements.

The Group, and its main European insurance entities, will be seeking regulatory approval to use an internal model to calculate the Solvency Capital

Requirement (SCR). There is a risk that one or more regulators may elect not to give approval for the whole, or parts of, the model. This may mean that the Group would need to use elements of the standard formula for calculating the SCR, which may be materially different to the SCR calculated using the internal model. The Group maintains close and regular dialogue with its regulators throughout the journey to internal model approval and the Directors are confident that the Group will continue to meet all future regulatory capital requirements. The Group intends to make its internal model approval application in May 2015.

CONDENSED CONSOLIDATED INCOME STATEMENT

STATUTORY BASIS

	Notes	12 Months 2014 (audited) £m	12 Months 2013 Restated[1] (audited) £m
Income			
Gross written premiums		**8,276**	9,136
Less: reinsurance premiums		**(1,309)**	(1,071)
Net written premiums	2	**6,967**	8,065
Change in the gross provision for unearned premiums		**41**	(153)
Less: change in provision for unearned premiums, reinsurers' share		**353**	83
Change in provision for unearned premiums		**394**	(70)
Net earned premiums		**7,361**	7,995
Net investment return		**521**	504
Other operating income		**188**	214
Total income		**8,070**	8,713
Expenses			
Gross claims incurred		**(5,360)**	(6,235)
Less: claims recoveries from reinsurers		**290**	636
Net claims		**(5,070)**	(5,599)
Underwriting and policy acquisition costs		**(2,410)**	(2,493)
Unwind of discount		**(180)**	(159)
Other operating expenses		**(425)**	(534)
Total expenses		**(8,085)**	(8,785)
Finance costs		**(123)**	(125)
Gains on disposals of businesses		**203**	-
Net share of loss after tax of associates		**(5)**	(6)
Profit/(loss) before tax		**60**	(203)
Income tax expense	4	**(182)**	(94)
Loss after tax from continuing operations		**(122)**	(297)
Profit/(loss) from discontinued operations	3a	**198**	(41)
Profit/(loss) for the year		**76**	(338)
Attributable to:			
Equity holders of the Parent Company from continuing operations		**(129)**	(306)
Equity holders of the Parent Company from discontinued operations	3a	**198**	(41)
		69	(347)
Non-controlling interests from continuing operations		**7**	9
Non-controlling interests from discontinued operations		**-**	-
		76	(338)
Earnings per share on profit/(loss) attributable to the ordinary shareholders of the Parent Company			
Basic			
From continuing operations	5	**(14.4)p**	(38.6)p
From discontinued operations	5	**20.6p**	(5.1)p
		6.2p	(43.7)p
Diluted			
From continuing operations	5	**(14.4)p**	(38.6)p
From discontinued operations	5	**20.6p**	(5.1)p
		6.2p	(43.7)p
Ordinary dividends paid and proposed for the year			
Interim dividend paid (per share)	6	**nil**	10.2p
Final dividend proposed (per share)	6	**2.0p**	nil

The attached notes form an integral part of these condensed consolidated financial statements. For dividend information refer to note 6.

1 For information about the restatement applied to these condensed consolidated financial statements, please see note 1.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATUTORY BASIS

	Notes	12 Months 2014 (audited) £m	12 Months 2013 Restated[1] (audited) £m
Loss for the year from continuing operations		**(122)**	(297)
Profit/(loss) for the year from discontinued operations	**3a**	**198**	(41)
Profit/(loss) for the year		**76**	(338)
Items from continuing operations that may be reclassified to the income statement:			
Exchange losses net of tax		**(147)**	(126)
Share of associates' other comprehensive expense		**-**	(3)
Fair value gains/(losses) on available for sale financial assets net of tax		**247**	(246)
		100	(375)
Items from continuing operations that will not be reclassified to the income statement:			
Pension - remeasurement of net defined benefit liability net of tax		**(7)**	16
Movement in property revaluation surplus net of tax		**4**	2
		(3)	18
Other comprehensive income/(expense) for the year from continuing operations		**97**	(357)
Other comprehensive income/(expense) for the year from discontinued operations	**3a**	**12**	(13)
Total other comprehensive income/(expense) for the year		**109**	(370)
Total comprehensive expense for the year from continuing operations		**(25)**	(654)
Total comprehensive income for the year from discontinued operations		**210**	(54)
Total comprehensive income/(expense) for the year		**185**	(708)
Attributable to:			
Equity holders of the Parent Company		**178**	(713)
Non-controlling interests		**7**	5
		185	(708)

1 For information about the restatement applied to these condensed consolidated financial statements, please see note 1.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

STATUTORY BASIS

	Notes	Shareholders' equity (audited) £m	Non-controlling interests (audited) £m	Total equity (audited) £m
Balance at 1 January 2014		**2,893**	**121**	**3,014**
Total comprehensive income for the period		**178**	**7**	**185**
Share issue including scrip		**753**	**-**	**753**
Changes in shareholders' interests in subsidiaries		**-**	**(14)**	**(14)**
Share based payments		**10**	**-**	**10**
Prior year final dividend	**6**	**-**	**-**	**-**
Preference dividend	**6**	**(9)**	**(6)**	**(15)**
Balance at 31 December 2014		**3,825**	**108**	**3,933**
Balance at 1 January 2013		3,750	129	3,879
Total comprehensive income for the period		(713)	5	(708)
Share issue including scrip		82	-	82
Changes in shareholders' interests in subsidiaries		(3)	1	(2)
Share based payments		9	-	9
Prior year final dividend	**6**	(140)	(14)	(154)
Current year interim dividend	**6**	(83)	-	(83)
Preference dividend	**6**	(9)	-	(9)
Balance at 31 December 2013		**2,893**	**121**	**3,014**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

STATUTORY BASIS

	Notes	31 December 2014 (audited) £m	31 December 2013 (audited) £m
Assets			
Goodwill and other intangible assets	7	**800**	1,103
Property and equipment	8	**151**	160
Investment property		**346**	331
Investments in associates		**31**	44
Financial assets	9	**12,840**	12,259
Total investments		**13,217**	12,634
Reinsurers' share of insurance contract liabilities	10	**1,897**	2,026
Insurance and reinsurance debtors		**3,174**	3,593
Deferred tax assets	16	**180**	302
Current tax assets	16	**21**	60
Other debtors and other assets		**759**	787
Other assets		**960**	1,149
Cash and cash equivalents	13	**1,011**	1,162
		21,210	21,827
Assets held for sale and disposal groups	3b	**808**	103
Total assets		**22,018**	21,930
Equity and liabilities			
Equity			
Shareholders' equity		**3,825**	2,893
Non controlling interests		**108**	121
Total equity		**3,933**	3,014
Liabilities			
Loan capital		**1,243**	1,309
Insurance contract liabilities	15	**13,266**	15,001
Insurance and reinsurance liabilities		**904**	643
Borrowings		**299**	301
Deferred tax liabilities	16	**62**	82
Current tax liabilities	16	**83**	57
Provisions		**338**	366
Other liabilities		**1,160**	1,157
Provisions and other liabilities		**1,643**	1,662
		17,355	18,916
Liabilities of disposal groups	3b	**730**	-
Total liabilities		**18,085**	18,916
Total equity and liabilities		**22,018**	21,930

These condensed consolidated financial statements have been approved for issue by the Board of Directors on 25 February 2014.

The attached notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

STATUTORY BASIS

	Notes	12 Months 2014 (audited) £m	12 Months 2013 Restated[1] (audited) £m
Cashflows from continuing operations	12	**33**	230
Tax paid		**(82)**	(103)
Dividend income		**23**	48
Interest income		**374**	410
Other investment income		**26**	28
Interest paid		**(119)**	(117)
Pension deficit funding		**(65)**	(73)
Net cashflows from operating activities - continuing operations		**190**	423
Net cashflows from operating activities - discontinued operations		**43**	33
Total net cashflows from operating activities		**233**	456
Proceeds from sales or maturities of:			
Financial assets		**4,674**	3,749
Investment property		**3**	41
Property and equipment		**32**	2
Investments in subsidiaries (net of cash disposed of)		**373**	2
Purchase of:			
Financial assets		**(6,085)**	(3,965)
Investment property		**(22)**	(43)
Property and equipment		**(40)**	(36)
Intangible assets		**(78)**	(120)
Investments in subsidiaries (net of cash acquired)		**-**	(15)
Investments in associates		**-**	(4)
Net cashflows used in investing activities - continuing operations		**(1,143)**	(389)
Net cashflows from investing activities - discontinued operations		**272**	(19)
Total net cashflows from investing activities		**(871)**	(408)
Proceeds from issue of share capital		**753**	7
Sale of shares to non controlling interests		**-**	2
Purchase of shares from non controlling interests		**-**	(1)
Dividends paid to ordinary shareholders		**-**	(148)
Dividends paid to preference shareholders		**(9)**	(9)
Dividends paid to non controlling interests		**(6)**	(14)
Redemption of long term borrowings		**(459)**	-
Receipt of long term borrowings		**395**	-
Net movement in other borrowings		**(2)**	4
Net cashflows from financing activities - continuing operations		**672**	(159)
Net cashflows from financing activities - discontinued operations		**-**	-
Total net cashflows from financing activities		**672**	(159)
Net increase/(decrease) in cash and cash equivalents		**34**	(111)
Cash and cash equivalents at beginning of the year		**1,162**	1,329
Effect of exchange rate changes on cash and cash equivalents		**(61)**	(56)
Cash and cash equivalents at end of the year	13	**1,135**	1,162

The attached notes form an integral part of these condensed consolidated financial statements.

1 For information about the restatement applied to these condensed consolidated financial statements, please see note 1, page 56.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Changes in accounting policies, presentation, disclosure and comparative information

The Group has not made any significant changes to its accounting policies during 2014 but it is now applying a number of new IFRSs. These new standards are IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities'.

IFRS 10 has introduced a new definition of control that may, in some circumstances, change the result of an assessment of a parent company's control over a subsidiary. The Group accounting policies now apply the revised definition of control but this has not resulted in any changes in the classification of its existing subsidiaries. In addition, there is no other entity in which the Group holds an interest that is now reclassified as a subsidiary.

In addition to the new IFRSs mentioned above, there are also a number of other revisions to existing IFRS that became effective during 2014 but none of these has a significant impact on these financial statements.

In considering the appropriateness of the going concern basis, the Board has reviewed the Group's ongoing financial commitments for the next 12 months and beyond. The Board's review included the Group's strategic plans and updated forecasts, capital position, liquidity and credit facilities and investment portfolio. The Group maintains close and regular dialogue with its regulators throughout the journey to internal model approval and the Directors are confident that the Group will continue to meet all future regulatory capital requirements. As a result of this review, the directors have satisfied themselves that it is appropriate to prepare these financial statements on a going concern basis.

Restatement

The Group undertook a strategic review of its businesses during 2014. Going forward the Group has rearranged the operational structure of a number of its overseas operations and has revised its reporting structure to reflect the new operational structure. The basis of reporting the results of its operations internally has been revised to reflect the new operating structure. In addition the Group has made some changes to the basis of calculating the operating result (management basis). Further information on these changes are presented in note 2 to the financial statements. The comparative results in note 2 have been restated on the revised basis.

As a result of the strategic review, the Group has sold a number of its businesses and classified a number of other businesses as held for sale. For each of these businesses that represents a separate geographical area of operations, the business has been classified as a discontinued business. Further information on these businesses are provided in note 3. The comparative results in the income statement and the statement of other comprehensive income have been reclassified so as to present discontinued operations.

The comparative result for the earnings per share on profit/(loss) attributable to the ordinary shareholders of the Parent Company has been restated to reflect the changes to the number of ordinary shares in issue during 2014. The changes arise from the rights issue and the share consolidation. Note 14 to the financial statements provides further information on the changes to the number of ordinary shares in issue.

In the income statement, Other operating income and Other operating expenses have been restated as a result of reclassifying commission income of £77m previously reported in 2013 within Other operating expenses. This principally relates to the Noraxis Capital Corporation business which has now been disposed of.

2. Operating segments

The Group has undertaken a strategic review of its businesses and has disposed of a number of its businesses. Further information on the Group's disposal activity is disclosed in note 3.

As a result of this the Group is now organised into operating segments on the basis of core and non-core businesses with 2013 having been restated on a consistent basis. The Group's core businesses are Scandinavia, Canada, UK and Ireland, and Latin America with each operating segment managed by a member of the Group Executive Committee who is directly accountable to the Group Chief Executive and the Board of Directors (who are combined to be the chief operating decision maker). Scandinavia, Canada and UK & Ireland represent the major geographical areas in which the Group operates through established businesses in mature markets. The UK is the Group's country of domicile and one of its principle markets. Information has been provided separately for the UK and for Ireland as this represents the basis on which the information is provided to the Group Chief Executive and the Board of Directors.

The businesses classified as discontinued operations and those considered to be non-core businesses are presented separately.

The results reported in the financial statements in 2013 for UK & Western Europe included the results of the Italian business, which is now included as a discontinued operation. The results reported in 2013 for Emerging Markets included the results of Latin America. Emerging Markets have been restated to identify Latin America as a core segment. The Group's non-core business comprise Noraxis, Russia, India, UK legacy and Middle East.

The results previously presented in the 2013 financial statements have been restated onto a consistent basis in the comparative information.

All operations are engaged in providing personal and commercial general insurance services. Central functions include the Group's internal reinsurance function and Group Corporate Centre.

12 months ended 31 December 2014

	Core									
			UK & Ireland							
	Scandinavia	Canada (excl Noraxis)	UK (excluding Legacy)	Ireland	Latin America	Central Functions	Non-core	Continuing operations per income statement	Add discontinued operations	Total Group
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net written premiums	1,759	1,510	2,569	295	690	(42)	186	6,967	498	7,465
Underwriting result	187	30	15	(107)	(2)	(15)	(47)	61	29	90
Investment result	64	77	132	10	27	-	5	315	12	327
Insurance result	251	107	147	(97)	25	(15)	(42)	376	41	417
Other activities	-	-	-	-	-	(51)	(6)	(57)	5	(52)
Operating result (management basis)	251	107	147	(97)	25	(66)	(48)	319	46	365
Realised gains/(losses)								85	-	85
Unrealised gains/(losses), impairments and foreign exchange								14	-	14
Interest costs								(119)	-	(119)
Amortisation of intangible assets								(31)	(1)	(32)
Pension net interest and administration costs								(10)	-	(10)
Solvency II costs								(25)	-	(25)
Reorganisation costs								(106)	(4)	(110)
Impairment of goodwill and intangible assets								(99)	-	(99)
Economic assumption changes								(98)	-	(98)
Non-recurring charges								(67)	-	(67)
Acquisitions and disposals								203	174	377
Transaction costs								(6)	-	(6)
Profit before tax								60	215	275
Tax on continuing operations								(182)	-	(182)
Tax discontinued operations								-	(15)	(15)
Tax disposals of discontinued operations								-	(2)	(2)
(Losses)/profits after tax								(122)	198	76
Combined operating ratio (%)	89.4	98.0	99.5	132.3	100.3		126.4	98.5	94.3	98.8

12 months ended 31 December 2013 (restated)

	Core									
			UK & Ireland							
	Scandinavia	Canada (excl Noraxis)	UK (excluding Legacy)	Ireland	Latin America	Central Functions	Non-core	Continuing operations per income statement	Add discontinued operations	Total Group
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net written premiums	1,863	1,755	3,041	327	837	54	188	8,065	599	8,664
Underwriting result	225	(13)	13	(220)	20	2	10	37	20	57
Investment result	85	93	128	14	26	-	2	348	17	365
Insurance result	310	80	141	(206)	46	2	12	385	37	422
Other activities	-	-	-	-	-	(58)	(18)	(76)	3	(73)
Operating result (management basis)	310	80	141	(206)	46	(56)	(6)	309	40	349
Realised gains/(losses)								57	3	60
Unrealised gains/(losses),										
impairments and foreign exchange								(28)	-	(28)
Interest costs								(117)	-	(117)
Amortisation of intangible assets								(42)	-	(42)
Pension net interest										
and administration costs								(15)	-	(15)
Solvency II costs								(20)	-	(20)
Reorganisation costs								(21)	(4)	(25)
Impairment of goodwill								-	-	-
and intangible assets								(251)	(80)	(331)
Economic assumption changes								(63)	-	(63)
Non-recurring charges								-	-	-
Acquisitions and disposals								-	-	-
Transaction costs								(12)	-	(12)
(Loss) before tax								(203)	(41)	(244)
Tax on continuing operations								(94)	-	(94)
Tax discontinued operations								-	-	-
Tax disposals of discontinued operations								-	-	-
(Loss) after tax								(297)	(41)	(338)
Combined operating ratio (%)	88.1	100.7	99.6	166.2	97.5		94.2	99.7	96.7	99.4

No other material non-cash expenses are reported internally by segment.

3. Discontinued operations and disposal groups

a) Discontinued operations

As a result of the strategic action plan RSA Group announced and completed the following disposals of operations, these are classified as discontinued and described below.

During 2014, the Group reached agreements to sell its Chinese subsidiary to Swiss Re Corporate Solutions (announced 3 July), its Singapore and Hong Kong branch operations to Allied World Assurance Company (announced 21 August) and its Italian branch business to ITAS Mutua (announced 17 October).

During 2014 the Group also completed the disposal of its Baltic operations (Latvia (30 June), Polish subsidiary (15 September) to Powszechny Zaklad Ubezpieczen sa, Lithuania subsidiaries (31 October), Estonian branch (31 October), and Thailand associate (19 December) resulting in a gain of £172m which has been recognised and presented as discontinued.

The revenue, expenses and related income tax expense in 2014 and 2013 relating to these discontinued operations during the year are set out below.

Income statement

	2014	2013
	£m	£m
Income		
Gross written premiums	**584**	686
Less: reinsurance premiums	**(86)**	(87)
Net written premiums	**498**	599
Change in the gross provision for unearned premiums	**17**	2
Less: change in provision for unearned premiums, reinsurers' share	**(2)**	(2)
Change in provision for unearned premiums	**15**	-
Net earned premiums	**513**	599
Net investment return	**14**	23
Total income	**527**	**622**
Expenses		
Gross Claims incurred	**(339)**	(418)
Less: claims recoveries from reinsurers	**28**	47
Net claims	**(311)**	(371)
Underwriting and policy acquisition costs	**(173)**	(208)
Unwind of discount	**-**	(1)
Other operating expenses	**(7)**	(87)
Total expenses	**(491)**	**(667)**
Gain on disposal (note 3c)	**172**	-
Net share of profit after tax of associates	**5**	4
Profit/(loss) before tax	**213**	**(41)**
Income tax expense	**(15)**	-
Profit/(loss) after tax	**198**	**(41)**

Other comprehensive income, net of tax, from discontinued operations of **£12m** (2013:£(13)m) comprises of **£10m** unrealised gains on available for sale investments (2013: unrealised losses £(13)m; including (£(3)m of gains recycled to the income statement), less unrealised gains recycled to profit on disposal of discontinued operations of **£8m** (net of **£1m** tax) (2013: £nil) and foreign exchange gains of **£2m** (2013:£nil) and foreign exchange losses of **£8m** (2013:£nil) recycled to profit of on disposal of discontinued operations.

b) Held for Sale disposal groups	**Italy**	**Singapore**	**China**	**Hong Kong**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Assets classified as held for sale:					
Property and equipment	-	1	-	-	1
Investments	222	43	46	90	401
Reinsurers' share of insurance contract liabilities	29	60	15	25	129
Insurance and reinsurance debtors	70	35	4	34	143
Other debtors and other assets	3	3	3	1	10
Cash and cash equivalents	45	45	9	25	124
Total assets of disposal groups	369	187	77	175	808
Liabilities directly associated with assets classified as held for sale:					
Insurance contract liabilities	365	136	24	146	671
Insurance and reinsurance liabilities	22	4	4	9	39
Provisions and other liabilities	-	10	2	8	20
Liabilities of disposal groups	387	150	30	163	730
Total net assets of disposal groups	(18)	37	47	12	78

Assets held for sale at 31 December 2013 comprised the Group's Swedish headquarters. The property was designated as held for sale following a decision to make the disposal and the sale was considered highly probable. In January 2014 the Group entered into a sale and leaseback agreement for the property and this transaction was completed in March 2014 resulting a gain of £29m.

c) Discontinued operations disposed of during the year

	Latvia £m	Lithuania £m	Estonia £m	Total Baltics £m	Poland £m	Thailand Associate £m	Total £m
Consideration received[1]	41	150	24	**215**	74	37	**326**
less transaction costs	(1)	(7)	-	**(8)**	(3)	(1)	**(12)**
Net proceeds from sales	40	143	24	**207**	71	36	**314**
Carrying value of net assets disposed of	(18)	(61)	-	**(79)**	(44)	(17)	**(140)**
Gains on sale before recycling of items from other comprehensive income	22	82	24	**128**	27	19	**174**
Recycle of items from other comprehensive income on disposals							
Foreign currency translation reserve	-	(9)	-	**(9)**	(1)	2	**(8)**
Unrealised gains on available for sale investments	1	4	-	**5**	4	-	**9**
Related tax	-	-	-	**-**	(1)	-	**(1)**
Profits on sales of discontinued operations before tax	23	77	24	**124**	29	21	**174**
Tax on disposal	-	-	(2)	**(2)**	-	-	**(2)**
Profits on sales of discontinued operations after tax	23	77	22	**122**	29	21	**172**

[1] Included in the consideration received are gains of £12m in respect of forward exchange contracts. The contracts were entered into at the date of announcement of the sales to reduce foreign exchange risk prior to the completion of the disposals.

d) Other business disposal completed in the year

Included within £203m of gains on disposals during the year, £164m relates to the disposal of Noraxis Capital Corporation in Canada to a subsidiary of Arthur J. Gallagher and Co and the majority of the remainder relates to assets previously held for sale within the Scandinavian region.

4. Income tax expense

The tax amounts charged in the income statement are as follows:

Continuing operations	2014 £m	Restated 2013 £m
Current tax	**71**	139
Deferred tax	**111**	(45)
Total taxation attributable to continuing operations	**182**	94
Taxation attributable to discontinuing operations:		
Tax on disposal of discontinued operations	**2**	-
Tax on profits of discontinued operations	**15**	-
Taxation attributable to the Group	**199**	94

UK corporation tax is calculated at 21.5% (2013: 23.2%) of the estimated assessable profit for the year. Since the Group operates around the world, it is subject to income taxes in many different jurisdictions. Taxation for jurisdictions other than the UK is calculated at the rates prevailing in those jurisdictions. Of the above taxation attributable to the Group's continuing operations **£91m** (2013: £21m) relates to UK and **£91m** (2013: £73m) to overseas.

Reconciliation of the effective tax rate

Continuing operations	**2014 £m**	Restated 2013 £m
Profit/(loss) before tax	**60**	(203)
Tax at the UK rate of 21.5% (2013: 23.2%)	**13**	(47)
Tax effect of:		
Income/gains not taxable	**(55)**	(12)
Expenses not deductible for tax purposes	**24**	28
Deferred tax assets not recognised	**144**	78
Increase / (release) of tax provided in respect of prior periods	**3**	(20)
Different tax rates of subsidiaries operating in other jurisdictions	**51**	28
Effect of change in tax rates	**3**	37
Other	**(1)**	2
Total income tax expense attributable to continuing operations	**182**	94
Total income tax expense attributable to discontinued	**17**	-
Income tax expense	**199**	94

Tax Rates

The table below provides a summary of the current tax and deferred tax rates for the year in respect of the main tax jurisdictions in which the Group operates.

	2014		2013	
	Current Tax	**Deferred Tax**	Current Tax	Deferred Tax
UK	**21.5%**	**20.0%**	23.2%	20.0%
Canada	**26.6%**	**26.6%**	26.6%	26.6%
Denmark	**24.5%**	**22.0%**	25.0%	22.0%
Ireland	**12.5%**	**12.5%**	12.5%	12.5%
Sweden	**22.0%**	**22.0%**	22.0%	22.0%

5. Earnings per share

The earnings per ordinary share are calculated by reference to the profit attributable to the ordinary shareholders and the weighted average number of shares in issue during the year. On a basic and diluted basis these were 961,657,975 (excluding those held in Employee Stock Ownership Plan (ESOP) and Share Incentive Plan (SIP) trusts). The number of shares in issue at 31 December 2014 was 1,014,175,205 (excluding those held in ESOP and SIP trusts).

The number of ordinary shares in issue at 31 December 2014 and 31 December 2013 has been recalculated to recognise the impact of the rights issue in April 2014 and the subsequent share consolidation completed in May 2014. The earnings per share presented at 31 December 2014 and 31 December 2013 have been restated based on the recalculated numbers of ordinary shares in issue and the recalculated number of dilutive potential ordinary shares.

6. Dividends

		Restated		
	2014	2013	**2014**	2013
	p	p	**£m**	£m
Ordinary dividend:				
Final paid in respect of prior year	**-**	17.4	**-**	140
Interim paid in respect of current year	**-**	10.2	**-**	83
			-	223
Preference dividend			**9**	9
			9	232

7. Goodwill and other intangibles

	Goodwill	Intangible assets arising from acquired claims provisions	Externally acquired software	Internally generated software	Other	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2014	**766**	**125**	**211**	**860**	**355**	**2,317**
Additions and transfers	**-**	**-**	**8**	**50**	**32**	**90**
Disposals	**(171)**	**-**	**(93)**	**(291)**	**(96)**	**(651)**
Exchange adjustment	**(50)**	**(8)**	**(3)**	**(27)**	**(13)**	**(101)**
At 31 December 2014	**545**	**117**	**123**	**592**	**278**	**1,655**
Accumulated amortisation						
At 1 January 2014	**-**	**119**	**126**	**374**	**179**	**798**
Amortisation charge	**-**	**2**	**19**	**50**	**28**	**99**
Amortisation on disposals	**-**	**-**	**(66)**	**(94)**	**(52)**	**(212)**
Exchange adjustment	**-**	**(7)**	**(2)**	**(12)**	**(6)**	**(27)**
At 31 December 2014	**-**	**114**	**77**	**318**	**149**	**658**
Accumulated impairment						
At 1 January 2014	**177**	**-**	**17**	**222**	**-**	**416**
Impairment charge	**55**	**-**	**6**	**38**	**4**	**103**
Impairment on disposals	**(87)**	**-**	**(20)**	**(198)**	**-**	**(305)**
Exchange adjustment	**(12)**	**-**	**-**	**(5)**	**-**	**(17)**
At 31 December 2014	**133**	**-**	**3**	**57**	**4**	**197**
Carrying amount at 31 December 2014	**412**	**3**	**43**	**217**	**125**	**800**
Less: Assets classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**
	412	**3**	**43**	**217**	**125**	**800**

Other intangible assets include customer lists, renewal rights and acquired brands.

	Goodwill	Intangible assets arising from acquired claims provisions	Externally acquired software	Internally generated software	Other	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2013	792	123	199	758	374	2,246
Additions and transfers	12	-	14	112	13	151
Disposals	-	-	-	(2)	(6)	(8)
Exchange adjustment	(38)	2	(2)	(8)	(26)	(72)
At 31 December 2013	766	125	211	860	355	2,317
Accumulated amortisation						
At 1 January 2013	-	115	104	297	155	671
Amortisation charge	-	2	25	84	39	150
Amortisation on disposals	-	-	(1)	(1)	(3)	(5)
Exchange adjustment	-	2	(2)	(6)	(12)	(18)
At 31 December 2013	-	119	126	374	179	798
Accumulated impairment						
At 1 January 2013	72	-	2	12	-	86
Impairment charge	106	-	15	210	-	331
Exchange adjustment	(1)	-	-	-	-	(1)
At 31 December 2013	177	-	17	222	-	416
Carrying amount at 31 December 2013	589	6	68	264	176	1,103
Less: Assets classified as held for sale	-	-	-	-	-	-
	589	**6**	**68**	**264**	**176**	**1,103**

Amortisation expense of **£72m** (2013: £109m) has been charged to underwriting and policy acquisition costs with the remainder recognised in other operating expenses.

Additions of software development comprise **£8m** (2013: £14m) of external software and **£50m** (2013: £112m) of internally developed software.

As part of the Group business review, a decision has been made to refine and rationalise IT infrastructure. As a result of this decision a software impairment charge of **£44m** (2013: £221m) has been recognised within other operating expenses. In 2014 and 2013, £4m impairment was charged to underwriting and policy acquisition costs during each year.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs), which are contained within the following operating segments as follows:

	2014	2013
	£m	£m
Scandinavia	**146**	161
Canada	**147**	216
UK & Ireland	**31**	79
Latin America	**62**	69
Non-core	**26**	64
Total goodwill	**412**	589

When testing for impairment, the recoverable amount of a CGU is determined based on value in use calculations. These calculations use cashflow projections based on operating plans approved by management covering a three year period. Cashflows beyond this period are extrapolated using the estimated growth rates which management deem appropriate for the CGU. There has been no change in the aggregation of assets since previous review.

A number of other assumptions and estimates are involved in the application of a cashflow model to forecast operating cashflows, premium volumes, expenses and working capital requirements. Forecasts of future cashflows are based on the best estimates of future premiums, operating expenses and taxes using historical trends, general geographical market conditions, industry trends and forecasts and other available information as discussed in more detail in the Group Outlook section. The cashflow forecasts are adjusted by appropriate discount rates. The range of discount rates, which are post tax and reflect specific risks relating to the CGU at the date of evaluation and weighted average growth rates used in 2014 for the cash generating units within each operating segment can be shown as below:

	Discount rate 2014	Discount rate 2013	Weighted average growth rate 2014	Weighted average growth rate 2013
Scandinavia	8%	8%	2%	2%
Canada	9%	9% - 12%	3%	3%
UK & Ireland	9% - 10%	9%	2%	0% - 2%
Latin America	11% - 29%	12% - 24%	8% - 14%	3% - 15%
Non-core	9% - 19%	8% -13%	5% - 14%	3% -11%

The key assumptions used by the cash generating unit (CGU) Trygg-Hansa, with goodwill of **£106m**, within the Scandinavia region were discount rate of 8% and growth rate of 2% and by the CGU RSA Commercial, with goodwill of **£83m**, within the Canadian region were discount rate of 9% and growth rate of 3%. All other CGUs are not considered significant in comparison to the total value of goodwill.

Goodwill impairment charges of **£55m** (2013: £106m) have been recognised within other operating expenses, split between Non-core **£11m** (2013: £71m in Non-core, and £19m in Latin America) and UK & Ireland **£44m** (2013: £16m). The impairment of £11m related to the non-core business has been recognised in respect of the Group's Russian business and has arisen due to the significant increase in interest rates in Russia coupled with the current decline in oil prices; and the impairment of £44m in UK & Ireland is related to the Irish business, due to its current financial performance. The impairment details of Russia and Ireland can be shown as below:

	Russia	Ireland
Value in use	£23m	£297m
Discount rate	18.7%	10.1%
Weighted average growth rate	13.8%	2.0%

The impairment recognised for Russia fully impairs the carrying value for this business.

Senstivity analysis

The Goodwill allocated to the Irish CGU has been impaired in order that the CGU carrying value is not greater than its value in use. Accordingly any adverse movement in the key assumptions used (terminal growth rate of 2.0% and discount rate of 10.1%) could result in further impairment of the remaining £21m of Goodwill as indicated in the table below.

	Potential impairment £m
Impairment Sensitivity	
1% decrease in terminal value growth rate	**(21)**
1% increase to discount rate	**(21)**

8. Property and equipment

	Group occupied property - land and buildings £m	Other £m	Total £m
Cost/valuation			
At 1 January 2014	**65**	**333**	**398**
Additions	**-**	**42**	**42**
Disposal of subsidiaries	**(10)**	**(24)**	**(34)**
Disposals	**-**	**(30)**	**(30)**
Revaluation adjustments	**4**	**-**	**4**
Exchange adjustment	**(2)**	**(14)**	**(16)**
Transfer to held for sale	**-**	**(1)**	**(1)**
At 31 December 2014	**57**	**306**	**363**
Accumulated depreciation			
At 1 January 2014	**-**	**238**	**238**
Depreciation charge	**1**	**28**	**29**
Depreciation on disposals	**-**	**(44)**	**(44)**
Exchange adjustment	**-**	**(11)**	**(11)**
At 31 December 2014	**1**	**211**	**212**
Carrying amount at 31 December 2014	**56**	**95**	**151**

	Group occupied property - land and buildings £m	Other £m	Total £m
Cost/valuation			
At 1 January 2013	153	344	497
Additions	21	18	39
Disposal of subsidiaries	-	(1)	(1)
Disposals	-	(16)	(16)
Revaluation adjustments	2	-	2
Exchange adjustment	4	(12)	(8)
Transfer to investment property	(5)	-	(5)
Transfer to assets held for sale	(110)	-	(110)
At 31 December 2013	65	333	398
Accumulated depreciation			
At 1 January 2013	-	225	225
Depreciation charge	-	34	34
Depreciation on disposals	-	(14)	(14)
Exchange adjustment	-	(7)	(7)
At 31 December 2013	-	238	238
Carrying amount at 31 December 2013	65	95	160

Other property and equipment incorporates fixtures, fittings, and other equipment.

Group occupied property was revalued on 31 December 2014 by independent valuers.

Depreciation expenses of **£29m** (2013: £34m) have been charged to underwriting costs and policy acquisition costs.

The carrying amount of Group occupied property that would have been recognised had the assets been carried under the cost model at 31 December 2014 is **£42m** (2013: £58m).

The movement in the Group occupied property reserve is shown below:

	2014	2013
	£m	£m
Group occupied property reserve at 1 January	**23**	22
Fair value gains	**4**	2
Transfers and disposal of subsidiaries	**(6)**	(1)
Exchange adjustment	**(1)**	-
Group occupied property reserve at 31 December	**20**	23

9. Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments and other items that are measured subsequent to initial recognition at fair value as well as financial liabilities not measured at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable, as explained more fully in Significant Accounting Policies.

The table does not include items not measured at fair value if the carrying value is a reasonable approximation of fair value.

	Fair value hierarchy 2014				
	Level 1	**Level 2**	**Level 3**	**Less: Assets of operations classified as held for sale**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Group occupied property - land and buildings	**-**	**-**	**56**	**-**	**56**
Investment property	**-**	**-**	**346**	**-**	**346**
Available for sale financial assets:					
Equity securities	**322**	**-**	**129**	**-**	**451**
Debt securities	**12,425**	**204**	**2**	**(401)**	**12,230**
Financial assets at fair value through the income statement:					
Equity securities	**1**	**-**	**43**	**-**	**44**
Debt securities	**-**	**-**	**18**	**-**	**18**
	12,748	**204**	**594**	**(401)**	**13,145**
Derivative assets:					
At fair value through the income statement	**-**	**31**	**-**	**-**	**31**
Designated as hedging instruments	**-**	**15**	**-**	**-**	**15**
Total assets measured at fair value	**12,748**	**250**	**594**	**(401)**	**13,191**
Derivative liabilities:					
At fair value through the income statement	**-**	**35**	**-**	**-**	**35**
Designated as hedging instruments	**-**	**22**	**-**	**-**	**22**
Total liabilities measured at fair value	**-**	**57**	**-**	**-**	**57**
Loan capital	**-**	**1,424**	**7**	**-**	**1,431**
Total value of liabilities not measured at fair value	-	**1,424**	**7**	**-**	**1,431**

Total financial assets on the condensed consolidated statement of financial position also includes loans and receivables of **£97m** (2013: £146m), the carrying value of which is deemed to be a reasonable approximation of their fair value.

	Level 1	Level 2	Level 3	Less: Assets of operations classified as held for sale	Total
	Fair value hierarchy 2013				
	£m	£m	£m	£m	£m
Group occupied property - land and buildings	-	-	65	-	65
Investment property	-	-	331	-	331
Available for sale financial assets:					
Equity securities	757	7	63	-	827
Debt securities	11,047	167	10	-	11,224
Financial assets at fair value through the income statement:					
Equity securities	1	-	34	-	35
Debt securities	-	-	27	-	27
	11,805	174	530	-	12,509
Derivative assets:					
At fair value through the income statement	-	27	-	-	27
Designated as hedging instruments	-	31	-	-	31
Total assets measured at fair value	11,805	232	530	-	12,567
Derivative liabilities:					
At fair value through the income statement	-	28	-	-	28
Designated as hedging instruments	-	1	-	-	1
Total liabilities measured at fair value	-	29	-	-	29
Loan capital	-	1,440	17	-	1,457
Fair value of liabilities not measured at fair value	-	1,440	17	-	1,457

There were no transfers between Level 1, Level 2 and Level 3 during 2014 or 2013

A reconciliation of Level 3 fair value measurements of financial assets is shown in the table below. There are no Level 3 financial liabilities.

	Available for sale investments		Investments at fair value through the income statement		
	Equity securities	Debt securities	Equity securities	Debt securities	Total
	£m	£m	£m	£m	£m
Level 3 financial assets at 1 January 2013	35	10	33	38	116
Total gains/(losses) recognised in:					
Income statement	-	-	(4)	(15)	(19)
Other comprehensive income	4	-	-	-	4
Purchases	30	-	5	3	38
Disposals	(6)	-	-	-	(6)
Exchange adjustment	-	-	-	1	1
Level 3 financial assets at 1 January 2014	63	10	34	27	134
Total losses recognised in:					
Income statement	**-**	**-**	**(1)**	**(10)**	**(11)**
Other comprehensive income	**(2)**	**-**	**-**	**-**	**(2)**
Purchases	**73**	**-**	**22**	**-**	**95**
Disposals	**(3)**	**(8)**	**(12)**	**-**	**(23)**
Exchange adjustment	**(2)**	**-**	**-**	**1**	**(1)**
Level 3 financial assets at 31 December 2014	**129**	**2**	**43**	**18**	**192**
Less: Assets classified as held for sale	**-**	**-**	**-**	**-**	**-**
	129	**2**	**43**	**18**	**192**

Of the total gains/(losses) for the period recognised in the income statement (shown in the reconciliation above), losses of **£11m** (2013: £19m) relates to assets held at the end of the reporting period.

Of the total gains/(losses) for the period recognised in other comprehensive income (shown in the reconciliation above), **£(2)m** (2013: £4m) relate to assets held at the end of the reporting period and is reported in movements in the revaluation reserves in the statement of changes in equity.

Group occupied property and Investment property

Group occupied properties are valued on a vacant possession basis. Investment properties are valued at their highest and best use. Group occupied properties and investment properties are classified as Level 3 assets in the fair value hierarchy.

The fair value of property has been determined by external, independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

The valuations of buildings with vacant possession are based on the comparative method of valuation with reference to sales of other vacant buildings. Fair value would change based on the locational qualities and physical building characteristics (principally condition, size, specification and layout) as appropriate.

Investment properties are valued using discounted cashflow models which takes into account the net present value of cashflows to be generated from the properties. The cashflow streams reflect the current rent (the gross rent) payable to lease expiry, at which point it is assumed that each unit will be re-let at its estimated rental value. Allowances have been made for voids and rent free periods where applicable. The appropriate rent to be capitalised is selected on the basis of the location of the building, its quality, tenant credit quality and lease terms amongst other factors.

These cashflows are discounted at an appropriate rate of interest to determine their present value.

In both cases the estimated fair value would increase/(decrease) if:

- The estimated rental value is higher/(lower)
- Void periods were shorter/(longer)
- The occupancy rate were higher/(lower)
- Rent free periods were shorter/(longer)
- The discount rates were lower/(higher)

Loan capital

The Group's loan capital instruments are classified as Level 2 financial liabilities with the exception of the Subordinated guaranteed US$ bonds which are classified as Level 3 financial liabilities.

The fair value measurement of these Level 2 financial liabilities is based on pricing obtained from a range of financial intermediaries who base their valuations on recent transactions of the Groups loan capital instruments and other observable market inputs such as applicable risk free rate and appropriate credit risk spreads.

The fair value measurement of the Level 3 financial liabilities is also obtained from an indicative valuation based on the applicable risk free rate and appropriate credit risk spreads.

10. Reinsurers' share of insurance contract liabilities

	2014	2013
	£m	£m
Reinsurers' share of provisions for unearned premiums	**671**	366
Reinsurers' share of provisions for losses and loss adjustment expenses	**1,226**	1,660
Total reinsurers' share of insurance contract liabilities	**1,897**	2,026
To be settled within 12 months	**749**	976
To be settled after 12 months	**1,148**	1,050

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

	2014	2013
	£m	£m
Reinsurers' share of provision for unearned premiums at 1 January	**366**	299
Premiums ceded to reinsurers	**1,391**	1,158
Reinsurers' share of premiums earned	**(1,044)**	(1,077)
Changes in reinsurance asset	**347**	81
Reinsurers' share of portfolio transfers and (disposals)/acquisitions of subsidiaries	**(8)**	(2)
Exchange adjustment	**4**	(12)
Reinsurers' share of provision for unearned premiums at 31 December	**709**	366
Less: Assets classified as held for sale	**(38)**	**-**
Total Reinsurers' share of provision for unearned premiums at 31 December	**671**	**366**

The following changes have occurred in the reinsurers' share of provision for losses and loss adjustment expenses during the year:

	2014	2013
	£m	£m
Reinsurers' share of provisions for losses and loss adjustment expenses at 1 January	**1,660**	1,650
Reinsurers' share of total claims incurred	**321**	683
Total reinsurance recoveries received	**(636)**	(640)
Reinsurers' share of portfolio transfers and (disposals)/acquisitions of subsidiaries	**(14)**	(6)
Exchange adjustment	**(23)**	(56)
Other movements	**9**	29
Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	**1,317**	1,660
Less: Assets classified as held for sale	**(91)**	**-**
Total Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	**1,226**	**1,660**

11. Exchange rates

Local currency/£	**12 Months 2014**		12 Months 2013	
	Average	**Closing**	Average	Closing
Canadian Dollar	**1.82**	**1.81**	1.61	1.76
Danish Krone	**9.25**	**9.60**	8.79	8.97
Swedish Krona	**11.28**	**12.22**	10.2	10.64
Euro	**1.24**	**1.29**	1.18	1.2

12. Reconciliation of statutory cashflow to management basis

	12 Months 2014 £m	12 Months 2013 £m
Operating cashflow	**33**	230
Dividend income	**23**	48
Interest income	**374**	410
Other income	**26**	28
Net sale/(purchase) of property and equipment	**(8)**	(34)
Net purchase of intangibles	**(78)**	(120)
Other items	**(3)**	13
Discontinued operations	**38**	33
Operating cashflow (management basis)	**405**	608

13. Cash and cash equivalents

	12 months 2014 £m	**12 months 2013** £m
Cash and cash equivalents and bank overdrafts (as reported within the Consolidated Statement of Cashflows)	**1,135**	1,162
Less: cash and cash equivalents reported in assets held for sale	**(124)**	-
Total cash and cash equivalents	**1,011**	1,162

14. Ordinary shares issued during the period to 31 December

The share capital of the Parent Company is fully paid and consists of two classes: ordinary shares with a nominal value of £1 each and preference shares with a nominal value of £1 each. The issued share capital at 31 December 2014 is:

	31 December 2014 £m	**31 December 2013 £m**
Issued and fully paid		
1,015,486,873 ordinary shares of £1 each (2013: 3,681,798,995 ordinary shares of 27.5p each)	**1,015**	1,012
125,000,000 preference shares of £1 each (2013: 125,000,000 preference shares of £1 each)	**125**	125
	1,140	1,137

The Parent Company issued 1,380,976,863 ordinary shares for 56 pence each under a three-for-eight rights issue on 9 April 2014. Total proceeds of the rights issue were £773m (£747m net of expenses). All new shares issued rank pari passu with those already in issue.

Following the passing of a shareholder resolution at the Company's 2014 Annual General Meeting, in May 2014 the Company sub-divided its 27.5p ordinary shares into one ordinary share of 20p carrying the same rights and restrictions as a 27.5p ordinary share, and one 7.5p deferred share with restricted rights. Immediately thereafter, the 20p ordinary shares were consolidated on the basis of five 20p ordinary shares into one new ordinary share of £1.00 carrying the same rights as a 20p ordinary share. In June 2014 all the 7.5p deferred shares were purchased for an aggregate payment of one penny and subsequently cancelled in accordance with the rights attaching to this share class. The capital equivalent of the cancelled 7.5p deferred shares of £381m is being held in a non-distributable capital redemption reserve.

During 2014, the Company issued a total of 6,150,197 new ordinary shares of 27.5p each and 1,701,662 ordinary shares of £1 each ranking pari passu with ordinary shares in issue (2013: 85,847,680 new ordinary shares of 27.5p each), on the exercise of employee share options and in respect of employee share awards and under the scrip dividend scheme. The number of ordinary shares in issue, their nominal value and the associated share premiums are as follows:

	Number of ordinary shares	Nominal value £m	Share premium £m
At 1 January 2013	3,595,951,315	**989**	717
Issued in respect of employee share options and employee share awards	19,961,699	**5**	5
Issues in lieu of dividends as previously reported	65,885,981	**18**	(18)
At 1 January 2014	**3,681,798,995**	**1,012**	704
Issued for cash – rights issue (ordinary shares of 27.5p)	**1,380,976,863**	**380**	367
Issued in respect of employee share options and employee share awards Ordinary shares of 27.5p each (pre consolidation)	**6,150,197**	**2**	4
Adjustment to reflect share consolidation	**(4,055,140,844)**	**(381)**	**-**
Issued in respect of employee share options and employee share awards Ordinary shares of £1 each (post consolidation)	**1,701,662**	**2**	**-**
At 31 December 2014	**1,015,486,873**	**1,015**	**1,075**

The adjustment above has been made in order to reflect the five into one share consolidation which resulted in the reduction in number of ordinary shares from 5,068,926,055 of 20p each to 1,013,785,211 of £1 each.

Rights attaching to the shares
The rights attaching to each class of share may be varied with the consent of the holders of 75% of the issued shares of that class.

Ordinary Shares of £1.00 each
Each member holding an Ordinary Share shall be entitled to vote on all matters at a general meeting of the Company, be entitled to receive dividend payments declared in accordance with the Articles of Association; and have the right to participate in any distribution of capital of the Company including on a winding up of the Company.

Preference Shares of £1.00 each
The preference shares are not redeemable but the holders of the preference shares have preferential rights over the holders of ordinary shares in respect of dividends and of the return of capital in the event of the winding up of the Parent Company.

Provided a resolution of the Board exists, holders of preference shares are entitled to a cumulative preferential dividend of 7.375% per annum, payable out of the profits available for distribution, to be distributed in half yearly instalments. Preference shareholders have no further right to participate in the profits of the Parent Company.

Full information on the rights attaching to shares is in the RSA Insurance Group plc Articles of Association which are available on the Group's website.

Employee share schemes
1,221,975 ordinary shares (2013[1]: 1,241,339 ordinary shares) are held by various employee share trusts which may subsequently be transferred to employees (including Executive Directors) to satisfy options exercised under the Group employee share option plans and shares awards vesting to Group employees under the long term incentive plans and under the Sharebuild. These shares are presented as own shares.

At 31 December 2014, the total number of options over ordinary shares outstanding under the Group employee share option plans is 7,866,932 (2013: 10,391,058) and the total number of potential shares outstanding under the long term incentive plan and under the Sharebuild is 14,299,045 ordinary shares (2013[1]: 14,737,585 ordinary shares).

1 Comparative restated for bonus element of rights issue and share consolidation

15. Insurance contract liabilities

	2014	2013
	£m	£m
Provision for unearned premiums	**3,601**	3,853
Provisions for losses and loss adjustment expenses	**10,336**	11,148
Total insurance contract liabilities	**13,937**	15,001
Less: Liabilities classified as held for sale	671	-
Total insurance contract liabilities net of held for sale	**13,266**	15,001

The provision for unearned premiums is shown net of deferred acquisition costs of **£787m** (2013: £934m). The movement in deferred acquisition costs during 2014 is attributed to **£1,084m** (2013: £1,266m) acquisition costs deferred during the year, **£1,079m** (2013: £1,224m) amortisation charged during the year, **£31m** exchange losses (2013: £39m exchange losses), **£26m** (2013: nil) reduction due to disposal, and a **£23m** (2013: £7m) reduction due to other movements.

The reinsurers' share of deferred acquisition costs is included within accruals and deferred income.

Provision for unearned premiums, gross of acquisition costs

	2014	2013
	£m	£m
Provision for unearned premiums at 1 January	**4,787**	4,790
Premiums written	**8,858**	9,822
Less: premiums earned	**(8,917)**	(9,671)
Changes in provision for unearned premiums	**(59)**	151
Gross portfolio transfers and acquisitions	**(129)**	(1)
Exchange adjustment	**(142)**	(153)
Other movements	**(69)**	-
Provision for unearned premiums (gross of acquisition costs) at 31 December	**4,388**	4,787
Less: Liabilities classified as held for sale	**163**	**-**
	4,225	4,787

Provisions for losses and loss adjustment expenses

The following changes have occurred in the provisions for losses and loss adjustment expenses during the year:

	2014	2013
	£m	£m
Provisions for losses and loss adjustment expenses at 1 January	**11,148**	11,002
Gross claims incurred and loss adjustment expenses	**5,699**	6,653
Total claims payments made in the year net of salvage and other recoveries	**(6,150)**	(6,427)
Gross portfolio transfers, acquisitions and disposals	**(116)**	2
Exchange adjustment	**(444)**	(267)
Other movements	**199**	185
Provisions for losses and loss adjustment expenses at 31 December	**10,336**	11,148
Less: Liabilities classified as held for sale	**508**	**-**
	9,828	11,148

Assumptions

The total value of provisions for losses and loss adjustment expenses less related reinsurance recoveries before discounting is £9,463m (2013: £9,998m).

Claims on certain classes of business (excluding annuities) have been discounted as follows:

		Discount rate		Average number of years to settlement from reporting date	
		2014	2013	**2014**	2013
	Category	%	%	**Years**	Years
UK	Asbestos and environmental	**4.0**	4.0	**11**	11
Scandinavia	Disability	**1.3**	3.7	**6**	5

In determining the average number of years to ultimate claims settlement, estimates have been made based on the underlying claims settlement patterns.

Given the decline in market yields for the assets held backing the long-tail liabilities in Sweden and Denmark, the discount rate in Scandinavia decreased from 3.7% in 2013 to 1.3% in 2014.

As at 31 December 2014, the value of the discount on net reserves is **£444m** (2013: £510m) excluding annuities and periodic payment orders. All other factors remaining constant, a decrease of 1% in the discount rates would reduce the value of the discount by approximately £100m. A decrease of 1% in the real discount rate for UK & Scandinavia annuities would reduce the value of the discount by approximately £90m. The sensitivity calculation has taken into consideration the undiscounted reserves for each class of business and the respective average settlement period.

The 2014 underwriting result on a management basis of £90m, includes the impact of changes in the estimated costs of outstanding claims at 1 January 2014. The analysis of the underwriting result between the result of the current accident year and the result of earlier years is set out on page 34.

16. Current and deferred tax

Current Tax

	Asset		Liability	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
To be settled within 12 months	**10**	40	**31**	19
To be settled after 12 months	**11**	20	**52**	38
Net current tax position at 31 December	**21**	60	**83**	57
Less: Assets classified as held for sale	**-**	-	**-**	-
	21	60	**83**	57

Deferred Tax

	2014	2013
	£m	£m
Deferred tax assets	**180**	302
Deferred tax liabilities	**(62)**	(82)
Net deferred tax position at 31 December	**118**	220
Less: Assets classified as held for sale	**-**	**-**
	118	220

The following are the major deferred tax assets and liabilities recognised by the Group and their movements during the year:

	2014	2013
	£m	£m
Net unrealised gains on investments	**(6)**	3
Claims equalisation and other catastrophe reserves	**(78)**	(101)
Intangibles capitalised	**(27)**	(40)
Deferred acquisition costs	**(31)**	(32)
Tax losses and unused tax credits	**90**	221
Other deferred tax reliefs	**19**	28
Net insurance contract liabilities	**2**	3
Retirement benefit obligations	**26**	40
Provisions and other temporary differences	**123**	98
Net deferred tax position at 31 December	**118**	220
Less: Assets classified as held for sale	**-**	-
	118	220

The movement in the net deferred tax assets recognised by the Group was as follows:

	2014	2013
	£m	£m
Net deferred tax position at 1 January	**220**	146
Amounts (charged)/credited to income statement	**(111)**	67
Amounts credited to other comprehensive income	**9**	38
Amounts charged to equity	**(3)**	(2)
Net arising on acquisition/disposal of subsidiaries and other transfers	**5**	2
Exchange adjustments	**(2)**	(5)
Effect of change in tax rates - income statement	**-**	(21)
- other comprehensive income	**-**	(4)
- equity	**-**	(1)
Net deferred tax position at 31 December	**118**	220
Less: Assets classified as held for sale	**-**	-
	118	220

The current tax and deferred income tax (charged)/credited to each component of other comprehensive income is as follows:

	Current Tax		Deferred Tax		Total	
	2014	2013	**2014**	2013	**2014**	2013
	£m	£m	**£m**	£m	**£m**	£m
Exchange gains and losses	**-**	1	**-**	-	**-**	1
Fair value gains and losses	**(67)**	35	**7**	47	**(60)**	82
Remeasurement of net defined benefit pension liability	**-**	-	**2**	(13)	**2**	(13)
Total credited/(charged) to other comprehensive income	**(67)**	36	**9**	34	**(58)**	70

The aggregate current tax and deferred tax relating to items that are charged directly to equity is **£(1)m** (2013: £(1)m).

At the end of the reporting period, the Group's continuing operations have unused tax losses of **£2,450m** (2013: £2,679m) and unused tax credits of **£16m** (2013: £16m) available for offset against future profits. A deferred tax asset of **£90m** (2013: £221m) has been recognised in respect of losses and unused tax credits. No deferred tax asset has been recognised in respect of **£2,000m** (2013: £1,598m) tax losses and unused tax credits of **£16m** (2013: £13m) due to the unpredictability of future profit streams. Tax losses include **£32m** (2013: £146m) which will expire between 2015 and 2032, of which **£26m** (2013: £59m) have been recognised for deferred tax. Other tax losses and unused credits may be carried forward indefinitely.

In addition, the Group has recognised a deferred tax asset of **£18m** (2013: £28m) in respect of other deferred tax reliefs of **£549m** (2013: £449m). No deferred tax has been recognised in respect of **£456m** (2013: £361m) of these reliefs due to the unpredictability of future profits streams.

The Group has temporary differences in respect of the retained earnings of overseas subsidiaries and associates of **£1,093m** (2013: £903m) on which overseas taxes, including withholding taxes, might be incurred on the remittance of these earnings to the UK. The Group is able to control the remittance of earnings to the UK and there is no intention to remit any such earnings in the foreseeable future if the remittance would trigger a material incremental tax liability. As such the Group has not recognised any deferred tax in respect of the potential taxes on the temporary differences arising on unremitted earnings of overseas subsidiaries and associates.

Net deferred tax assets of **£123m** (2013: £233m), that relate to tax jurisdictions in which the Group has suffered a loss in either the current or preceding period, have been recognised on the basis that future taxable profits will be available against which these can be utilised. The evidence for the future taxable profits is a forecast consistent with the three year operational plans prepared by the relevant businesses, which are subject to internal review and challenge. Where relevant, the forecast includes extrapolations of the operational plans using assumptions consistent with those used in the plans.

17. Retirement benefit obligations

Movement in (deficit)/surplus during the year:

	2014	2013
	£m	£m
Deficit at 1 January	**(165)**	(274)
Current service costs	**(29)**	(32)
Past service costs	**(4)**	(5)
Pension net interest cost	**(4)**	(8)
Administration costs	**(6)**	(7)
Gains on settlements/curtailments	**-**	-
Total pension expense	**(43)**	(52)
Contributions by the Group	**114**	122
Return on scheme assets less amounts included in pension net interest cost	**821**	257
Effect of changes in financial assumptions	**(862)**	(190)
Effect of changes in demographic assumptions	**4**	(34)
Experience gains and losses	**37**	1
Investment expenses	**(9)**	(4)
Remeasurements of net defined benefit liability	**(9)**	30
Exchange adjustment	**5**	8
Disposal/(acquisition) of subsidiary	**-**	1
Pension and post retirement deficit	**(98)**	(165)
Deferred tax in respect of net pension and post retirement deficit	**26**	40
Net pension and post retirement deficit at 31 December	**(72)**	(125)

The value of scheme assets and the scheme obligations are as follows:

	2014			2013
	UK	**Other**	**Total**	Total
	£m	**£m**	**£m**	£m
Present value of funded obligations	**7,044**	**422**	**7,466**	6,610
Present value of unfunded obligations	**8**	**124**	**132**	121
Present value of obligations	**7,052**	**546**	**7,598**	6,731
Equities	**965**	**143**	**1,108**	1,200
Government debt	**4,047**	**145**	**4,192**	3,225
Non government debt	**2,140**	**115**	**2,255**	1,940
Derivatives	**698**	**-**	**698**	265
Other (including infrastructure, commodities, hedge funds, loans)	**-**	**-**	**-**	-
Securities with quoted market price in an active market	**7,850**	**403**	**8,253**	6,630 -
Property	**199**	**-**	**199**	142
Cash	**63**	**4**	**67**	66
Other (including infrastructure, commodities, hedge funds, loans)	**506**	**-**	**506**	518
Other investments	**768**	**4**	**772**	726
Value of asset and longevity swaps	**(1,525)**	**-**	**(1,525)**	(790)
Total assets in the schemes	**7,093**	**407**	**7,500**	6,566
Total deficit	**41**	**(139)**	**(98)**	(165)
Defined benefit pension schemes	**41**	**(76)**	**(35)**	(111)
Other post retirement benefits	**-**	**(63)**	**(63)**	(54)
Schemes in surplus	**127**	**2**	**129**	104
Schemes in deficit	**(86)**	**(141)**	**(227)**	(269)

18. Events occurring after the reporting date

Subsequent to the year end the Group announced the intention to sell its 26% interest in Royal Sundaram Alliance Insurance Company Ltd, its associate in India. The proceeds of the sale are expected to be around £46m, generating an expected profit of approximately £16m and completion of the sale is subject to final regulatory approval.

19. Results for full year 2014

The financial information set out above does not constitute statutory accounts for the years ended 31 December 2014 or 31 December 2013 but is derived from those accounts. The 2013 information has been restated in accordance with note 1. Statutory accounts for 2013 have been delivered to the Registrar of Companies, and those for 2014 will be delivered in due course. The auditors' have reported on those accounts; their reports were (i) unqualified (ii) did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not include a statement under section 498(2) or (3) of the Companies Act 2006.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- The financial statements within the full Annual Report and Accounts, from which the financial information within this preliminary announcement has been extracted, are prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the Group.

- The management report within this preliminary announcement includes a fair review of the development and performance of the business and the position of the Group, and

- The estimation techniques, risks, uncertainties and contingencies section within this preliminary announcement includes a description of the principal risks and uncertainties faced by the Group.

Signed by order of the Board

Stephen Hester
Group Chief Executive

25 February 2015

Richard Houghton
Group Chief Financial Officer

25 February 2015