

# 2015 PRELIMINARY RESULTS



25 February 2016

**2015 operating profit of £523m, up 43% on 2014 (up 57% at constant exchange)**

**Underwriting profit up 437%. Post-tax profit up 221%. Final dividend 7p/share, up 250%**

**Record<sup>1</sup> current year underwriting profits, despite UK floods. Good prospects of substantial further improvement. Performance targets and ambitions raised**

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## **Stephen Hester, RSA Group Chief Executive, commented:**

“2015 was a year of major achievement for RSA. As a result, the turnaround phase of our Action Plan is largely complete and we have good prospects of substantial further performance improvement.

“RSA is now a strong and focused international insurer with leadership positions in the UK, Scandinavia and Canada. The Group's strategic restructuring will complete in 2016 as remaining contracted disposals close. The power of increased simplicity and focus is already helping drive better performance. RSA is well placed for a bright long-term future.

“In 2015, we delivered both value and risk reduction from successful disposals, Solvency II approval and a positive UK pension agreement. We delivered strong and pleasing improvements in core business performance, with plenty more to come. We showed the promise of our customer offering, winning our largest new partnership agreement with Nationwide Building Society for their UK home insurance business.

“We are today increasing our annual gross cost savings target to over £350m by 2018 and raising our underlying return on tangible equity expectation to the upper half of our 12-15% target range by 2017 with further improvement to come thereafter. We see 2016 as the last major restructuring year with disposals and balance sheet work completing and the heavy lifting of core business improvement and cost reduction action continuing. We expect challenging markets and to rely on self-help to progress. Despite these headwinds we face the future with determination and confidence.”

## **Trading results**

- Core Group premiums up 1%<sup>2,3</sup>. Overall Group net written premiums of £6.8bn down 3%<sup>2</sup> year-on-year driven mainly by disposal programme.
- Group operating profit £523m (2014: £365m): Scandinavia £163m; Canada £182m; UK £175m<sup>4</sup>.
- Group underwriting profit of £220m (2014: £41m). Core Group combined ratio of 96.0% (2014: 98.8%). Strong underlying results across Scandinavia, Canada and the UK; Record underwriting profit in Canada with combined ratio of 91.7%.
- Record<sup>1</sup> Group current year underwriting profit of £129m (2014: £73m); Core Group current year attritional loss ratio 1.9pts better than prior year on an underlying basis.
- Weather and large losses £68m worse than planned and £20m<sup>5</sup> better than 2014; Net cost of the December weather events was £76m.

<sup>1</sup> On a like-for-like basis (since 2005); <sup>2</sup> At constant FX; <sup>3</sup> Ex Group reinsurance programme; <sup>4</sup> Pro forma for aggregate reinsurance net recovery of £28m shown separately in Group Re; <sup>5</sup> Net of Group aggregate reinsurance cover 2015 earned premium of £46m (2014: nil)

- Prior year underwriting profit of £91m: Positive development in Canada and the UK; net strengthening in Scandinavia.
- Ireland operating loss of £26m, much reduced from 2014 (£97m loss), and expected to reach operating profit in 2016.
- Investment income of £403m (2014: £439m).
- Gains of £184m from disposals completed in the year. Reorganisation costs were £183m and include items relating to the increased cost saving target.
- Post tax profit of £244m up 221% (2014: £76m), after one-off costs associated with our restructuring and turnaround.
- Solvency II coverage over the solvency capital requirement (SCR) of 143% (155% pro forma for the closing of the Latin America disposal). 2016 year-to-date market impacts are a further net positive. A new Solvency II target ratio of 130-160% has been established.
- Reserve margin stable at 5% of booked reserves.
- Triennial UK pension review completed, agreeing a significant de-risking of the asset mix with no change in annual top-up contributions (£65m p.a.). Surplus of £64m at 31 December 2015 on IAS19 basis. Funding basis deficit equivalent to 95% funding adequacy (92% at 2012 valuation).
- Tangible equity £2.8bn (31 December 2014: £2.9bn), 279p per share. Tangible equity to premiums ratio of 42% (36% ex unrealised gains) up from 39% a year ago.
- Underlying return on opening tangible equity of 9.7%.
- Underlying earnings per share (EPS) 27.8p (2014: 16.8p). Headline EPS 22.3p (2014: 6.2p).
- Final dividend of 7.0p/share proposed, bringing total 2015 dividends to 10.5p/share (up 425%).

### Strategic update

- Strategic priorities to make RSA 'focused, stronger and better' are being implemented strongly. Turnaround phase of our Action Plan largely complete with good prospects for substantial further performance improvement.
- During 2015 disposals in Hong Kong, Singapore, China, India, Italy and UK Engineering were completed. The disposal of our operations in Russia completed post year end. In September the £403m sale of our Latin American operations was announced and this is scheduled to complete in stages over the next 6 months. Total agreed disposal proceeds to date now stand at £1.2bn.
- Improvements in RSA's financial strength and resilience continue. During the year our S&P 'A' rating was reaffirmed; Solvency II internal model approval was received in December; and the triennial UK pension review process successfully concluded.
- We are progressing well with our goal to improve operating performance from below that of our competitors to 'in the pack' and then towards 'best in class'. Many initiatives to improve customer service and underwriting results are in train, with technology advances an important ingredient.
- Total Group controllable costs were down 8% year-on-year at constant exchange to £1,808m. Core business controllable costs were down 3% in the same period at constant exchange to £1,505m (comprising 4% cost reductions, offset by 1% inflation).
- Cost reduction programme is ahead of original targets. We expect to achieve in the region of £250m gross savings by 2016, a year ahead of schedule (£180m achieved to date). Total programme target upgraded for second time to over £350m gross annualised savings by 2018.
- Medium term performance target of 12-15% underlying return on tangible equity remains, however now targeting upper half of this range in 2017. Dividend policy unchanged: medium term ordinary dividend payout of 40-50% with additional 'special' payouts where justified.

*Note: On an IFRS basis, pre-tax profit of £323m comprises profits from both continuing and discontinued operations. Please refer to page 43 for further details.*

## MANAGEMENT REPORT – KEY FINANCIAL PERFORMANCE DATA

### Management basis

	FY 2015 £m		FY 2015 £m	FY 2014 <sup>5</sup> £m Constant FX	FY 2014 <sup>5</sup> £m Reported FX
Net Written Premiums	Personal	Commercial	Total	Total	Total
Scandinavia	883	723	1,606	1,551	1,759
Canada	950	410	1,360	1,409	1,510
UK	1,133	1,473	2,606	2,558	2,569
Ireland	161	100	261	271	295
Group Re <sup>1</sup>	-	(111)	(111)	(42)	(42)
<b>Total Core Group</b>	<b>3,127</b>	<b>2,595</b>	<b>5,722</b>	<b>5,747</b>	<b>6,091</b>
<i>Discontinued &amp; non-core<sup>2</sup></i>			1,103	1,265	1,374
<b>Total Group net written premiums</b>			<b>6,825</b>	<b>7,012</b>	<b>7,465</b>
	Combined operating ratio (%)		FY 2015 £m	FY 2014 <sup>5</sup> £m Constant FX	FY 2014 <sup>5</sup> £m Reported FX
Underwriting performance	FY 2015	FY 2014 <sup>5</sup>			
Scandinavia	94.0	90.4	94	149	169
Canada	91.7	98.6	116	20	21
UK	99.5	99.9	12	4	4
<i>UK pro forma<sup>3</sup></i>	98.5		40		
Ireland	113.4	132.8	(35)	(97)	(108)
Group Re <sup>1</sup>	-	-	50	(15)	(15)
<b>Total Core Group</b>	<b>96.0</b>	<b>98.8</b>	<b>237</b>	<b>61</b>	<b>71</b>
<i>Discontinued &amp; non-core<sup>2</sup></i>	-	-	(17)	(31)	(30)
<b>Total Group underwriting</b>	<b>96.9</b>	<b>99.5</b>	<b>220</b>	<b>30</b>	<b>41</b>
Investment result			322	323	343
<b>Operating result</b>			<b>523</b>	<b>334</b>	<b>365</b>
Profit before tax			323	255	275
<b>Profit after tax</b>			<b>244</b>	<b>56</b>	<b>76</b>
Earnings per share – basic (pence)			22.3		6.2
Earnings per share – underlying (pence)			27.8		16.8
Interim dividend per share (pence)			3.5		-
Final dividend per share (pence)			7.0		2.0
Return on tangible equity (%)			7.8		3.6
Underlying return on tangible equity (%)			9.7		9.7
			<b>31 Dec 2015</b>		<b>31 Dec 2014</b>
Net asset value (£m)			3,642		3,825
Tangible net asset value (£m)			2,838		2,900
Net asset value per share (pence)			346		365
Tangible net asset value per share (pence)			279		286
Solvency II surplus (£bn) <sup>4</sup>			0.9		-
Solvency II coverage ratio <sup>4</sup>			143%		-
Solvency II coverage ratio pro forma for Latin American disposal <sup>4</sup>			155%		-

<sup>1</sup> Group Re premiums include £139m in 2015 for the purchase of a new 3 year Group aggregate reinsurance cover, and £67m in 2014 for the purchase of the Group Adverse Development Cover.

<sup>2</sup> Discontinued operations include Poland, Baltics, Italy, Hong Kong, Singapore, China, Thailand, India, Russia and Latin America. Non-core operations include Noraxis, UK Legacy and the Middle East.

<sup>3</sup> Pro forma for aggregate reinsurance 2015 net recovery of £28m (£74m recovery net of £46m earned premium cost) shown separately in Group Re.

<sup>4</sup> Capital positions are estimated

<sup>5</sup> Represented, please refer to page 30 for further details.

## **CHIEF EXECUTIVE'S STATEMENT**

2015 was a year of major achievement for RSA. As a result, the turnaround phase of our Action Plan is largely complete and we have good prospects of substantial further performance improvement.

### **Strategy and Focus**

With our strategic restructuring largely complete, RSA is a strong and focused international insurer. We have leadership positions in the major general insurance markets of the UK, Scandinavia and Canada. We have valuable franchise strength and balance - across regions, between Commercial and Personal customers, and across product lines.

The history, dynamics and structure of our markets show that focused regional market leaders can successfully sustain both customer appeal (market position) and excellent shareholder performance. The benefits of relative simplicity and focus, applied to regional leadership, are visible in the performance and valuation of certain key competitors which can trump those of the largest global companies in our industry. RSA has now built the foundations to follow this course and to credibly set 'best in class' as our future performance ambition. Our plans over the next three years show RSA advancing on that goal.

We set out on the 'turnaround' of RSA in 2014 with three central priorities: to serve customers well; to operate with strong finances; and to build strong sustainable performance, making RSA the best investment proposition we can achieve. These priorities are unchanged.

During the summer we received the unsolicited takeover approach from Zurich which was negotiated into a potential 550p/share cash offer that they subsequently did not pursue. Given the uncertainties of markets and our own turnaround at that time, the Board felt responding to the short term shareholder value of this proposal was our duty. However, notwithstanding the assessment at that moment, we believe strongly that RSA can prosper independently, indefinitely into the future; and that we can exceed this valuation on a standalone basis. Our strategy and plans support this view. Despite the distraction during summer, much has been accomplished since. Key risks have been successfully tackled. Performance plans have further improved. RSA is stronger, better and inherently more valuable today than six months ago.

### **Industry Conditions**

RSA operates in a relatively mature, stable and consolidated industry. Our markets show that attractive performance is possible, despite economic and competitive challenges. To achieve this requires intense operational focus, within a disciplined strategic envelope set to concentrate on natural strengths. Customer needs will continue to evolve. Slow market growth and competition puts special focus on underwriting skills and discipline, and on cost reduction. Technology is a key enabler of both.

The immediate market outlook for RSA seems broadly similar to that we described 12 months ago. Low interest rates force our industry to put more emphasis on underwriting results and leading players are showing the discipline to achieve that. However, slow growth and strong price competition remain dominant themes with sharp value/volume trade-offs.

Financial markets are important for all insurers. At the year end, bond yields in our major markets were slightly higher on average than a year ago. However, the start of the year has seen troubling market volatility with weak equity markets, bond yield declines and credit spread widening. While these moves have not as yet led us to materially change our outlook, and indeed our capital position has strengthened further since year end, we remain alert to the risks. FX rates are also important to RSA with around two thirds of premiums from non-UK business.

## 2015 Actions

2015 was a year of delivery, with more achieved than we had thought probable. Our actions spanned three areas:

**Strategic focus:** Divestments were closed in Asia, India, Italy and UK Engineering. Russia has closed since year end. The Latin America sale is scheduled to close in stages over the next six months, adding a further 12% to our Solvency II capital ratio. The latter was a key uncertainty for us, but successfully contracted in September some weeks after the Zurich approach. Only the Middle East business remains outstanding from our non-core list (£43m net attributable assets).

In addition to releasing the power of focus on our core businesses, the disposals (gains totalling c.£500m since 2014) have both bolstered capital and pay for the restructuring actions needed to reduce costs and improve core business performance.

**Financial strength:** RSA's financial strength and resilience continue to improve. In addition to disposal proceeds, our stronger business results and prospects are important supplements. RSA's credit ratings are now at the level we target. A key December milestone was receiving Solvency II internal model approval. The year end 2015 capital ratio at 143% of 'SCR' falls within our newly established 130-160% target zone, prior to receiving Latin American disposal proceeds. Additionally we were pleased to successfully conclude the triennial UK pension scheme reviews. This allows us to implement a major de-risking from 25% to 15% equity content in the schemes with no change in annual top-up contributions (£65m p.a.). At year end we show an IFRS reported pension surplus of £64m and (at the March 2015 valuation date) a funding basis deficit below 2012's level and equivalent to 95% funding adequacy.

**Core business improvement:** We start with strong business franchises in our three core regions - the product of over 300 years of history. The goal is to renew these, to step up customer service and to improve operating performance fundamentally - from below our competitors' to 'in the pack', and then towards our 'best in class' ambitions. We are well on the way.

Our customer actions have maintained retention rates and improved satisfaction measures on average across the Group. The partnership with Nationwide Building Society announced before Christmas is a major new business win, a marquee endorsement of our customer proposition and gives us market leadership in UK home insurance, the most attractive of the UK Personal Lines segments.

Critical to performance improvement are better underlying underwriting results. Business wide initiatives are paying off, covering portfolio re-underwriting, data and model sophistication, staff training and market discipline. Attritional loss ratios for the core business are 1.9% better than 2014 on an underlying basis, and are on track to improve again in 2016.

Improving our cost position is the other critical element of performance. We are ahead of original targets (>£180m gross savings by 2016) and able to increase for the second time our future savings targets to in excess of £350m by 2018. Headcount has come down 36% since 2013 (pro-forma for LatAm) and 13% in Core businesses, with more to come. And all of these continuing efforts are enabled by extensive people, technology and infrastructure renewal.

## Financial Results

Operating profits - our key ongoing measure - rose 43% to £523m. This forms a more respectable base from which we aim for further substantial improvements over the next three years. While December's UK floods took results from well above, to slightly below our 2015 underwriting plan, sharp improvement on prior year is still visible.

Our financial results have many moving parts, reflecting the nature of our industry, as well as the ongoing restructuring programme.

Core premium income is up 1% on an underlying basis (down 9% post disposals, Group reinsurance and FX), meeting our goal of stabilising top line erosion.

Current year underwriting profits at £129m are up 77% and a record<sup>1</sup> for RSA. This was driven by improved underlying profits and a swing on volatile weather/large losses of £20m<sup>2</sup> vs 2014 (£68m worse than planned). The storm and flood events in December cost £76m within this total (£174m pre-reinsurance recoveries, which shows the risk management conservatism of our business).

Total underwriting profit was £220m, over five times higher than last year. The combined operating ratio (COR) was 96.0% for core businesses (96.9% total Group), improving from 98.8% in 2014. Reserve margins are unchanged on the year at 5%.

Within these figures are notable achievements on a regional basis. Canada delivered a 91.7% COR, albeit helped by positive reserve run-off. The Scandinavian COR of 94.0% was held back by one-off additional Swedish reserve strengthening but lower costs and an improving attritional loss ratio provides a platform for attractive further profit growth. UK pro forma underwriting profit was £40m<sup>3</sup> despite significant impact from the December storms, while the attritional loss and cost ratios improved year-on-year. This is the best UK result for many years.

Reflecting RSA's progress, a final dividend of 7.0p/share is proposed making a 10.5p/share total for the year (up 425%), or 47% pay-out of headline and 38% of underlying EPS. Our dividend policy is unchanged; medium-term pay-outs of 40-50%, plus other capital return if surpluses so allow. Once restructuring is complete and bond pull-to-par has unwound, we expect capital generation, net of organic growth needs, to be strong.

## **Looking Forward**

Our medium term performance target of 12-15% underlying return on net tangible assets remains sensible for RSA. It translates to 15-20% ROTE pre-pension/legacy capital charges. Our latest plans, if achieved, show underlying ROTE in the upper half of our target range in 2017 with further gains thereafter. Our focus on moving COR towards 'best in class' levels for our markets sets an 'ambition' which is actually above our 'target' range.

## **Thanks**

The support and efforts of all our stakeholders are integral to the improvements at RSA. We are grateful to customers, brokers and shareholders alike. We are appreciative of regulatory engagement, not least over Solvency II. But especially I should recognise the efforts of our people, my colleagues. It's tough work, uncertainties abound and there are hard decisions being made. RSA's people are stepping up and we are grateful for it. So too do we welcome the talented newcomers to our management and thank those who have left us.

RSA is a valuable company. We can make it much more valuable. We are on a course to do just that.

**Stephen Hester**  
**Group Chief Executive**  
**24 February 2016**

<sup>1</sup> On a like-for-like basis

<sup>2</sup> Net of Group aggregate reinsurance cover 2015 earned premium of £46m (2014: nil)

<sup>3</sup> Pro forma for aggregate reinsurance 2015 net recovery of £28m (£74m recovery net of £46m earned premium cost) shown separately in Group Re.

## MANAGEMENT REPORT

### INCOME STATEMENT

Management basis – 12 months ended 31 December 2015

	Group FY 2015 £m	Of which: 'Core' <sup>5</sup> £m	Group FY 2014 <sup>6</sup> £m	Of which: 'Core' <sup>5</sup> £m
<b>Net Written Premiums</b>	<b>6,825</b>	<b>5,722</b>	<b>7,465</b>	<b>6,091</b>
Net Earned Premiums	7,012	5,927	7,874	6,483
Net Incurred Claims <sup>1</sup>	(4,579)	(3,933)	(5,381)	(4,496)
Commissions	(1,113)	(848)	(1,195)	(917)
Operating expenses	(1,100)	(909)	(1,257)	(999)
<b>Underwriting result</b>	<b>220</b>	<b>237</b>	<b>41</b>	<b>71</b>
Investment income	403	319	439	351
Investment expenses	(14)	(12)	(13)	(12)
Unwind of discount	(67)	(28)	(83)	(46)
<b>Investment result</b>	<b>322</b>	<b>279</b>	<b>343</b>	<b>293</b>
Central expenses	(19)	(18)	(19)	(16)
<b>Operating result</b>	<b>523</b>	<b>498</b>	<b>365</b>	<b>348</b>
Net gains/losses/exchange – tangible	204		476	
– intangible <sup>2</sup>	(51)		(99)	
Interest	(106)		(119)	
Non-operating charges <sup>3</sup>	(35)		(42)	
Non-recurring charges <sup>4</sup>	(212)		(306)	
<b>Profit before tax</b>	<b>323</b>		<b>275</b>	
Tax	(79)		(199)	
<b>Profit after tax</b>	<b>244</b>		<b>76</b>	
Loss ratio (%)	65.3	66.4	68.3	69.3
Weather loss ratio	3.1	3.2	3.2	3.6
Large loss ratio	7.9	8.5	7.4	8.1
Current year attritional loss ratio	55.7	56.6	57.6	57.8
Current year attritional loss ratio pro forma <sup>7</sup>	55.2	55.9	57.6	57.8
Prior year effect on loss ratio	(1.4)	(1.9)	0.1	(0.2)
Commission ratio (%)	15.9	14.3	15.2	14.1
Expense ratio (%)	15.7	15.3	16.0	15.4
<b>Combined ratio (%)</b>	<b>96.9</b>	<b>96.0</b>	<b>99.5</b>	<b>98.8</b>
<b>Reported ROTE</b>	<b>7.8</b>		<b>3.6</b>	
<b>Underlying ROTE</b>	<b>9.7</b>		<b>9.7</b>	
<b>Notes:</b>				
<sup>1</sup> Of which: claims handling costs	(395)		(460)	
<sup>2</sup> Impairments of non-financial assets	(51)		(99)	
<sup>3</sup> Amortisation	(27)		(32)	
<sup>3</sup> Pension net interest costs	(8)		(10)	
<sup>4</sup> Solvency II costs	(26)		(25)	
<sup>4</sup> Reorganisation costs	(183)		(110)	
<sup>4</sup> Other non-recurring charges	(3)		(171)	

<sup>5</sup> 'Core' comprises Scandinavia, Canada, UK (ex Legacy), Ireland, and central functions.

<sup>6</sup> Represented, please refer to page 30 for further details.

<sup>7</sup> Attributes the impact of moving the Group aggregate reinsurance cover (taken out in 2015) earned premiums to weather/large and to adjust for 2014 year end discount rate change impact on 2015 claims in Scandinavia.



## SEGMENTAL ANALYSIS

### Management basis – 12 months ended 31 December 2015

	Scandinavia	Canada	UK	Ireland	Central functions	Total 'non-core' <sup>1</sup>	Group FY 2015
	£m	£m	£m	£m	£m	£m	£m
<b>Net Written Premiums</b>	<b>1,606</b>	<b>1,360</b>	<b>2,606</b>	<b>261</b>	<b>(111)</b>	<b>1,103</b>	<b>6,825</b>
Net Earned Premiums	1,566	1,387	2,734	264	(24)	1,085	7,012
Net Incurred Claims	(1,156)	(852)	(1,781)	(222)	78	(646)	(4,579)
Commissions	(60)	(186)	(566)	(34)	(2)	(265)	(1,113)
Operating expenses	(256)	(233)	(375)	(43)	(2)	(191)	(1,100)
<b>Underwriting result</b>	<b>94</b>	<b>116</b>	<b>12</b>	<b>(35)</b>	<b>50</b>	<b>(17)</b>	<b>220</b>
<b>U'writing result pro forma<sup>2</sup></b>			<b>40</b>		<b>22</b>		
Investment income	91	72	147	9	-	84	403
Investment expenses	(2)	(3)	(7)	-	-	(2)	(14)
Unwind of discount	(20)	(3)	(5)	-	-	(39)	(67)
<b>Investment result</b>	<b>69</b>	<b>66</b>	<b>135</b>	<b>9</b>	<b>-</b>	<b>43</b>	<b>322</b>
Central expenses	-	-	-	-	(18)	(1)	(19)
<b>Operating result</b>	<b>163</b>	<b>182</b>	<b>147</b>	<b>(26)</b>	<b>32</b>	<b>25</b>	<b>523</b>
<b>Operating result pro forma<sup>2</sup></b>			<b>175</b>		<b>4</b>		
Net gains/losses/exchange – tangible							204
– intangible							(51)
Interest							(106)
Non-operating charges							(35)
Non-recurring charges							(212)
<b>Profit before tax</b>							<b>323</b>
Tax							(79)
<b>Profit after tax</b>							<b>244</b>
Loss ratio (%)	73.8	61.5	65.1	84.3	-	-	65.3
Weather loss ratio	1.0	2.3	6.5	1.5	-	-	3.1
Large loss ratio	6.3	4.7	12.4	6.4	-	-	7.9
Current year attritional loss ratio	64.5	60.3	48.1	74.2	-	-	55.7
Curr. yr attr'nl loss ratio pro forma <sup>3</sup>	63.7						55.2
Prior year effect on loss ratio	2.0	(5.8)	(1.9)	2.2	-	-	(1.4)
Commission ratio (%)	3.8	13.4	20.7	12.8	-	-	15.9
Expense ratio (%)	16.4	16.8	13.7	16.3	-	-	15.7
<b>Combined ratio (%)</b>	<b>94.0</b>	<b>91.7</b>	<b>99.5</b>	<b>113.4</b>	<b>-</b>	<b>-</b>	<b>96.9</b>
<b>Combined ratio pro forma (%)<sup>2</sup></b>			<b>98.5</b>				

<sup>1</sup> Total 'non-core' comprises discontinued operations of Poland, Baltics, Italy, Hong Kong, Singapore, China, Thailand, India, Russia and Latin America; and non-core operations of Noraxis, UK Legacy and the Middle East.

<sup>2</sup> Pro forma for aggregate reinsurance 2015 net recovery of £28m (£74m recovery net of £46m earned premium cost) shown separately in Group Re.

<sup>3</sup> Adjusts, for Scandinavia, for the 2014 year end discount rate change impact on 2015 claims in Scandinavia. Reflects this adjustment for Group and also attributes the impact of moving the Group aggregate reinsurance cover (taken out in 2015) earned premiums to weather/large.

**Note: please refer to appendix for FY 2014 comparatives**



## Market conditions

Insurance market conditions seem broadly unchanged from a year ago. Slow growth and intense price competition continue to drive sharp price/volume trade-offs, though in line with our expectations overall.

During 2015, five-year bond yields increased by c.20bps in each of the UK, Sweden and Denmark, but were down c.60bps in Canada. At an aggregate level, this has had a positive impact on economic capital ratios, the outlook for investment returns and discount rates on liabilities, but reduces tangible equity in the short term as unrealised bond gains reverse. However, since year end, five-year bond yields have fallen – down 15-60bps across our core territories.

Around two thirds of RSA's core premiums lie outside the UK. Foreign exchange movements, notably the strengthening of Sterling during 2015, have impacted reported results, with Core Group premiums flat at constant exchange rates (up 1% underlying), but down 6% at reported exchange rates. A 5% change in the average rates of our operating currencies against Sterling would imply a 4% change in our 2015 operating profit.

## Premiums

2015 Group net written premiums were down 3% year-on-year at constant exchange rates due to disposals, however Core Group premiums rose 1% on an underlying basis, with the key movements being:

	Scandi- navia	Canada	UK	Ireland	Total
<b>Net Written Premiums (£m)</b>	<b>1,606</b>	<b>1,360</b>	<b>2,606</b>	<b>261</b>	
<i>% changes in NWP</i>					
Volume change including portfolio actions	1	(5)	-	(8)	(1)
Rate increases	3	2	2	4	2
<b>Core Group FY 2015 CFX movt. (ex Group Re)</b>	<b>4</b>	<b>(3)</b>	<b>2</b>	<b>(4)</b>	<b>1</b>
Impact of Group Re <sup>1</sup>					(1)
<b>Core Group FY 2015 CFX movt.</b>					<b>-</b>
Impact of non-core businesses/disposals					(3)
<b>Total Group FY 2015 CFX movt.</b>					<b>(3)</b>

<sup>1</sup> Group Re premiums include £139m in 2015 for the purchase of a new 3 year Group aggregate reinsurance cover, and £67m in 2014 for the purchase of the Group Adverse Development Cover.

Regional highlights (at constant FX) include:

- Scandinavian premiums were up 4% (Personal up 4% and Commercial up 3%), due to improving rate and retention across the book;
- Canadian premiums were down 3% with Personal down 3% and Commercial down 5%. The movements reflect the underwriting actions we have been taking to improve profitability as well as competitive market conditions;
- UK premiums were up 2%. Commercial was up 7% driven by growth in our target portfolios whilst Personal was down 4% reflecting continued discipline in a competitive market and the ongoing impact of business exits; and
- Ireland premiums were down 4% reflecting the continued impact of our remediation work.

Retention trends remained broadly stable with overall retention across the Group of around 80%.

## Underwriting result

Group underwriting profit of £220m has improved significantly year-on-year (2014: £41m) and comprised £237m from core operations, and a £17m loss from discontinued and non-core operations.

£m	Total UW result		Current Year UW		Prior Year UW	
	2015	2014 <sup>1</sup>	2015	2014 <sup>1</sup>	2015	2014 <sup>1</sup>
Scandinavia	94	169	127	148	(33)	21
Canada	116	21	35	(17)	81	38
UK	12	4	(34)	6	46	(2)
Ireland	(35)	(108)	(29)	(63)	(6)	(45)
Group Re	50	(15)	37	9	13	(24)
<b>Total Core</b>	<b>237</b>	<b>71</b>	<b>136</b>	<b>83</b>	<b>101</b>	<b>(12)</b>
Non-core & discontinued	(17)	(30)	(7)	(10)	(10)	(20)
<b>Total Group</b>	<b>220</b>	<b>41</b>	<b>129</b>	<b>73</b>	<b>91</b>	<b>(32)</b>

<sup>1</sup> Represented, please refer to page 30 for further details.

Current year profit of £129m (2014: £73m):

- The Core Group current year attritional loss ratio was 56.6% which showed a 1.9 point improvement from 2014 on an underlying basis<sup>1</sup>. There were good improvements across all core regions.
- Total weather costs for 2015 were £218m representing a weather loss ratio of 3.1% (2014: £253m or 3.2%; five year average: 3.2%).

Included within this is a £76m net cost to the Group relating to the adverse weather in the UK, Ireland and Scandinavia in November and December. The gross cost of these storms was £174m, and after recoveries from the Group catastrophe treaty the cost was £150m (two events at a net retention of £75m each). In addition, the Group booked recoveries of £74m from the Group aggregate reinsurance cover, bringing the overall Group net cost down to £76m.

### Impact of November/December storm events:

£m	Loss net of cat treaty recoveries	Aggregate cover recovery	Overall net cost
UK	134	-	134
Scandinavia	8	-	8
Ireland	3	-	3
Group Re	5	(74)	(69)
<b>Total</b>	<b>150</b>	<b>(74)</b>	<b>76</b>

Please refer to page 35 for further information on our 2016 reinsurance programme.

- Total large losses were £556m or 7.9% of premiums (2014: £587m or 7.4%), which was marginally lower than the five year average of 8.1%, with lower than trend levels in the UK (although slightly worse than expectations), partly offset by more elevated levels in Scandinavia, Canada and Ireland.

<sup>1</sup> Attributes the impact of moving the Group aggregate reinsurance cover (taken out in 2015) earned premiums to weather/large and to adjust for 2014 year end discount rate change impact on 2015 claims in Scandinavia.

Prior year profit of £91m provided a 1.4 point benefit to the combined ratio and included the following specific items:

- Positive prior year development from Canada and the UK;
- Reserve strengthening in Scandinavia relating to legacy long-tail Swedish Personal Accident products;
- A much reduced prior year loss of £6m in Ireland (2014: £45m loss) as our actions to improve the business continue to take effect; and
- A non-core prior year loss of £10m which included a £39m loss in UK Legacy and a £26m profit in Italy.

Our guidance is for prior year profits to be around 1% of premiums, but there remains the potential for volatility given our commitment to transparent reserve margins.

Our assessment of the margin in reserves for the Group (the difference between our actuarial indication and the booked reserves in the financial statements) remains stable at 5% of booked claims reserves.

#### *Underwriting operating expenses*

The overall Group underwriting expense ratio was down 0.3pts to 15.7% in 2015 and at a Core Group level was down marginally to 15.3%. There were improvements of 0.5pts and 0.4pts in Scandinavia and the UK respectively, offset by a higher ratio in Canada (the product of lower underwriting expenses more than offset by lower premiums). In 2016 we expect the Core Group expense ratio to fall again, and we target further reductions thereafter.

#### *Commissions*

The Group commission ratio in 2015 of 15.9% was up from 15.2% in 2014, driven mainly by an increase in the non-core commission ratio (up 4.5pts to 24.5%). The Core Group commission ratio was relatively stable at 14.3% (2014: 14.1%). We currently expect the Core Group commission ratio to be at or around 14% over the medium term.

#### **Investment result**

The investment result was £322m (2014: £343m) with investment income of £403m (2014: £439m) partly offset by investment expenses of £14m (2014: £13m) and the liability discount unwind of £67m (2014: £83m).

Investment income was slightly ahead of our guidance but down 8% on prior year, primarily reflecting the continued impact of the low bond yield environment with the average book yield across our major bond portfolios falling from 3.0% to 2.8% year-on-year. The liability discount unwind was lower than 2014 following the reduction in Scandinavian discount rates made at the end of 2014.

Based on current forward bond yields and foreign exchange rates, together with the expected timing of disposal completions in 2016, it is estimated that investment income (pre discount unwind and investment expenses) will be close to previous guidance once adjusted for the Latin America sale impacts. This is in the order of £330m for 2016 (of which c.£15m relates to pre-completion Latin America income), with around £315m expected in 2017 and 2018. Discount unwind of c.£55m is expected for 2016, falling to around £50m thereafter, with the reduction from 2015 reflecting the disposal of Latin America.

## **Total controllable costs<sup>1</sup>**

Against our target of greater than £250m annual gross cost reduction by 2017 we have delivered £180m at the end of 2015 and now expect to achieve in the region of £250m by 2016. We have therefore raised our future savings targets for a second time to in excess of £350m by 2018. We now expect 'costs to achieve' to be less than 1.5 times the annual cost savings once fully achieved. These costs will be booked over the years 2014-17, falling sharply in 2017.

Total Group controllable costs<sup>1</sup> were down 8% year-on-year at constant exchange to £1,808m. Core business controllable costs were down 3% in the same period at constant exchange to £1,505m (comprising 4% cost reductions, offset by 1% inflation).

The majority of the year-on-year core business cost reduction has come from our Scandinavian business (8% down) and our UK business (4% down).

Group FTE<sup>2</sup> is down 26% since the start of 2014 to 16,713 at the end of 2015, and will be down 36% post the completion of the Latin America disposal. Over the same period Core business FTE has fallen by 13% to 13,637.

## **Non-operating items**

Tangible net gains of £204m (2014: £476m) include:

- £184m of disposal gains (2014: £342m) including Hong Kong & Singapore £103m, China £28m, Italy £29m and India £21m;
- £20m of investment gains mainly comprising realised equity gains and unrealised gains on property assets.

Intangible net losses of £51m in respect of goodwill and intangible asset write downs (2014: £99m) mainly relate to the write-down of certain non-core assets to their recoverable amount.

Non-cash non-operating charges of £35m (2014: £42m) comprise £27m of amortisation of customer related intangible assets and £8m of pension net interest costs. We expect the amortisation of customer related intangible assets to fall in 2016 to around half the amount booked in 2015.

Non-recurring charges of £212m (2014: £306m) include:

- Reorganisation costs of £183m (2014: £110m) in respect of redundancy (£59m) and restructuring (£124m). Restructuring costs in 2015 related to amounts incurred across the Group for activities such as process re-engineering, office footprint consolidation, reducing spans of control, and renegotiation of supplier contracts. Of particular note is the recent announcement of our transition to a new IT infrastructure provider, Wipro, in the UK, Ireland and Scandinavia. Restructuring costs have been incurred in relation to this transition, but our new arrangements should lead to cumulative benefits in excess of £250m over the contract period; and
- Solvency II implementation costs of £26m (2014: £25m). In 2016 we expect a significantly reduced Solvency II cost (reflecting ongoing preparations for Pillar III reporting), falling to zero thereafter.

<sup>1</sup> Total controllable costs includes underwriting operating expenses, claims expenses, investment expenses, central expenses and Solvency II costs

<sup>2</sup> Full time equivalent employees

## **Tax**

The Group has reported a tax charge of £79m for the year, giving an effective tax rate (ETR) of 24.5%. The charge largely comprises:

- Tax on overseas profits, particularly in Canada, Latin America and Scandinavia, and other overseas tax charges;
- A reduced UK deferred tax asset valuation due to the lower UK corporation tax rate of 18%;
- The upward revaluation of UK deferred tax assets based on current assessments of probable future UK taxable profits.

The carrying value of the Group's net deferred tax asset at 31 December 2015 was £126m (of which £101m is in the UK). Additionally, the Group has income tax losses of £631m for which no deferred tax asset has currently been recognised, predominantly in the UK (c.£400m) and Ireland (c.£130m).

In 2016, we expect an optically higher ETR due to the accounting impact of the Latin American disposal, higher taxed foreign profits, and UK reorganisation costs that do not give an immediate tax benefit. Thereafter, we anticipate an ETR more in line with the statutory rates in our Core territories.

## **Dividend**

We are pleased, in the light of our continued progress, to propose a final dividend of 7.0p per ordinary share. Together with the interim dividend of 3.5p, this brings the total dividend for the year to 10.5p, representing 47% pay out of headline and 38% of underlying EPS.

Our medium term policy of between 40-50% ordinary dividend payouts remains, with additional payouts where justified. Potential for additional payouts should follow the completion of restructuring and the unwind of unrealised bond gains.

## BALANCE SHEET

### Movement in Net Assets

	Shareholders' funds £m	Non controlling interests £m	Loan capital £m	Equity plus loan capital £m	TNAV £m
<b>Balance at 1 January 2015</b>	3,825	108	1,243	5,176	2,900
Profit/(loss) after tax	235	9	-	244	357
Exchange gains/(losses) net of tax	(220)	5	-	(215)	(167)
Fair value gains/(losses) net of tax	(218)	(1)	-	(219)	(218)
Pension fund gains/(losses) net of tax	65	-	-	65	65
Repayment & amortisation of loan capital	-	-	11	11	-
Share issue	3	-	-	3	3
Changes in shareholders' interests in subsidiaries	3	11	-	14	3
Share based payments	14	-	-	14	14
2014 final/2015 interim dividend	(56)	(3)	-	(59)	(56)
Preference dividend	(9)	-	-	(9)	(9)
Goodwill and intangible additions	-	-	-	-	(54)
<b>Balance at 31 December 2015</b>	<b>3,642</b>	<b>129</b>	<b>1,254</b>	<b>5,025</b>	<b>2,838</b>
<b>Per share (pence)</b>					
At 1 January 2015	365				286
<b>At 31 December 2015</b>	<b>346</b>				<b>279</b>

Tangible net assets have reduced by 2% to £2.8bn during 2015. Profits in the year (including disposal gains) and positive IAS 19 pension fund movements were offset by adverse foreign exchange, fair value mark-to-market reductions due to higher bond yields, the payment of dividends and intangible asset additions.

## CAPITAL POSITION

Solvency II position <sup>1</sup> 31 December 2015:	Requirement (SCR) £bn	Eligible Own Funds £bn	Surplus £bn	Coverage %
<b>As reported</b>	<b>2.0</b>	<b>2.9</b>	<b>0.9</b>	<b>143%</b>
Pro forma for Latin America disposal	2.0	3.1	1.1	155%

### *Solvency II approach*

- Internal Model approval received on 5 December 2015.
- Fully consolidated Internal Model tailored to RSA's risk profile (benefiting from having been part of the PRA's ICA regime for the past 11 years).
- The SCR (Solvency Capital Requirement) represents the Value-at-Risk of basic own funds subject to a confidence level of 99.5 % over a one-year period.
- Covers existing business and all new business expected to be written over the next 12 months.
- No transitional measures utilised, except for grandfathering of debt.

### *Target operating range*

- We maintain a measured approach to capital management, targeting a single 'A' capital rating. This involves considering a range of indicators relating to capital, to operating results, and to qualitative factors.
- RSA is a diversified, multi-channel, multi-product general insurer and its business mix reduces exposure to significant volatility.
- However, the UK pension scheme provides a degree of IAS 19 volatility under Solvency II for RSA.
- During 2016, as Solvency II beds in across the industry, we will assess target coverage ratios. But based on current knowledge, we consider a target operating range of 130-160% to be appropriate for the Group's risk profile.
- Our previous guidance with respect to tangible net assets : premium ratio is superseded by Solvency II but will continue to be a comparative tool we analyse.

### *Solvency II sensitivities<sup>2</sup>*

<b>FY 2015 coverage ratio</b>	<b>143% / 155% pro forma</b>
Interest rates: +1% parallel shift	-2%
Interest rates: -1% parallel shift	+3%
Equities: -15%	-8%
Foreign exchange: GBP +10% vs all currencies	-4%
Cat loss of £75m net	-5%
Credit spreads: +0.25% parallel shift	2%
Credit spreads: -0.25% parallel shift	-10%

The above sensitivities have been considered in isolation. Should sensitivities impact in combination there may be some natural offsets between them.

<sup>1</sup> The Solvency II capital position at 31 December 2015 is estimated

<sup>2</sup> Shown pro forma for pension de-risk actions (see page 34 for further details)



*Capital requirement (SCR) by risk type<sup>1</sup>:*

	31 Dec 2015
	%
Underwriting risk	19
Catastrophe risk	12
Reserve risk	13
Legacy <sup>2</sup> risk	11
Market & credit risk	12
Currency risk	3
Pension risk	23
Operational risk	7
<b>Total</b>	<b>100</b>

*Capital requirement (SCR) by territory<sup>1</sup>:*

	31 Dec 2015
	%
UK	24
Scandinavia	15
Canada	12
Ireland	5
Pension	29
Legacy <sup>2,3</sup>	13
Discontinued	2
<b>Total</b>	<b>100</b>

*Diversification benefit*

The level of diversification benefit generated within our SII model, resulting from the nature of the different types of business written and the non-correlation of risk events affecting the group, is around 40% of the undiversified capital requirement (SCR).

*Reconciliation of IFRS total capital to Eligible Own Funds*

	31 Dec 2015
	£m
Shareholders' funds (incl. preference shares)	3.6
Loan capital	1.3
Non-controlling interests	0.1
<b>Total IFRS capital</b>	<b>5.0</b>
Less: goodwill & intangibles	(0.6)
Adjust technical provisions to SII basis	(0.8)
Other	(0.1)
<b>Basic Own Funds</b>	<b>3.5</b>
Tiering & availability restrictions	(0.5)
Forseeable dividends & NCI	(0.1)
<b>Eligible Own Funds</b>	<b>2.9</b>

<sup>1</sup> Shown as a proportion of the undiversified solvency capital requirement.

<sup>2</sup> Includes asbestos, disease and abuse.

<sup>3</sup> Estimated as part of the total UK risk.

Note: Because gross SCR is analysed using different categories, percentages for Pensions and Legacy vary between the SCR by risk type and by territory.

## GROUP OUTLOOK

The Group expects to make further good progress in 2016 against its Action Plan and the year has started well in that regard. Core business NWP is targeted to show only modest growth vs 2015 (at constant FX). Attritional loss ratios are expected to show further improvement, as are controllable expenses. Volatile items in weather/ large losses remain unpredictable though bounded by reinsurance protection similar to 2015. Our current medium term planning assumption is for a Core Group weather ratio of around 3% and large loss ratio of around 8.5%. If volatile items stay per plan, attractive further underwriting profit and combined ratio improvement is expected.

Group investment income (excluding the contribution from Latin America pre-sale completion) is expected to be c.£315m and to stay around that level for 2017 assuming current market implied rates. Volatile financial markets are a risk factor for RSA and industry competitors which could present challenges to our plans during the year.

An advance in 2016 operating profit is our goal with underwriting improvements more than offsetting reduction in investment income and disposal impacts from Latin America. Non-operating items are expected to include tangible gains on disposals, but other charges including FCTR<sup>1</sup> (and potentially debt refinancing) will optically exceed these, albeit with no capital or cash impact.

2016 should see the last major year of restructuring charges associated with capability improvement and our increased cost savings targets. The totality of management actions across 2014-16 is expected to produce further strong performance gains in 2017/18 consistent with the Group's ambition and financial targets.

<sup>1</sup> Foreign currency translation reserve – please refer to page 35 for further details.

## BUSINESS REVIEW – INVESTMENT PERFORMANCE

### Management basis

Investment result	FY 2015 £m	FY 2014 £m	Change %
Bonds	332	354	(6)
Equities	25	23	9
Cash and cash equivalents	17	29	(41)
Property	22	28	(25)
Other	7	5	40
<b>Investment income</b>	<b>403</b>	<b>439</b>	<b>(8)</b>
Investment expenses	(14)	(13)	(8)
Unwind of discount	(67)	(83)	19
<b>Investment result</b>	<b>322</b>	<b>343</b>	<b>(6)</b>

  

Balance sheet unrealised gains	31 Dec 2015 (£m)	31 Dec 2014 (£m)	Change %
Bonds	414	634	(35)
Equities	(1)	35	-
Other	2	3	(33)
<b>Total</b>	<b>415</b>	<b>672</b>	<b>(38)</b>

Investment portfolio	Value 31 Dec 2014 £m	Foreign exchange £m	Mark to market £m	Other movements £m	Transfer to assets held for sale £m	Value 31 Dec 2015 £m
Government bonds	4,163	(236)	(52)	140	(308)	3,707
Non-Government bonds	8,085	(315)	(203)	(94)	(68)	7,405
Cash	1,011	(72)	-	(26)	(97)	816
Equities	160	(5)	6	(2)	-	159
Property	346	(2)	25	-	(4)	365
Prefs & CIVs	335	(18)	(36)	145	-	426
Other	97	(8)	(9)	20	-	100
<b>Total</b>	<b>14,197</b>	<b>(656)</b>	<b>(269)</b>	<b>183</b>	<b>(477)</b>	<b>12,978</b>

  

Split by currency:		
Sterling	4,466	4,543
Danish Krone	1,229	936
Swedish Krona	2,344	2,207
Canadian Dollar	3,128	2,706
Euro	1,308	1,247
Other	1,722	1,339
<b>Total</b>	<b>14,197</b>	<b>12,978</b>

Credit quality – bond portfolio	Non-government		Government	
	31 Dec 2015 %	31 Dec 2014 %	31 Dec 2015 %	31 Dec 2014 %
AAA	33	31	89	81
AA	15	21	6	10
A	37	38	5	3
BBB	14	8	-	5
< BBB	1	1	-	1
Non rated	-	1	-	-
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

## INVESTMENT PERFORMANCE

Investment income of £403m (2014: £439m) was offset by investment expenses of £14m (2014: £13m) and the liability discount unwind of £67m (2014: £83m). Investment income of £403m is ahead of our expectations but down 8% on prior year, primarily reflecting the continued impact of the low bond yield environment.

The average book yield on the total portfolio was 2.9% (2014: 3.1%), with average yield on the bond portfolios of 2.8% (2014: 3.0%). Reinvestment rates in the Group's major bond portfolios at 31 December 2015 were approximately 1.3%.

Average duration of the Group's bond portfolios is 4.0 years (31 December 2014: 4.0 years).

The investment portfolio fell by 9% during the year to £13.0bn. The movement was driven primarily by the impact of strengthening of Sterling, negative mark-to-market on bond holdings, and transfers to assets held for sale (mainly relating to the agreed sale of Latin America). This was partly offset by positive cash flow, including proceeds from completed disposals in the year. Excluding transfers to assets held for sale the investment portfolio was down 5% in 2015.

At 31 December 2015, high quality widely diversified fixed income securities represented 86% of the portfolio (31 December 2014: 86%). Equities represented 1% (31 December 2014: 1%) and cash 6% of the total portfolio (31 December 2014: 7%).

The quality of the bond portfolio remains very high with 99% investment grade and 67% rated AA or above. We remain well diversified by sector and geography.

### *Unrealised bond gains and pull-to-par*

Balance sheet unrealised gains of £415m (pre-tax) decreased by £257m during the year (31 December 2014: £672m) driven by higher bond yields, the pull-to-par of existing bonds and negative foreign exchange movements.

The Group's future capital generation will be driven by its TNAV generation, which includes book yield investment income through the P&L, offset by a mark-to-market valuation, which will include a pull-to-par effect through equity.

This will unwind the unrealised gains on the balance sheet, currently £415m (almost entirely related to fixed income). These are expected to largely unwind over the next 3 years, based on current forward yields.

This pull-to-par effect notwithstanding, the Group's economic insurance asset and liability position is broadly matched; parallel shifts in the yield curve should not have a significant impact on Solvency II surplus (this excludes IAS 19 impact).

## Outlook

Based on current forward bond yields and foreign exchange rates, together with the expected timing of disposal completions in 2016, it is estimated that investment income will be little changed from previous guidance once adjusted for the Latin America sale impacts. This will be in the order of £330m for 2016 (of which £15m relates to pre-completion Latin America income), with around £315m expected in 2017 and 2018. Discount unwind of c.£55m is expected in 2016, falling to c.£50m thereafter. These projected income numbers are, however, sensitive to changes in market conditions.

## REGIONAL REVIEW – SCANDINAVIA

### Management basis

	Net written premiums		Change	Underwriting result				
	FY 2015 £m	FY 2014 <sup>1</sup> £m	Constant FX (%)	FY 2015 £m	FY 2014 <sup>1</sup> £m			
<b>Split by country</b>								
Sweden	874	956	4	101	130			
Denmark	585	633	3	(11)	39			
Norway	147	170	2	4	-			
<b>Total Scandinavia</b>	<b>1,606</b>	<b>1,759</b>	<b>4</b>	<b>94</b>	<b>169</b>			
<b>Split by class</b>								
Household	295	307	9	35	-			
Personal Motor	313	360	-	89	51			
Personal Accident & Other	275	302	3	(16)	102			
<b>Total Scandinavia Personal</b>	<b>883</b>	<b>969</b>	<b>4</b>	<b>108</b>	<b>153</b>			
Property	297	324	3	7	(1)			
Liability	129	133	9	(11)	27			
Commercial Motor	184	206	2	4	(2)			
Marine & Other	113	127	1	(14)	(8)			
<b>Total Scandinavia Commercial</b>	<b>723</b>	<b>790</b>	<b>3</b>	<b>(14)</b>	<b>16</b>			
<b>Total Scandinavia</b>	<b>1,606</b>	<b>1,759</b>	<b>4</b>	<b>94</b>	<b>169</b>			
Investment result				69	72			
<b>Scandinavia operating result</b>				<b>163</b>	<b>241</b>			
<b>Operating Ratios (%)</b>	<b>Claims</b>		<b>Commission</b>		<b>Op Expenses</b>		<b>Combined</b>	
	<b>FY '15</b>	<b>FY '14</b>	<b>FY '15</b>	<b>FY '14</b>	<b>FY '15</b>	<b>FY '14<sup>1</sup></b>	<b>FY '15</b>	<b>FY '14<sup>1</sup></b>
Household							87.9	99.9
Personal Motor							71.6	85.8
Personal Accident & Other							105.9	65.6
<b>Total Scandinavia Personal</b>	<b>71.3</b>	<b>66.3</b>	<b>3.2</b>	<b>3.4</b>	<b>13.2</b>	<b>14.3</b>	<b>87.7</b>	<b>84.0</b>
Property							97.5	100.1
Liability							108.4	79.3
Commercial Motor							98.1	101.0
Marine & Other							112.0	106.5
<b>Total Scandinavia Commercial</b>	<b>77.0</b>	<b>73.5</b>	<b>4.7</b>	<b>4.5</b>	<b>20.4</b>	<b>19.9</b>	<b>102.1</b>	<b>97.9</b>
<b>Total Scandinavia</b>	<b>73.8</b>	<b>69.6</b>	<b>3.8</b>	<b>3.9</b>	<b>16.4</b>	<b>16.9</b>	<b>94.0</b>	<b>90.4</b>
Of which:			5yr ave					
Weather loss ratio	1.0	1.6		1.8				
Large loss ratio	6.3	4.7		5.2				
Current year attritional loss ratio	64.5	64.8						
Curr. yr attr'nl loss ratio pro forma <sup>2</sup>	63.7							
Prior year effect on loss ratio	2.0	(1.5)						
<b>YTD rate increases<sup>3</sup> (%)</b>	<b>At Dec 2015</b>		<b>At Sept 2015</b>		<b>At June 2015</b>		<b>At March 2015</b>	
Personal Household		<b>5</b>		<b>4</b>		<b>4</b>		<b>3</b>
Personal Motor		<b>3</b>		<b>3</b>		<b>3</b>		<b>3</b>
Commercial Property		<b>1</b>		<b>2</b>		<b>2</b>		<b>2</b>
Commercial Liability		<b>5</b>		<b>5</b>		<b>5</b>		<b>4</b>
Commercial Motor		<b>4</b>		<b>4</b>		<b>4</b>		<b>3</b>

<sup>1</sup> Represented, please refer to page 30 for further details.

<sup>2</sup> To adjust for 2014 discount rate change impact on 2015 claims in Scandinavia.

<sup>3</sup> 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**

Scandinavian net written premiums of £1,606m were up 4% at constant exchange (2014: £1,759m as reported; £1,551m at constant exchange), with volumes up 1% across the region and rate increases contributing 3% growth.

Personal grew 4%, with strong growth of 6% in Sweden driven by all lines, particularly Household, due to a combination of rate increases and good retention levels. Denmark Personal premiums were flat although we are seeing good traction in our affinity offering. Norway Personal premiums were down 1% mainly due to the termination of a single large affinity arrangement in late 2014.

Commercial premiums were up 3% overall with growth of 4% in Denmark Commercial driven by continued strong progress in Workers Compensation and Renewable Energy. Sweden Commercial grew 1% driven by rate increases, whilst Norway Commercial premiums were up 5%.

The Scandinavian underwriting result was a profit of £94m (2014: £169m) with a current year profit of £127m (2014: £148m) and a prior year loss of £33m (2014: £21m profit). Excluding weather and large loss movements, current year profits were £12m up on 2014 (at constant FX). After including the investment result of £69m (2014: £72m), the operating profit was £163m (2014: £241m).

Underlying performance remains strong with current year profits of £127m that included record current year profits of £165m in Sweden. Denmark profitability was impacted by a series of Marine large losses. The current year attritional loss ratio was 64.5%, however this was 63.7% before the impact of 2014 year end discount rate changes which was 1.1 points better than the 2014 ratio of 64.8%. Weather losses of 1.0% compared to 1.6% in 2014 and a five year average of 1.8%. Large loss experience of 6.3% was adverse to prior year (4.7%) and to the long term average (5.2%) due to a small number of large Property and Marine losses.

The prior year loss of £33m reflected the legacy long-tail Swedish Personal Accident strengthening that was flagged at the half year. Overall, the prior year effect on the loss ratio was adverse at 2.0% (2014: 1.5% positive).

The combined ratio was 94.0% (2014: 90.4%) and 91.9% on a current year basis.

Total controllable expenses are down 8% year-on-year (comprising 9% cost reduction, partly offset by 1% inflation) and FTE was down 5% in 2015 and 9% since the start of 2014. This was particularly pleasing given costs are a key area of focus for the business.

### **Scandinavia – Outlook**

We continue to 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 remains on improving the underlying performance of the business, in particular attritional loss ratios and cost improvements in Denmark and Sweden. We target combined ratios converging with those of key competitors over the planning period.

Initiatives and actions for 2016 include further IT cost reductions; commencing the roll out of our new policy administration system across Denmark Personal; further claims excellence initiatives; digital improvements for our customers; and enhancements to our proposition in Denmark Small Commercial.

## REGIONAL REVIEW – CANADA

### Management basis

	Net written premiums		Change	Underwriting result	
	FY 2015	FY 2014 <sup>1</sup>	Constant	FY 2015	FY 2014 <sup>1</sup>
	£m	£m	FX (%)	£m	£m
Household	421	440	2	62	(4)
Personal Motor	529	609	(7)	42	17
<b>Total Canada Personal</b>	<b>950</b>	<b>1,049</b>	<b>(3)</b>	<b>104</b>	<b>13</b>
Property	176	204	(8)	6	(30)
Liability	99	114	(7)	(5)	2
Commercial Motor	85	89	2	7	24
Marine & Other	50	54	-	4	12
<b>Total Canada Commercial</b>	<b>410</b>	<b>461</b>	<b>(5)</b>	<b>12</b>	<b>8</b>
<b>Total Canada</b>	<b>1,360</b>	<b>1,510</b>	<b>(3)</b>	<b>116</b>	<b>21</b>
Investment result				66	78
<b>Canada operating result</b>				<b>182</b>	<b>99</b>

Operating Ratios (%)	Claims		Commission		Op Expense		Combined	
	FY '15	FY '14	FY '15	FY '14	FY '15	FY '14 <sup>1</sup>	FY '15	FY '14 <sup>1</sup>
Household							85.3	100.8
Personal Motor							92.3	97.2
<b>Total Canada Personal</b>	<b>62.4</b>	<b>72.7</b>	<b>11.1</b>	<b>11.5</b>	<b>15.7</b>	<b>14.6</b>	<b>89.2</b>	<b>98.8</b>
Property							96.7	114.0
Liability							105.2	98.7
Commercial Motor							91.2	73.6
Marine & Other							92.6	78.9
<b>Total Canada Commercial</b>	<b>59.2</b>	<b>60.1</b>	<b>18.8</b>	<b>19.5</b>	<b>19.2</b>	<b>18.9</b>	<b>97.2</b>	<b>98.5</b>
<b>Total Canada</b>	<b>61.5</b>	<b>68.7</b>	<b>13.4</b>	<b>14.0</b>	<b>16.8</b>	<b>15.9</b>	<b>91.7</b>	<b>98.6</b>
Of which:			5yr ave					
Weather loss ratio	2.3	5.0		4.4				
Large loss ratio	4.7	3.6		3.2				
Current year attritional loss ratio	60.3	62.8						
Prior year effect on loss ratio	(5.8)	(2.7)						
<b>YTD rate increases<sup>2</sup> (%)</b>	<b>At Dec 2015</b>		<b>At Sept 2015</b>		<b>At June 2015</b>		<b>At March 2015</b>	
Personal Household		9		9		9		9
Personal Motor		(1)		(1)		(2)		(4)
Commercial Property		3		3		3		4
Commercial Liability		2		2		2		3
Commercial Motor		1		1		1		2

<sup>1</sup> Represented, please refer to page 30 for further details.

<sup>2</sup> 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

Net written premiums in Canada were down 3% on a constant exchange rate basis to £1,360m (2014: £1,510m as reported; £1,409m at constant exchange) with 5% volume reductions partly offset by 2% rate growth.

Personal premiums were down 3%, with 2% growth in Household offset by a 7% reduction in Motor. Household premiums included continued rate action whilst lower Motor premiums were primarily driven by competitive conditions in Ontario, Quebec and the Pacific region. In Commercial, premiums were down 5% as a result of the rating and portfolio action we have been taking, particularly on poorer performing blocks of business.

Underwriting profit for the year was £116m (2014: £21m) which is our strongest ever performance in Canada. Current year underwriting produced a profit of £35m, up £52m on 2014, with a prior year profit of £81m. The combined ratio was 91.7% (2014: 98.6%). After including an investment result of £66m (2014: £78m), the operating result was £182m (2014: £99m).

Taken together, weather and large losses were slightly better than long term averages. Weather losses of 2.3% compared to 5.0% for 2014 and a five year average for our Canadian business of 4.4%. Large losses, at 4.7%, were adverse to both prior year (3.6%) and the five year average (3.2%) reflecting a number of large losses in the Commercial portfolios. The current year attritional loss ratio showed a strong improvement of 2.5 points from the prior year to 60.3% as the benefits of our underwriting and portfolio actions begin to build. The prior year effect on the loss ratio was a benefit of 5.8% with prior year profits arising from the Personal and Commercial Property, Personal Auto and General Liability books. This is an unusually good result, with just over half of prior year development coming from the 2014 accident year.

Controllable expenses are flat year-on-year, although the actions we have been taking in 2015 set the path to achieving attractive cost savings in 2016. Employee headcount was down 6% in the year, ahead of our plans.

### Canada – Outlook

Our Canadian business is beginning to deliver better performance patterns, and we expect this trend to continue, subject to volatile items such as weather events. Our focus continues to be on delivering operational improvement, particularly underwriting and claims improvements, process simplification and modernisation of technology and infrastructure. In 2016 we expect premiums to stabilise, current year profitability to continue improving, prior year profits to be lower than in 2015, costs and cost ratios to fall, and headcount to continue reducing.

## REGIONAL REVIEW – UK

### Management basis

	Net written premiums		Change	Underwriting result	
	FY 2015 £m	FY 2014 <sup>1</sup> £m	Constant FX (%)	FY 2015 £m	FY 2014 <sup>1</sup> £m
Household	600	644	(7)	60	63
Personal Motor	255	270	(6)	(21)	(8)
Pet	278	262	6	8	(10)
<b>Total UK Personal</b>	<b>1,133</b>	<b>1,176</b>	<b>(4)</b>	<b>47</b>	<b>45</b>
Property	634	611	5	(8)	(12)
Liability	297	295	1	(4)	(44)
Commercial Motor	256	214	20	4	23
Marine & Other	286	273	5	(27)	(8)
<b>Total UK Commercial</b>	<b>1,473</b>	<b>1,393</b>	<b>7</b>	<b>(35)</b>	<b>(41)</b>
<b>Total UK</b>	<b>2,606</b>	<b>2,569</b>	<b>2</b>	<b>12</b>	<b>4</b>
<b>Total UK pro forma<sup>2</sup></b>				<b>40</b>	
Investment result				135	132
<b>UK operating result</b>				<b>147</b>	<b>136</b>
<b>UK operating result pro forma<sup>2</sup></b>				<b>175</b>	

Operating Ratios (%)	Claims		Commission		Op Expenses		Combined	
	FY '15	FY '14	FY '15	FY '14	FY '15	FY '14 <sup>1</sup>	FY '15	FY '14 <sup>1</sup>
Household							90.3	90.5
Personal Motor							107.8	102.8
Pet							96.7	103.9
<b>Total UK Personal</b>	<b>59.0</b>	<b>58.5</b>	<b>21.3</b>	<b>22.0</b>	<b>15.6</b>	<b>15.8</b>	<b>95.9</b>	<b>96.3</b>
Property							101.3	102.0
Liability							101.5	115.5
Commercial Motor							99.1	95.1
Marine & Other							109.4	103.2
<b>Total UK Commercial</b>	<b>69.6</b>	<b>70.4</b>	<b>20.3</b>	<b>19.4</b>	<b>12.4</b>	<b>12.8</b>	<b>102.3</b>	<b>102.6</b>
<b>Total UK</b>	<b>65.1</b>	<b>65.3</b>	<b>20.7</b>	<b>20.5</b>	<b>13.7</b>	<b>14.1</b>	<b>99.5</b>	<b>99.9</b>
<b>Total UK pro forma<sup>2</sup></b>							<b>98.5</b>	
Of which:			<b>5yr ave</b>					
Weather loss ratio	6.5	3.8		3.6				
Large loss ratio	12.4	12.9		14.2				
Current year attritional loss ratio	48.1	49.0						
Prior year effect on loss ratio	(1.9)	(0.4)						

YTD rate increases <sup>3</sup> (%)	At Dec 2015	At Sept 2015	At June 2015	At March 2015
Personal Household	1	1	1	1
Personal Motor	5	4	2	1
Commercial Property	(1)	-	-	1
Commercial Liability	2	1	1	1
Commercial Motor	2	2	3	2

<sup>1</sup> Represented, please refer to page 30 for further details.

<sup>2</sup> Pro forma for aggregate reinsurance 2015 net recovery of £28m (£74m recovery net of £46m earned premium cost) shown separately in Group Re.

<sup>3</sup> 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

The UK continued to deliver on its performance improvement programme. Premiums grew 2% against a challenging competitive landscape whilst attritional loss ratios improved and expenses and FTE continued to fall.

The headline underwriting profit of £12m and combined ratio of 99.5% includes the impact of £134m<sup>1</sup> of claims from storms Desmond, Eva and Frank in December (£100m Commercial, £34m Personal). On a pro forma basis, underwriting profit was £40m<sup>2</sup> with a COR of 98.5%<sup>2</sup>. Total weather losses were 6.5%, which was 2.7 points worse than 2014 and 2.9 points worse than the five year average. Importantly attritional loss ratios continued to fall (2015: 48.1%, 2014: 49.0%), as did large losses at £340m or 12.4% (2014: 12.9%), as we maintain underwriting and pricing discipline. We have also seen further cost and FTE reductions during the year. Controllable expenses are down 4% year-on-year (comprising 5% cost reduction, partly offset by 1% inflation) and FTE down 6% in 2015 and down 13% since the end of 2013 excluding the impact of the sale of the UK Engineering Inspection business.

We have continued our work in the UK to focus the business on its core capabilities – during the year we completed the sale of our UK Engineering Inspection business, and our withdrawal from the Specialty Property market in Germany. In December we transferred our in-house loss adjusting services to a specialist loss adjuster.

In UK Personal, net written premiums were down 4%. Household premiums fell 7% reflecting competitive conditions and lower retention. The partnership with Nationwide Building Society announced in late 2015 is a major new business win, and will give us market leadership in UK home insurance. The deal will commence trading in 2017. Motor premiums were down 6% with the impact of our decision to exit broker motor more than offsetting strong rating action and growth in Telematics. Pet growth of 6% was driven by rate increases to cover claims inflation.

The Personal profit of £47m reflected a strong performance in Household with an underwriting profit of £60m despite the storms and floods in December. The Personal Motor loss of £21m reflects an improving trend on the first half (H1 15: £18m loss) as strong rating action begins to deliver. Pet profitability also improved in the second half as the benefits of strong rating and claims management action delivered an underwriting profit of £8m for the full year.

In UK Commercial premium growth was 7% driven predominantly by growth in Commercial property and Commercial motor where the Motability book continues to shift to the new contract. We saw growth of 7% in the Marine book in the second half, following shrinkage in HI due to the impact of remediation and market pricing.

The underlying drivers of Commercial profitability continue to improve with attritional loss ratios 2pts better in 2015 vs 2014 and expense ratios continuing to fall. It was particularly pleasing to see our Property and Marine attritional loss ratios improve by 1.8pts and 1.5pts respectively year-on-year. However the extreme weather in December together with higher Marine large losses in the second half of the year led to a 2015 underwriting loss of £35m prior to Group aggregate reinsurance recoveries (2014: £41m loss).

## UK – Outlook

The competitive landscape in the UK will continue to be challenging. We have ambitious plans to transform the UK business. We have commenced the implementation of a new UK operating model including revised contractual terms with our major suppliers, optimisation of site footprint, process redesign and investing in new technology. Once fully implemented this will result in greater underwriting and pricing capability, a lower cost base, and improved customer outcomes.

<sup>1</sup> Group impact from November/December storms is £76m after recoveries from the Group aggregate reinsurance cover.

<sup>2</sup> Pro forma for aggregate reinsurance 2015 net recovery of £28m (£74m recovery net of £46m earned premium cost) shown separately in Group Re.

## REGIONAL REVIEW – IRELAND

### Management basis

	Net written premiums		Change	Underwriting result	
	FY 2015	FY 2014 <sup>1</sup>	Constant	FY 2015	FY 2014 <sup>1</sup>
	£m	£m	FX (%)	£m	£m
Personal	161	193	(8)	(22)	(58)
Commercial	100	102	4	(13)	(50)
<b>Total Ireland</b>	<b>261</b>	<b>295</b>	<b>(4)</b>	<b>(35)</b>	<b>(108)</b>
Investment result				9	11
<b>Ireland operating result</b>				<b>(26)</b>	<b>(97)</b>

Operating Ratios (%)	Claims		Commission		Op Expenses		Combined	
	FY '15	FY '14	FY '15	FY '14	FY '15	FY '14 <sup>1</sup>	FY '15	FY '14 <sup>1</sup>
Personal							113.8	126.9
Commercial							112.8	144.5
<b>Total Ireland</b>	<b>84.3</b>	<b>103.5</b>	<b>12.8</b>	<b>12.6</b>	<b>16.3</b>	<b>16.7</b>	<b>113.4</b>	<b>132.8</b>
Of which:			5yr ave					
Weather loss ratio	1.5	5.8		5.0				
Large loss ratio	6.4	3.4		2.8				
Current year attritional loss ratio	74.2	80.3						
Prior year effect on loss ratio	2.2	14.0						
<b>YTD rate increases<sup>2</sup> (%)</b>	<b>At Dec 2015</b>		<b>At Sept 2015</b>		<b>At June 2015</b>		<b>At March 2015</b>	
Personal Household		1		1		1		1
Personal Motor		19		19		14		9
Commercial Property		1		2		(1)		(4)
Commercial Liability		13		12		13		15
Commercial Motor		14		15		13		15

<sup>1</sup> Represented, please refer to page 30 for further details.

<sup>2</sup> 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 we continue to make strong progress in remediation. Underwriting losses have reduced and premiums stabilised in the second half. Full year premiums of £261m were down 4% at constant FX versus 2014. Personal premiums were down 8%, whilst Commercial premiums were up by 4%.

The underwriting loss of £35m is much reduced from 2014 (£108m loss). It comprises a £29m current year loss (2014: £63m loss) and a £6m prior year loss (2014: £45m loss).

Within the underwriting result, the impact of weather and large losses, taken together, was broadly in line with long term averages although weather losses were relatively low despite the December storms and large losses relatively high. Current year attritional loss ratios of 74.2% were improved from 2014 (80.3%) and should improve further as the portfolio and pricing action taken in the second half are earned through to the underwriting result. There has been particular focus on Private Motor, Motor Fleet and Liability.

The performance improvement plan in Ireland is progressing. Irish FTE was down 13% in 2015, with total controllable expenses down 5% year-on-year.

### **Ireland - Outlook**

Our goal remains to return the business to operating profitability in 2016 through continued underwriting improvement and cost reduction.

## DISCONTINUED & NON-CORE OPERATIONS

	Net written premiums		Underwriting result	
	FY 2015	FY 2014	FY 2015	FY 2014
	£m	£m	£m	£m
Latin America <sup>1</sup>	691	690	(6)	(11)
Middle East <sup>2</sup>	181	147	8	4
UK Legacy <sup>2</sup>	2	-	(39)	(48)
Other <sup>1, 3</sup>	229	537	20	25
<b>Total Discontinued &amp; Non-Core</b>	<b>1,103</b>	<b>1,374</b>	<b>(17)</b>	<b>(30)</b>

<sup>1</sup> Discontinued.

<sup>2</sup> Non-core.

<sup>3</sup> Includes Baltics, Poland, Noraxis, Hong Kong, Singapore, Thailand, China, India, Italy, UK Engineering, and Russia.

### Disposal programme

In 2014 we commenced a major disposal programme with the intention of focusing RSA on its strongest businesses. Significant progress has been made to date, 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.
- **Hong Kong & Singapore**: announced 21 August 2014, completed 31 March 2015. Total proceeds: £123m. Gain on sale: £103m.
- **China**: announced 3 July 2014, completed 14 May 2015. Total proceeds: £69m. Gain on sale: £28m.
- **India associate**: announced 18 February 2015, completed 29 July 2015. Total proceeds: £46m. Gain on sale: £21m.
- **Italy**: announced 17 October 2014, completed 31 December 2015. Total proceeds: £18m. Gain on sale: £29m.
- **UK Engineering Inspection**: Completed 1 November 2015. Gain on sale: £2m.
- **Russia**: announced 9 December 2015, completed 29 January 2016. Total proceeds: £5m.

#### Disposals pending completion:

- **Latin America**: announced 8 September 2015. Expected total proceeds: £403m. Please refer to page 35 for details on expected disposal accounting in 2016.

#### Remaining non-core operations (not all will necessarily be disposed):

- Middle East
- UK Legacy

### UK Legacy

Our UK Legacy portfolio comprises exposure to asbestos and other long term liabilities arising from Employers' and Public Liability policies written over the past 50 years. The UK Legacy underwriting result for 2015 was a loss of £39m (2014: £48m loss) and was primarily driven by strengthening for abuse and deafness claims, together with operating expenses incurred.

## **APPENDIX**



## **RATIOS, DEFINITIONS AND OTHER INFORMATION**

### **Expense allocation changes**

In line with the Group's focus on transparency of performance, we have revisited the methodology used to allocate expenses across the Group. This has identified certain expense items within the Group's P&L which we believe should be allocated into the underwriting result but which previously sat elsewhere in the management basis P&L. These fall into two categories:

1. Investment expenses – historically a number of additional overheads have been allocated into this P&L line. Only genuine investment related expenses are now charged to this line.
2. Central expenses – a review has been conducted of the activities within the Group Corporate Centre and a revised allocation into the underwriting result has been determined.

The Group began to prepare its results on this new basis in 2015 and therefore the 2014 comparatives have been represented. The Group's operating result remains unchanged, as does ROTE, but the underwriting result is reduced and the combined operating ratios that were reported in 2014 increased slightly. The impact for 2014 was to transfer £49m of cost into the underwriting result, whilst the Group's COR ratio increased from 98.8% to 99.5%.

### **Combined operating ratio**

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

$$\text{COR} = \text{loss ratio} + \text{commission ratio} + \text{expense ratio}$$

Where:

$$\text{Loss ratio} = \text{net incurred claims} / \text{net earned premiums}$$

$$\text{Commission ratio} = \text{earned commissions} / \text{net earned premiums}$$

$$\text{Expense ratio} = \text{earned operating expenses} / \text{net earned premiums}$$

### **Net asset value and tangible net asset value per share**

Net asset value per share data at 31 December 2015 was based on total shareholders' funds of £3,642m, adjusted by £125m for preference shares. Tangible net asset value per share was based on a tangible book value of £2,838m.

### **Earnings per share**

The earnings per share (EPS) 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. On a basic and diluted basis these were 1,015,489k and 1,019,280k respectively (net of RSA owned shares). The number of shares in issue at 31 December 2015 was 1,017,060k (net of RSA owned shares).

Headline EPS uses profit attributable to ordinary shareholders (profit after tax less non-controlling interests and preference share dividends). Underlying EPS uses an underlying profit measure calculated as operating profit less interest costs taxed at an underlying tax rate of 28% for 2015, less non-controlling interests and preference share dividends.

## Return on equity and tangible equity

	FY 2015 £m	FY 2014 £m
<b>Profit after tax</b>	<b>244</b>	<b>76</b>
Less: non-controlling interest	(9)	(7)
Less: preference dividend	(9)	(9)
<b>A Profit attributable to ordinary shareholders</b>	<b>226</b>	<b>60</b>
<b>Operating profit before tax</b>	<b>523</b>	<b>365</b>
Less: interest costs	(106)	(119)
<b>Underlying profit before tax</b>	<b>417</b>	<b>246</b>
Less: tax <sup>1</sup>	(117)	(69)
Less: non-controlling interest	(9)	(7)
Less: preference dividend	(9)	(9)
<b>B Underlying profit after tax attributable to ordinary shareholders</b>	<b>282</b>	<b>161</b>
<b>Opening shareholders' funds</b>	<b>3,825</b>	<b>2,893</b>
Less: preference share capital	(125)	(125)
<b>C Opening ordinary shareholders' funds</b>	<b>3,700</b>	<b>2,768</b>
Less: goodwill & intangibles	(800)	(1,103)
<b>D Opening tangible ordinary shareholders' funds</b>	<b>2,900</b>	<b>1,665</b>
<b>Return on equity</b>		
<b>A/C</b> Reported	6.1%	2.2%
<b>B/C</b> Underlying	7.6%	5.8%
<b>Return on tangible equity</b>		
<b>A/D</b> Reported	7.8%	3.6%
<b>B/D</b> Underlying	9.7%	9.7%

<sup>1</sup> Using underlying assumed tax rate of 28%

Note: we currently expect the non-controlling interest deduction in 2016 to be around half the 2015 amount of £9m. We also expect the underlying assumed tax rate to fall steadily over the next three years towards a rate broadly in line with the statutory tax rates in our Core territories.

## LOSS DEVELOPMENT TABLES & RESERVE MARGIN

The table below (for continuing operations) presents the general insurance claims provisions net of reinsurance for the accident years 2005 and prior through to 2015. 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.

The table is shown pre-discounting and excludes annuities and held-for-sale businesses.

£m	2005 and prior	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
<b>Estimate of Cumulative claims</b>												
At end of accident year	7,956	2,066	2,088	2,169	2,075	2,245	2,370	2,324	2,480	2,259	2,151	
1 year later	7,941	2,064	2,079	2,160	2,131	2,299	2,357	2,335	2,569	2,269		
2 years later	7,628	1,976	2,049	2,158	2,094	2,287	2,338	2,308	2,487			
3 years later	7,346	1,894	1,972	2,115	2,067	2,302	2,288	2,273				
4 years later	7,128	1,838	1,906	2,103	2,094	2,305	2,248					
5 years later	6,901	1,814	1,896	2,075	2,096	2,271						
6 years later	6,715	1,785	1,893	2,056	2,087							
7 years later	6,600	1,753	1,878	2,049								
8 years later	6,590	1,740	1,876									
9 years later	6,650	1,748										
10 years later	6,772											
<b>2015 movement</b>	<b>(122)</b>	<b>(8)</b>	<b>2</b>	<b>7</b>	<b>9</b>	<b>34</b>	<b>40</b>	<b>35</b>	<b>82</b>	<b>(10)</b>		<b>69</b>
<b>Claims paid</b>												
1 year later	1,677	787	871	1,011	1,003	1,163	1,069	1,073	1,178	1,043		
2 years later	840	297	307	315	326	350	368	361	384			
3 years later	669	160	225	217	218	234	241	218				
4 years later	508	153	138	164	176	181	159					
5 years later	395	101	117	97	121	91						
6 years later	248	73	63	64	65							
7 years later	201	51	34	32								
8 years later	264	27	14									
9 years later	227	13										
10 years later	119											
<b>Cumulative claims paid</b>	<b>5,148</b>	<b>1,662</b>	<b>1,769</b>	<b>1,900</b>	<b>1,909</b>	<b>2,019</b>	<b>1,837</b>	<b>1,652</b>	<b>1,562</b>	<b>1,043</b>		
<b>Current year provision before discounting</b>	<b>1,624</b>	<b>86</b>	<b>107</b>	<b>149</b>	<b>178</b>	<b>252</b>	<b>411</b>	<b>621</b>	<b>925</b>	<b>1,226</b>	<b>2,151</b>	<b>7,730</b>
Exchange adjustment to closing rates												(17)
Discounting												(403)
Annuities												623
<b>Present value recognised in the statement of financial position</b>												<b>7,933</b>
Held for sale												260
<b>Total Group</b>												<b>8,193</b>

In terms of accident year, there has been significant positive development across the 2010-13 accident years. This has come from most major lines in Scandinavia, UK Commercial Property, UK Personal lines and Canada. 2005 & prior includes the impact of strengthening for abuse and deafness claims in the UK and legacy long-tail Swedish Personal Accident strengthening that was flagged at the half year.

### Reconciliation to prior year underwriting result:

	£m
<b>2015 net loss development</b>	<b>69</b>
Discounting	13
Annuities	14
Held for sale/disposals	22
<b>Prior year net incurred claims</b>	<b>118</b>
Prior year premiums	(27)
Prior year commissions	2
Prior year expenses	(2)
<b>Prior year underwriting result</b>	<b>91</b>

### Reserve margin

Our own assessment of the margin in reserves for the Group (the difference between our actuarial indication and the booked reserves in the financial statements) is unchanged at 5% of booked claims reserves.

## PENSIONS

### Funding basis

We have now reached agreement with the Trustees of RSA's main UK pension schemes on the results of the latest triennial actuarial valuations including future pension deficit funding contributions and a significant allowance for immediate further de-risking.

As at 31 March 2015, the main UK schemes, Royal Insurance Group Pension Scheme ("RIGPS") and the SAL Pension Scheme ("SALPS") were in aggregate c.95% funded on the prudent measure that the Trustees are required to use, with a combined deficit of £392m. This compares to c.92% funded and a combined deficit of £477m at 31 March 2012.

Guaranteed deficit funding contributions of c.£65m p.a. will be paid in 2017, 2018 and 2019. This represents a continuation of the current level of deficit contributions.

The agreed deficit figure includes an allowance for a significant immediate de-risking of the schemes' assets from around 25% to 15% return seeking assets (for example equities) with a corresponding increase in the schemes' bond type assets from 75% to 85%.

### Accounting basis

Under Solvency II the accounting basis becomes the principal driver of capital requirement for pensions along with the market risk arising from the asset mix versus liability profile.

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 2015 to 31 December 2015.

	UK £m	Other £m	Group £m
<b>Pension fund surplus/(deficit) at 1 January 2015</b>	<b>33</b>	<b>(105)</b>	<b>(72)</b>
Actuarial gains/(losses) <sup>1</sup>	26	39	65
Deficit funding	52	-	52
Other movements <sup>2</sup>	6	13	19
<b>Pension fund surplus/(deficit) at 31 December 2015</b>	<b>117</b>	<b>(53)</b>	<b>64</b>

<sup>1</sup> Actuarial gains/(losses) include pension investment expenses, variance against expected returns, change in actuarial assumptions and experience losses.

<sup>2</sup> Other movements include regular contributions, service/administration costs, expected returns and interest costs.

At an aggregate level the pension fund position under IAS 19 improved during the year from a deficit of £72m to a surplus of £64m. Both the UK and non-UK positions improved, and the IAS 19 surplus for the UK schemes now stands at £117m.

The improvement was driven by deficit funding contributions of £65m (pre-tax) paid in the first quarter and experience gains on liabilities due to lower actual pension increases and heavier mortality experience than expected, partly offset by adverse asset performance.

### IAS 19 sensitivities

	Pre de-risk		Post de-risk	
	Assets	Liabilities	Assets	Liabilities
<b>IAS 19 position at 31 December 2015 (£bn)</b>	<b>7.2</b>	<b>7.1</b>	<b>7.2</b>	<b>7.1</b>
<u>Sensitivities (£bn change in assets/liabilities):</u>				
Interest rates: -1%	+1.4	+1.3	+1.4	+1.3
Inflation: +1%	+0.9	+0.8	+0.9	+0.8
Equities: -15%	-0.2	-	-0.1	-
'AA' credit spreads: -0.25%	-	+0.3	+0.1	+0.3

<sup>1</sup> Includes 15% equities reduction and 10% reduction in all other 'growth' assets

## REINSURANCE

The main elements of our 2016 reinsurance programme are outlined below.

The 3 year Group aggregate reinsurance deal that commenced in 2015 has been revised following the announced sale of Latin America. The key terms are as follows:

- 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 £150m (revised downwards from £180m in 2015);
- Limit of cover is £150m in any year;
- 3 year deal with maximum recovery available during the period 2015-17 of £300m (recovery of £74m made in 2015);
- £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 remain broadly unchanged from 2015. The key retentions are £75m for UK Cat; £50m for non-UK Cat (Canada up from C\$50m to C\$75m); £50m for Property Risk.

### *2015 Group aggregate cover recoveries*

During 2015 the Group incurred total losses of £254m relating to events or individual net losses greater than £10m. This resulted in a recovery from the Group aggregate cover of £74m (£254m less £180m deductible).

The £254m of total events/net losses greater than £10m included net losses of £75m each relating to two storm and flood events in the UK in December, flood and earthquake events in Chile, the Tianjin explosion and five further large losses mainly in the UK and Scandinavia.

## EXPECTED ACCOUNTING FOR LATIN AMERICA DISPOSAL IN 2016

The Latin American disposal is capital accretive, however the accounting impacts will be as follows.

In 2016 we expect to recognise the following items in our management P&L:

- A tangible disposal gain, shown in the tangible net gains line, currently expected to be around £140m; and
- A reclassification, as required by accounting standards, of the accumulated foreign exchange losses in the FCTR<sup>1</sup> from reserves to profit and loss. The reclassification is non-cash, non-capital and NAV neutral for the Group, and including goodwill/intangibles is expected to be c.£(145-150)m.

Optically therefore, the 2016 net pre-tax P&L impact of these items is expected to be c.£(5-10)m.

<sup>1</sup> Foreign currency translation reserve

## SEGMENTAL ANALYSIS

Management basis – 12 months ended 31 December 2014 (re-presented onto 2015 year-end segmental split)

	Scandinavia	Canada <sup>2</sup>	UK <sup>3</sup>	Ireland	Central functions	Total 'non-core' <sup>1</sup>	Group FY 2014 <sup>4</sup>
	£m	£m	£m	£m	£m	£m	£m
<b>Net Written Premiums</b>	<b>1,759</b>	<b>1,510</b>	<b>2,569</b>	<b>295</b>	<b>(42)</b>	<b>1,374</b>	<b>7,465</b>
Net Earned Premiums	1,752	1,536	2,850	328	17	1,391	7,874
Net Incurred Claims	(1,219)	(1,056)	(1,861)	(340)	(20)	(885)	(5,381)
Commissions	(68)	(215)	(585)	(42)	(7)	(278)	(1,195)
Operating expenses	(296)	(244)	(400)	(54)	(5)	(258)	(1,257)
<b>Underwriting result</b>	<b>169</b>	<b>21</b>	<b>4</b>	<b>(108)</b>	<b>(15)</b>	<b>(30)</b>	<b>41</b>
Investment income	112	82	144	11	2	88	439
Investment expenses	(3)	(2)	(7)	-	-	(1)	(13)
Unwind of discount	(37)	(2)	(5)	-	(2)	(37)	(83)
<b>Investment result</b>	<b>72</b>	<b>78</b>	<b>132</b>	<b>11</b>	<b>-</b>	<b>50</b>	<b>343</b>
Central expenses	-	-	-	-	(16)	(3)	(19)
<b>Operating result</b>	<b>241</b>	<b>99</b>	<b>136</b>	<b>(97)</b>	<b>(31)</b>	<b>17</b>	<b>365</b>
Net gains/losses/exchange – tangible							476
– intangible							(99)
Interest							(119)
Non-operating charges							(42)
Non-recurring charges							(306)
<b>Profit before tax</b>							<b>275</b>
Tax							(199)
<b>Profit after tax</b>							<b>76</b>
Loss ratio (%)	69.6	68.7	65.3	103.5	-	-	68.3
Weather loss ratio	1.6	5.0	3.8	5.8	-	-	3.2
Large loss ratio	4.7	3.6	12.9	3.4	-	-	7.4
Current year attritional loss ratio	64.8	62.8	49.0	80.3	-	-	57.6
Prior year effect on loss ratio	(1.5)	(2.7)	(0.4)	14.0	-	-	0.1
Commission ratio (%)	3.9	14.0	20.5	12.6	-	-	15.2
Expense ratio (%)	16.9	15.9	14.1	16.7	-	-	16.0
<b>Combined ratio (%)</b>	<b>90.4</b>	<b>98.6</b>	<b>99.9</b>	<b>132.8</b>	<b>-</b>	<b>-</b>	<b>99.5</b>

<sup>1</sup> Total 'non-core' comprises discontinued operations of Poland, Baltics, Italy, Hong Kong, Singapore, China, Thailand, India, Russia and Latin America; and non-core operations of Noraxis, UK Legacy and the Middle East.

<sup>2</sup> Excluding Noraxis

<sup>3</sup> Excluding Legacy

<sup>4</sup> Represented, please refer to page 30 for further details.



## NET EARNED PREMIUMS BY CLASS

### Management basis

	FY 2015	FY 2014	Change as reported	Change at constant fx
	£m	£m	%	%
<b>Scandinavia</b>				
Household	289	303	(5)	8
Personal Motor	316	357	(11)	1
Personal Accident & Other	271	297	(9)	4
<b>Total Personal</b>	<b>876</b>	<b>957</b>	<b>(8)</b>	<b>4</b>
Property	267	330	(19)	(9)
Liability	127	131	(3)	9
Commercial Motor	182	207	(12)	-
Marine & Other	114	127	(10)	2
<b>Total Commercial</b>	<b>690</b>	<b>795</b>	<b>(13)</b>	<b>(2)</b>
<b>Total Scandinavia</b>	<b>1,566</b>	<b>1,752</b>	<b>(11)</b>	<b>1</b>
<b>Canada</b>				
Household	423	430	(2)	5
Personal Motor	550	629	(13)	(6)
<b>Total Personal</b>	<b>973</b>	<b>1,059</b>	<b>(8)</b>	<b>(2)</b>
Property	179	211	(15)	(9)
Liability	102	120	(15)	(9)
Commercial Motor	83	91	(9)	(2)
Marine & Other	50	55	(9)	(2)
<b>Total Commercial</b>	<b>414</b>	<b>477</b>	<b>(13)</b>	<b>(7)</b>
<b>Total Core Canada</b>	<b>1,387</b>	<b>1,536</b>	<b>(10)</b>	<b>(3)</b>
<b>UK</b>				
Household	614	659	(7)	(7)
Personal Motor	268	306	(12)	(12)
Pet	269	254	6	6
<b>Total Personal</b>	<b>1,151</b>	<b>1,219</b>	<b>(6)</b>	<b>(6)</b>
Property	623	597	4	6
Liability	289	286	1	2
Commercial Motor	384	479	(20)	(20)
Marine	287	269	7	7
<b>Total Commercial</b>	<b>1,583</b>	<b>1,631</b>	<b>(3)</b>	<b>(2)</b>
<b>Total Core UK</b>	<b>2,734</b>	<b>2,850</b>	<b>(4)</b>	<b>(4)</b>
<b>Ireland</b>				
Personal	165	217	(24)	(16)
Commercial	99	111	(11)	(2)
<b>Total Ireland</b>	<b>264</b>	<b>328</b>	<b>(20)</b>	<b>(11)</b>
Group Re	(24)	17	(241)	(241)
<b>Total Core Group</b>	<b>5,927</b>	<b>6,483</b>	<b>(9)</b>	<b>(3)</b>
Discontinued & non-core	1,085	1,391	(22)	(15)
<b>Total Group</b>	<b>7,012</b>	<b>7,874</b>	<b>(11)</b>	<b>(5)</b>

## COMBINED RATIO DETAIL

### Core Group

£m unless stated	Current year	Prior year	FY '15 total	Current year	Prior year	FY '14 total
<b>Net Written Premiums</b>	<b>1 5,731</b>	<b>7 (9)</b>	<b>13 5,722</b>	<b>6,183</b>	<b>(92)</b>	<b>6,091</b>
Net Earned Premiums	2 5,957	8 (30)	14 5,927	6,516	(33)	6,483
Net Incurred Claims	3 (4,066)	9 133	15 (3,933)	(4,530)	34	(4,496)
Commissions	4 (849)	10 1	16 (848)	(910)	(7)	(917)
Operating expenses	5 (906)	11 (3)	17 (909)	(993)	(6)	(999)
<b>Underwriting result</b>	<b>6 136</b>	<b>12 101</b>	<b>18 237</b>	<b>83</b>	<b>(12)</b>	<b>71</b>
CY attritional claims	19 (3,368)			(3,769)		
Weather claims	20 (193)			(234)		
Large losses	21 (505)			(527)		
Net incurred claims	22 (4,066)			(4,530)		
Loss ratio (%)	=15 / 14	23	66.4			69.3
Weather loss ratio	=20 / 2	24	3.2			3.6
Large loss ratio	=21 / 2	25	8.5			8.1
Current year attritional loss ratio	=19 / 2	26	56.6			57.8
Prior year effect on loss ratio	=23 - 24 - 25 - 26	27	(1.9)			(0.2)
Commission ratio (%)	=16 / 14	28	14.3			14.1
Expense ratio (%)	=17 / 14	29	15.3			15.4
<b>Combined ratio (%)</b>	=23 + 28 + 29	30	<b>96.0</b>			<b>98.8</b>

### Scandinavia

£m unless stated	Current year	Prior year	FY '15 total	Current year	Prior year	FY '14 total
<b>Net Written Premiums</b>	<b>1,606</b>	<b>-</b>	<b>1,606</b>	<b>1,760</b>	<b>(1)</b>	<b>1,759</b>
Net Earned Premiums	1,572	(6)	1,566	1,753	(1)	1,752
Net Incurred Claims	(1,129)	(27)	(1,156)	(1,247)	28	(1,219)
Commissions	(60)	-	(60)	(66)	(2)	(68)
Operating expenses	(256)	-	(256)	(292)	(4)	(296)
<b>Underwriting result</b>	<b>127</b>	<b>(33)</b>	<b>94</b>	<b>148</b>	<b>21</b>	<b>169</b>
CY attritional claims	(1,015)			(1,136)		
Weather claims	(15)			(29)		
Large losses	(99)			(82)		
Net incurred claims	(1,129)			(1,247)		
Loss ratio (%)			73.8			69.6
Weather loss ratio			1.0			1.6
Large loss ratio			6.3			4.7
Current year attritional loss ratio			64.5			64.8
Prior year effect on loss ratio			2.0			(1.5)
Commission ratio (%)			3.8			3.9
Expense ratio (%)			16.4			16.9
<b>Combined ratio (%)</b>			<b>94.0</b>			<b>90.4</b>

## COMBINED RATIO DETAIL

### Canada

£m unless stated	Current year	Prior year	FY '15 total	Current year	Prior year	FY '14 total
<b>Net Written Premiums</b>	<b>1,360</b>	<b>-</b>	<b>1,360</b>	<b>1,510</b>	<b>-</b>	<b>1,510</b>
Net Earned Premiums	1,387	-	1,387	1,534	2	1,536
Net Incurred Claims	(933)	81	(852)	(1,096)	40	(1,056)
Commissions	(189)	3	(186)	(214)	(1)	(215)
Operating expenses	(230)	(3)	(233)	(241)	(3)	(244)
<b>Underwriting result</b>	<b>35</b>	<b>81</b>	<b>116</b>	<b>(17)</b>	<b>38</b>	<b>21</b>
CY attritional claims	(837)			(963)		
Weather claims	(31)			(77)		
Large losses	(65)			(56)		
Net incurred claims	(933)			(1,096)		
Loss ratio (%)			61.5			68.7
Weather loss ratio			2.3			5.0
Large loss ratio			4.7			3.6
Current year attritional loss ratio			60.3			62.8
Prior year effect on loss ratio			(5.8)			(2.7)
Commission ratio (%)			13.4			14.0
Expense ratio (%)			16.8			15.9
<b>Combined ratio (%)</b>			<b>91.7</b>			<b>98.6</b>

### Total UK (excluding Legacy)

£m unless stated	Current year	Prior year	FY '15 total	Current year	Prior year	FY '14 total
<b>Net Written Premiums</b>	<b>2,614</b>	<b>(8)</b>	<b>2,606</b>	<b>2,591</b>	<b>(22)</b>	<b>2,569</b>
Net Earned Premiums	2,742	(8)	2,734	2,874	(24)	2,850
Net Incurred Claims	(1,838)	57	(1,781)	(1,887)	26	(1,861)
Commissions	(564)	(2)	(566)	(581)	(4)	(585)
Operating expenses	(374)	(1)	(375)	(400)	-	(400)
<b>Underwriting result</b>	<b>(34)</b>	<b>46</b>	<b>12</b>	<b>6</b>	<b>(2)</b>	<b>4</b>
CY attritional claims	(1,319)			(1,407)		
Weather claims	(179)			(110)		
Large losses	(340)			(370)		
Net incurred claims	(1,838)			(1,887)		
Loss ratio (%)			65.1			65.3
Weather loss ratio			6.5			3.8
Large loss ratio			12.4			12.9
Current year attritional loss ratio			48.1			49.0
Prior year effect on loss ratio			(1.9)			(0.4)
Commission ratio (%)			20.7			20.5
Expense ratio (%)			13.7			14.1
<b>Combined ratio (%)</b>			<b>99.5</b>			<b>99.9</b>

## COMBINED RATIO DETAIL

### UK Personal

£m unless stated	Current year	Prior year	FY '15 total	Current year	Prior year	FY '14 total
<b>Net Written Premiums</b>	<b>1,134</b>	<b>(1)</b>	<b>1,133</b>	<b>1,174</b>	<b>2</b>	<b>1,176</b>
Net Earned Premiums	1,153	(2)	1,151	1,217	2	1,219
Net Incurred Claims	(706)	26	(680)	(734)	21	(713)
Commissions	(241)	(4)	(245)	(268)	(1)	(269)
Operating expenses	(179)	-	(179)	(192)	-	(192)
<b>Underwriting result</b>	<b>27</b>	<b>20</b>	<b>47</b>	<b>23</b>	<b>22</b>	<b>45</b>
CY attritional claims	(605)			(627)		
Weather claims	(65)			(69)		
Large losses	(36)			(38)		
Net incurred claims	(706)			(734)		
Loss ratio (%)			59.0			58.5
Weather loss ratio			5.6			5.7
Large loss ratio			3.1			3.1
Current year attritional loss ratio			52.5			51.6
Prior year effect on loss ratio			(2.2)			(1.9)
Commission ratio (%)			21.3			22.0
Expense ratio (%)			15.6			15.8
<b>Combined ratio (%)</b>			<b>95.9</b>			<b>96.3</b>

### UK Commercial

£m unless stated	Current year	Prior year	FY '15 Total	Current year	Prior year	FY '14 total
<b>Net Written Premiums</b>	<b>1,480</b>	<b>(7)</b>	<b>1,473</b>	<b>1,417</b>	<b>(24)</b>	<b>1,393</b>
Net Earned Premiums	1,589	(6)	1,583	1,657	(26)	1,631
Net Incurred Claims	(1,132)	31	(1,101)	(1,153)	5	(1,148)
Commissions	(323)	2	(321)	(313)	(3)	(316)
Operating expenses	(195)	(1)	(196)	(208)	-	(208)
<b>Underwriting result</b>	<b>(61)</b>	<b>26</b>	<b>(35)</b>	<b>(17)</b>	<b>(24)</b>	<b>(41)</b>
CY attritional claims	(714)			(780)		
Weather claims	(114)			(41)		
Large losses	(304)			(332)		
Net incurred claims	(1,132)			(1,153)		
Loss ratio (%)			69.6			70.4
Weather loss ratio			7.2			2.5
Large loss ratio			19.1			20.0
Current year attritional loss ratio			45.0			47.1
Prior year effect on loss ratio			(1.7)			0.8
Commission ratio (%)			20.3			19.4
Expense ratio (%)			12.4			12.8
<b>Combined ratio (%)</b>			<b>102.3</b>			<b>102.6</b>

## SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Management basis – at 31 December 2015

	31 December 2015 £m	31 December 2014 £m
<b>Assets</b>		
Goodwill and other intangible assets	616	800
Property and equipment	109	151
<i>Investment property</i>	365	346
<i>Investment in associates</i>	13	31
<i>Financial assets</i>	11,797	12,840
Total investments	12,175	13,217
Reinsurers' share of insurance contract liabilities	1,988	1,897
Insurance and reinsurance debtors	2,653	3,174
<i>Deferred tax assets</i>	163	180
<i>Current tax assets</i>	51	21
<i>Other debtors and other assets</i>	693	759
Other assets	907	960
Cash and cash equivalents	816	1,011
<b>Assets associated with continuing operations</b>	<b>19,264</b>	<b>21,210</b>
Assets held for sale	1,347	808
<b>Total assets</b>	<b>20,611</b>	<b>22,018</b>
<b>Equity and liabilities</b>		
<b>Equity and loan capital</b>		
Shareholders' funds	3,642	3,825
Non-controlling interests	129	108
<b>Total equity</b>	<b>3,771</b>	<b>3,933</b>
Loan capital	1,254	1,243
<b>Total equity and loan capital</b>	<b>5,025</b>	<b>5,176</b>
<b>Liabilities (excluding loan capital)</b>		
Insurance contract liabilities	12,191	13,266
Insurance and reinsurance liabilities	945	904
Borrowings	11	299
<i>Deferred tax liabilities</i>	40	62
<i>Current tax liabilities</i>	31	83
<i>Provisions</i>	261	338
<i>Other liabilities</i>	1,017	1,160
Provisions and other liabilities	1,349	1,643
<b>Liabilities associated with continuing operations</b>	<b>14,496</b>	<b>16,112</b>
Liabilities held for sale	1,090	730
<b>Total liabilities (excluding loan capital)</b>	<b>15,586</b>	<b>16,842</b>
<b>Total equity, loan capital and liabilities</b>	<b>20,611</b>	<b>22,018</b>

## SUMMARY CASH FLOW FOR CONTINUING OPERATIONS

### Management basis

	12 months 2015 £m	12 months 2014 £m
Current year underwriting profit/(loss)	129	73
Adjustment for non-cash items, claims payments/receipts	44	-
<b>Underwriting cash</b>	<b>173</b>	<b>73</b>
Investment cash	464	485
<b>Underlying operating cash flow</b>	<b>637</b>	<b>558</b>
Non-operating cash flow (including reorganisation costs)	(184)	(153)
<b>Operating cash flow</b>	<b>453</b>	<b>405</b>
Tax paid	(136)	(83)
Interest paid	(107)	(119)
Pension deficit funding	(65)	(65)
<b>Cash generation</b>	<b>145</b>	<b>138</b>
Group dividends	(65)	(9)
Dividend to non-controlling interests	(3)	(6)
Issue of share capital	3	753
Net movement of debt	(299)	(66)
Corporate activity	274	678
<b>Cash movement</b>	<b>55</b>	<b>1,488</b>
<b>Represented by:</b>		
Increase/(decrease) in cash and cash equivalents	(160)	34
Purchase/(sale) of other investments	217	1,454
<b>Cash movement</b>	<b>55</b>	<b>1,488</b>

## RECONCILIATION: MANAGEMENT BASIS TO STATUTORY REPORTING

Management basis			Discontinued operations	Add back other items <sup>1</sup>		Statutory basis
Net written premiums	6,825		(873)		5,952	Net written premiums
Net earned premiums	7,012		(852)		6,160	Net earned premiums
Net incurred claims	(4,579)		450		(4,129)	Net claims and benefits
Commissions	(1,113)	2,213	411	(330)	(1,986)	Underwriting and policy acquisition costs
Operating expenses	(1,100)					Other expenses
<b>Underwriting result</b>	<b>220</b>					
<b>Profit before tax</b>	<b>323</b>		(217)		106	<b>Profit before tax</b>
Tax	(79)		61		(18)	Tax
Profit from discontinued operations	-		156		156	Profit from discontinued operations
<b>Profit after tax</b>	<b>244</b>		-		244	<b>Profit after tax</b>

<sup>1</sup> Other items include: reorganisation costs, central expenses, investment expenses, Solvency II costs, amortisation of intangibles, and other income

## REPORTING AND DIVIDEND TIMETABLE

### Reporting:

Q1 trading update	5 May 2016
AGM	6 May 2016
Half year results	4 August 2016*

### Dividend:

#### *Final dividend for year ended 31 December 2015*

Announcement date	25 February 2016
Ex-dividend date	3 March 2016
Record date	4 March 2016
Dividend payment date	13 May 2016

#### *Interim Dividend for the period ended 30 June 2016*

Announcement date	4 August 2016*
Ex-dividend date	8 September 2016*
Record date	9 September 2016*
Dividend payment date	14 Oct 2016*

#### *1<sup>st</sup> Preference Dividend*

Announcement Date	25 February 2016
Ex-dividend date	3 March 2016
Record date	4 March 2016
Dividend payment date	1 April 2016

#### *2<sup>nd</sup> Preference Dividend*

Announcement date	4 August 2016
Ex-dividend date	11 August 2016
Record date	12 August 2016
Dividend payment date	3 October 2016

Note: the scrip dividend alternative is not being offered for the 2015 final dividend payment

Note: the final dividend is conditional upon the directors being satisfied, in their absolute discretion, that the payment of the final dividend would not breach any legal or regulatory requirements, including Solvency II regulatory capital requirements.

\* Provisional date



## **Enquiries:**

### **Investors & analysts**

Rupert Taylor Rea  
Director of Investor Relations  
Tel: +44 (0) 20 7111 7140  
Email: [rupert.taylorrea@gcc.rsagroup.com](mailto:rupert.taylorrea@gcc.rsagroup.com)

Ryan Jones  
Investor Relations Manager  
Tel: +44 (0) 20 7111 7243  
Email: [ryan.jones@gcc.rsagroup.com](mailto:ryan.jones@gcc.rsagroup.com)

### **Press**

Louise Shield  
Director of External Communications  
Tel: +44 (0) 20 7111 7047  
Email: [louise.shield@gcc.rsagroup.com](mailto:louise.shield@gcc.rsagroup.com)

## **Further information**

A live webcast of the analyst presentation, including the question and answer session, will be broadcast on the website at 09:30am today. A webcast and transcript of the call will be available via the company website ([www.rsagroup.com](http://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

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**CONDENSED CONSOLIDATED INCOME STATEMENT**  
**STATUTORY BASIS**  
for the year ended 31 December 2015

	Notes	2015 £'m	Re-presented <sup>1</sup> 2014 £'m
Income			
Gross written premiums		6,858	7,297
Less: reinsurance premiums		(906)	(992)
Net written premiums	8	5,952	6,305
Change in the gross provision for unearned premiums		(97)	60
Less: change in provision for unearned reinsurance premiums		305	335
Change in provision for unearned premiums		208	395
Net earned premiums		6,160	6,700
Net investment return		381	471
Other operating income		142	188
<b>Total income</b>		<b>6,683</b>	<b>7,359</b>
Expenses			
Gross claims incurred		(4,496)	(4,822)
Less: claims recoveries from reinsurers		367	125
Net claims		(4,129)	(4,697)
Underwriting and policy acquisition costs		(1,986)	(2,119)
Unwind of discount		(52)	(166)
Other operating expenses		(308)	(397)
<b>Total expenses</b>		<b>(6,475)</b>	<b>(7,379)</b>
Finance costs		(106)	(122)
Gains on disposals of businesses	6	3	203
Net share of profit/(loss) after tax of associates		1	(8)
<b>Profit before tax</b>	8	<b>106</b>	<b>53</b>
Income tax expense	9	(18)	(161)
<b>Profit/(loss) after tax from continuing operations</b>		<b>88</b>	<b>(108)</b>
<b>Profit from discontinued operations</b>	6	<b>156</b>	<b>184</b>
<b>Profit for the year</b>		<b>244</b>	<b>76</b>
<b>Attributable to:</b>			
Equity holders of the Parent Company		235	69
Non-controlling interests		9	7
		<b>244</b>	<b>76</b>
<b>Earnings per share on profit/(loss) attributable to the ordinary shareholders of the Parent Company</b>			
<b>Basic</b>			
From continuing operations	10	6.9p	(12.9)p
From discontinued operations	10	15.4p	19.1p
		<b>22.3p</b>	<b>6.2p</b>
<b>Diluted</b>			
From continuing operations	10	6.9p	(12.9)p
From discontinued operations	10	15.3p	19.1p
		<b>22.2p</b>	<b>6.2p</b>
<b>Ordinary dividends paid and proposed for the year</b>			
Interim dividend paid	11	3.5p	(nil)p
Final dividend proposed	11	7.0p	2.0p

<sup>1</sup> Further information about the re-presented comparatives figures in these financial statements can be found in note 4 (page 53).

The attached notes on pages 52 to 87 form an integral part of these condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**STATUTORY BASIS**  
for the year ended 31 December 2015

	Notes	2015 £'m	Re-presented <sup>1</sup> 2014 £'m
<b>Profit for the year</b>		<b>244</b>	<b>76</b>
<b>Items from continuing operations that may be reclassified to the income statement:</b>			
Exchange losses net of tax on translation of foreign operations		(120)	(112)
Fair value (losses)/gains on available for sale financial assets net of tax		(211)	243
		<b>(331)</b>	<b>131</b>
<b>Items from continuing operations that will not be reclassified to the income statement:</b>			
Pension - re-measurement of net defined benefit asset/(liability) net of tax		65	(7)
Movement in property revaluation surplus net of tax		3	4
		<b>68</b>	<b>(3)</b>
<b>Other comprehensive (expense)/income for the year from continuing operations</b>		<b>(263)</b>	<b>128</b>
<b>Other comprehensive expense for the year from discontinued operations</b>	<b>6</b>	<b>(106)</b>	<b>(19)</b>
<b>Total other comprehensive (expense)/income for the year</b>		<b>(369)</b>	<b>109</b>
<b>Total comprehensive (expense)/income for the year from continuing operations</b>		<b>(175)</b>	<b>20</b>
<b>Total comprehensive income for the year from discontinued operations</b>	<b>6</b>	<b>50</b>	<b>165</b>
<b>Total comprehensive (expense)/income for the year</b>		<b>(125)</b>	<b>185</b>
<b>Attributable to:</b>			
<b>Equity holders of the Parent Company</b>			
from continuing operations		(189)	8
from discontinued operations		51	170
		<b>(138)</b>	<b>178</b>
<b>Non-controlling interests</b>			
from continuing operations		14	12
from discontinued operations		(1)	(5)
		<b>13</b>	<b>7</b>
		<b>(125)</b>	<b>185</b>

<sup>1</sup> Further information about the re-presented comparatives figures in these financial statements can be found in note 4 (page 53).

The attached notes on pages 52 to 87 form an integral part of these condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**STATUTORY BASIS**  
for the year ended 31 December 2015

	Ordinary share capital	Ordinary share premium	Own shares	Preference shares	Revaluation reserves	Capital redemption reserve	Foreign currency translation reserve	Retained earnings	Share- holders' equity	Non- controlling interests	Total equity
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Balance at 1 January 2014	1,012	704	(1)	125	298	8	66	681	2,893	121	3,014
<b>Total comprehensive income</b>											
Profit for the year	-	-	-	-	-	-	-	69	69	7	76
Other comprehensive income/(expense)	-	-	-	-	229	-	(112)	(8)	109	-	109
	-	-	-	-	229	-	(112)	61	178	7	185
<b>Transactions with owners of the Company</b>											
<b>Contribution and distribution</b>											
Dividends (note 11)	-	-	-	-	-	-	-	(9)	(9)	(6)	(15)
Shares issued for cash (note 17)	382	371	-	-	-	-	-	-	753	-	753
Share based payments	2	-	-	-	-	-	-	8	10	-	10
Other reserve transfer (note 17)	(381)	-	-	-	-	381	-	-	-	-	-
	3	371	-	-	-	381	-	(1)	754	(6)	748
<b>Changes in shareholders' interests in subsidiaries</b>	-	-	-	-	-	-	-	-	-	(14)	(14)
<b>Total transactions with owners of the Company</b>	3	371	-	-	-	381	-	(1)	754	(20)	734
Balance at 1 January 2015	1,015	1,075	(1)	125	527	389	(46)	741	3,825	108	3,933
<b>Total comprehensive income</b>											
Profit for the year	-	-	-	-	-	-	-	235	235	9	244
Other comprehensive (expense)/income	-	-	-	-	(234)	-	(204)	65	(373)	4	(369)
	-	-	-	-	(234)	-	(204)	300	(138)	13	(125)
<b>Transactions with owners of the Company</b>											
<b>Contribution and distribution</b>											
Dividends (note 11)	-	-	-	-	-	-	-	(65)	(65)	(3)	(68)
Shares issued for cash (note 17)	1	2	-	-	-	-	-	-	3	-	3
Share based payments	1	-	-	-	-	-	-	13	14	-	14
Other reserve transfer	-	-	-	-	-	-	29	(29)	-	-	-
	2	2	-	-	-	-	29	(81)	(48)	(3)	(51)
<b>Changes in shareholders' interests in subsidiaries</b>	-	-	-	-	-	-	-	3	3	11	14
<b>Total transactions with owners of the Company</b>	2	2	-	-	-	-	29	(78)	(45)	8	(37)
<b>Balance at 31 December 2015</b>	<b>1,017</b>	<b>1,077</b>	<b>(1)</b>	<b>125</b>	<b>293</b>	<b>389</b>	<b>(221)</b>	<b>963</b>	<b>3,642</b>	<b>129</b>	<b>3,771</b>

During the year a reclassification was made between Retained Earnings and the Foreign Currency Translation Reserves of £29m to more accurately reflect the underlying transactions. There is no impact to basic and diluted earnings per share.

The attached notes on pages 52 to 87 form an integral part of these condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**STATUTORY BASIS**  
**as at 31 December 2015**

	Notes	2015 £'m	2014 £'m
<b>Assets</b>			
Goodwill and other intangible assets	12	616	800
Property and equipment		109	151
Investment property		365	346
Investments in associates		13	31
Financial assets	13	11,797	12,840
Total investments		12,175	13,217
Reinsurers' share of insurance contract liabilities	14	1,988	1,897
Insurance and reinsurance debtors		2,653	3,174
Deferred tax assets	15	163	180
Current tax assets	15	51	21
Other debtors and other assets		693	759
Other assets		907	960
Cash and cash equivalents	16	816	1,011
		19,264	21,210
Assets held for sale and disposal groups	6	1,347	808
<b>Total assets</b>		<b>20,611</b>	<b>22,018</b>
<b>Equity and liabilities</b>			
Equity			
Shareholders' equity		3,642	3,825
Non-controlling interests		129	108
<b>Total equity</b>		<b>3,771</b>	<b>3,933</b>
Liabilities			
Loan capital		1,254	1,243
Insurance contract liabilities	18	12,191	13,266
Insurance and reinsurance liabilities	18	945	904
Borrowings		11	299
Deferred tax liabilities	15	40	62
Current tax liabilities	15	31	83
Provisions		261	338
Other liabilities		1,017	1,160
Provisions and other liabilities		1,349	1,643
		15,750	17,355
Liabilities of disposal groups	6	1,090	730
<b>Total liabilities</b>		<b>16,840</b>	<b>18,085</b>
<b>Total equity and liabilities</b>		<b>20,611</b>	<b>22,018</b>

The attached notes on pages 52 to 87 form an integral part of these condensed consolidated financial statements.

The financial statements were approved by the Board of Directors on 24 February 2016.

**CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS**  
**STATUTORY BASIS**  
for the year ended 31 December 2015

	Note	2015 £'m	Re- presented <sup>1</sup> 2014 £'m
<b>Cashflows from operating activities</b>			
Net profit for the year before tax from continuing operations		106	53
<b>Adjustments for non cash movements in net profit for the year</b>			
Depreciation		21	24
Amortisation and impairment of intangible assets		80	190
Amortisation of available for sale investments		64	65
Fair value (losses) on disposal of financial assets		(37)	(90)
Impairment charge on available for sale financial assets		7	-
Share of (profit)/loss of associates		(1)	5
(Profit) on disposal of subsidiaries		(3)	(203)
Foreign exchange loss/(gain)		108	(8)
Other non-cash movements		(123)	317
<b>Changes in operating assets/liabilities</b>			
Loss and loss adjustment expenses		(77)	(392)
Unearned premiums		(179)	(190)
Movement in working capital		404	508
Reclassification of investment income and interest paid		(232)	(258)
Tax paid		(108)	(74)
Dividend income		25	23
Interest and other investment income		322	353
Pension deficit funding		(65)	(65)
<b>Net cashflows from operating activities - continuing operations</b>		312	258
<b>Net cashflows from operating activities - discontinued operations</b>		11	94
<b>Cashflows from investing activities</b>			
Proceeds from sales or maturities of:			
Financial assets		3,931	4,409
Investment property		3	-
Property and equipment		1	32
Investment in subsidiaries (net of cash disposed of)		14	373
Purchase of:			
Financial assets		(4,118)	(5,773)
Investment property		-	(22)
Property and equipment		(14)	(36)
Intangible assets		(48)	(63)
<b>Net cashflows from investing activities - continuing operations</b>		(231)	(1,080)
<b>Net cashflows from investing activities - discontinued operations</b>		219	209
<b>Cashflows from financing activities</b>			
Proceeds from issue of share capital		3	753
Dividends paid to ordinary shareholders		(56)	-
Dividends paid to preference shareholders		(9)	(9)
Dividends paid to non-controlling interests		(3)	(6)
Redemption of borrowings		(299)	(461)
Receipt of borrowing		-	395
Interest paid		(107)	(118)
<b>Net cashflows from financing activities - continuing operations</b>		(471)	554
<b>Net cashflows from financing activities - discontinued operations</b>		-	(1)
Net (decrease)/increase in cash and cash equivalents		(160)	34
Cash and cash equivalents at the beginning of the year		1,135	1,162
Effect of changes in foreign exchange on cash and cash equivalents		(73)	(61)
<b>Cash and cash equivalents at the end of the year</b>	16	902	1,135

<sup>1</sup> Further information about the re-presented comparatives figures in these financial statements can be found in note 4 (page 53).  
The attached notes on pages 52 to 87 form an integral part of these condensed consolidated financial statements.

## **EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**

RSA Insurance Group plc (the 'Company') is a public limited company incorporated and domiciled in England and Wales. The Company through its subsidiaries and associates (together the 'Group' or 'RSA') provides personal and commercial insurance products to its global customer base, principally in the UK & Ireland, Scandinavia and Canada.

#### **1) BASIS OF PREPARATION**

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. The condensed consolidated financial information in this report has been prepared by applying the accounting policies used in the 2015 Annual Report and Accounts.

The Board has reviewed the Group's ongoing financial commitments for the next twelve months and beyond. The Board's review included consideration of the Group's underwriting plans, projected regulatory capital surplus, diverse insurance risk profile, considerable undrawn financing facilities and highly liquid investment portfolio. As a result of this review, the directors have satisfied themselves that it is appropriate to prepare these financial statements on a going concern basis.

These condensed consolidated financial statements have been prepared by applying the accounting policies used in the Annual Report and Accounts 2015 (see note 20). Certain amounts in the prior years have been reclassified to conform to the current year presentation.

In line with industry practice, the Group's statement of financial position is not presented using current and non-current classifications, but broadly in increasing order of liquidity. Most of the Group's assets and liabilities are considered current given they are expected to be realised or settled within the Group's normal operating cycle. The assets and liabilities considered as non-current include: investments in associates, deferred tax assets, property and equipment, intangible assets, goodwill, deferred tax liabilities, outstanding debt including loan capital and elements of financial investments, insurance contract liabilities and reinsurers' share of insurance contract liabilities.

Except where otherwise stated, all figures included in the condensed consolidated financial statements are presented in millions of pounds sterling (£'m).

The structure of the financial statements has been amended from prior years to make them more understandable for the shareholders.

The notes are grouped together by their nature. Estimation techniques and assumptions are now presented in the relevant note in order to provide context to the figures presented. The most significant estimates and judgements are those used in determining Insurance liabilities (note 18), Deferred tax (note 15) and Defined benefit pension scheme liabilities (note 19). All of the information previously disclosed continues to be presented, where material, within the financial statements.

#### **2) ADOPTION OF NEW AND REVISED STANDARDS**

There are a small number of narrow scope amendments arising from annual improvements to standards that are applicable to the Group for the first time in 2015, none of which have had a material impact on the condensed consolidated financial statements.

#### **3) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

##### **IFRS 9 'Financial Instruments'**

The IASB has issued the final version of IFRS 9 'Financial Instruments' although the timing for its implementation is not yet clear as the standard has not yet been endorsed by the European Union. The new standard is stated to be effective from 1 January 2018, although depending on the outcome of consultations on IFRS 4, there may be a transitional period.

In December 2015 the IASB consulted on proposed amendments to IFRS 4 'Insurance contracts'. The amendments would permit entities whose predominant activity is issuing insurance contracts to defer the full application of IFRS 9 until the earlier of 2021 or adopting the revised IFRS 4, which is currently expected to commence in 2020.

The Group will decide on appropriate clarification of its investments under IFRS 9 closer to the time of adopting the revised IFRS 4 and so is not able at the present time to fully quantify the impact of adopting IFRS 9 on its financial statements. It is not anticipated however that it will significantly change the Group's total equity.

##### **IFRS 15 'Revenue Recognition'**

The date that IFRS 15 'Revenue Recognition' (which has not yet been endorsed by the European Union) becomes effective has been delayed until 1 January 2018. Revenue arising from insurance contracts and financial instruments is outside the scope of IFRS 15. The impact of recognising the revenue from other Group services when these services are delivered to customers is not expected to be material to the Group.



## IFRS 16 'Leases'

In January 2016, the IASB issued IFRS 16 'Leases' to replace the existing standard IAS 17 which, subject to endorsement by the European Union, will be effective from 1 January 2019 but with earlier adoption permitted.

The main change under IFRS 16 is to the accounting by lessees. For operating leases, IFRS 16 will require the recognition of the present value of a lessee's full payment obligations in the statement of financial position together with an asset representing the right to the use of the leased asset during the term of the lease. Under IAS 17, for leases qualifying as operating leases, the lease obligations are not recognised in the statement of financial position.

The Group has not yet completed its evaluation of the impact of IFRS 16 on the financial statements.

## 4) RE-PRESENTATION OF FINANCIAL STATEMENTS AND DISCLOSURES

During 2015, the Group sold a number of its businesses and classified a number of other businesses as held for sale where it has become highly probable that their value to the business will be recovered principally through their sale, rather than through continuing operations. Where these businesses represented a separate geographical area of operations, the business has been classified as a discontinued operation (see note 6 for further details). This has resulted in the re-presentation of the comparatives for the allocation of the loss after tax from continuing operations, the other comprehensive income, the earnings per share ('EPS') and diluted EPS between the amounts from continuing and discontinued operations.

In 2014, and further refined in 2015, additional changes have been made to the management basis used to determine the underwriting, investment results and central expenses. The Segmental information set out in note 8 has been re-presented on the revised basis. The table below sets out the changes when compared to year end 2014 as reported, the net effect is nil:

	31 December 2014			
	Underwriting Result	Investment Result	Central Expenses	Operating Result
	£'m	£'m	£'m	£'m
As reported	90	327	(52)	365
Re-presented basis	41	343	(19)	365
Difference	(49)	16	33	-

## RISK AND CAPITAL MANAGEMENT

### 5) RISK AND CAPITAL MANAGEMENT

#### Insurance Risk

The Group is exposed to risks arising from insurance contracts as set out below:

- A) Underwriting risk
- B) Reinsurance risk
- C) Reserving risk

#### A) Underwriting risk

Underwriting risk refers to the risk that underwritten business is less profitable than planned due to insufficient pricing.

The majority of underwriting risk to which the Group is exposed, is of a short-term nature, and generally does not exceed 12 months. The Group's underwriting strategy aims to ensure that the underwritten risks are well diversified in terms of the type, amount of risk, and geography in order to ensure that the Group is not exposed to a concentration of risk which would result in a volatile insurance result.

Underwriting limits are in place to enforce appropriate risk selection criteria and pricing with all of the Group's underwriters having specific licences that set clear parameters for the business they can underwrite, based on their expertise.

The Group has developed enhanced methods of recording exposures and concentrations of risk and has a centrally managed forum looking at Group underwriting issues, reviewing and agreeing underwriting direction and setting policy and directives where appropriate. The Group has a quarterly portfolio management process across all its business units where key risk indicators are tracked to monitor emerging trends, opportunities and risks. This provides greater control of exposures in high risk areas as well as enabling a prompt response to claims from policyholders should there be a catastrophic event such as an earthquake.

Pricing for the Group's products is generally based upon historical claims frequencies and claims severity averages, adjusted for inflation and modelled catastrophes, trended forward to recognise anticipated changes in claims patterns after making allowance for other costs incurred by the Group, conditions in the insurance market and a profit loading that adequately covers the cost of capital.

#### B) Reinsurance risk

Reinsurance risk refers to the risk of loss to the Group from the failure of one or more of its reinsurers to pay or the ability to enforce payment under the contracts.

Decisions on how much insurance risk to pass on to other insurers through the use of reinsurance is another key strategy employed in managing the Group's exposure to insurance risk. The Group Corporate Centre determines a minimum level of risk to be retained by the Group as a whole and, therefore, the amount of central reinsurance cover purchased. This is then distributed across the Group in accordance with deemed risk appetite. Local operations may also purchase additional reinsurance within agreed local reinsurance appetite parameters.

Reinsurance arrangements in place include proportional, excess of loss, stop loss, catastrophe and adverse development coverage. These arrangements ensure that the Group should not suffer total net insurance losses beyond the Group's risk appetite in any one year.

The Group remains primarily liable as the direct insurer on all risks reinsured, although the reinsurer is liable to the Group to the extent of the insurance risk it has contractually accepted responsibility for.

#### C) Reserving risk

Reserving risk refers to the risk that the Group's estimates of future claims will be insufficient.

The Group establishes a provision for losses and loss adjustment expenses for the anticipated costs of all losses that have already occurred but have not yet been paid. Such estimates are made for losses already reported to the Group as well as for the losses that have already occurred but are not yet reported losses together with a provision for the future costs of handling and settling the outstanding claims.

There is a risk to the Group from the inherent uncertainty in estimating provisions at the end of the reporting period for the eventual outcome of outstanding notified claims as well as estimating the number and value of claims that are still to be notified. In particular, the estimation of the provisions for the ultimate costs 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 business due to the slow emergence and longer settlement period for these claims.

The Group seeks to reduce its reserving risk through the use of experienced regional actuaries who estimate the Actuarial Indication of the required reserves based on claims experience, business volume, anticipated change in the claims environment and claims cost. This information is used by local Reserving Committees to recommend to the Group Reserving Committee the appropriate level of reserves for each region – which will include adding a margin onto the Actuarial Indication as a provision for unforeseen developments such as future claims patterns differing from historical

experience, future legislative changes and the emergence of latent exposures such as asbestosis. The Group Reserving Committee review these local submissions and recommend the final level of reserves to be held by the Group. The Group has a Group Reserving Committee which is chaired by the Group Chief Financial Officer and includes the Group Chief Executive, Group Underwriting Director, Group Chief Actuary and Group Chief Risk Officer. A similar committee has been established in each of the Group's major operating segments. The Group Reserving Committee monitors the decisions and judgements made by the business units as to the level of reserves to be held. It then recommends to the Group Board via the Group Audit Committee for the final decision on the level of reserves to be included within the condensed consolidated financial statements. In forming its collective judgement, the Committee considers the following information:

- The Actuarial Indication of ultimate losses together with an assessment of risks and possible favourable or adverse developments that may not have been fully reflected in calculating these indications. At the end of 2015 these risks and developments include: the possibility of future legislative change having retrospective effect on open claims; changes in claims settlement procedures potentially leading to future claims payment patterns differing from historical experience; the possibility of new types of claim, such as disease claims, emerging from business written several years ago; general uncertainty in the claims environment; the emergence of latent exposures such as asbestos; the outcome of litigation on claims received; failure to recover reinsurance and unanticipated changes in claims inflation;
- The views of internal peer reviewers of the reserves and of other parties including actuaries, legal counsel, risk directors, underwriters and claims managers;
- The outcome from independent assurance reviews performed by the Group actuarial function to assess the reasonableness of regional Actuarial Indication estimates;
- How previous Actuarial Indications have developed.

## Financial risk

Financial risk refers to the risk of financial loss predominantly arising from investment transactions entered into by the Group, and also to a lesser extent arising from insurance contracts, and includes the following risks:

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

The Group undertakes a number of strategies to manage these risks including the use of derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest rates, foreign exchange rates, equity prices and long term inflation. The Group does not use derivatives to leverage its exposure to markets and does not hold or issue derivative financial instruments for speculative purposes. The policy on use of derivatives is approved by the Board Risk Committee ('BRC').

## Credit risk

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial or contractual obligations to the Group. The Group's credit risk exposure is largely concentrated in its fixed income investment portfolio and to a lesser extent, its premium receivables, and reinsurance assets.

Credit risk is managed at both a Group level and at a local level. Local operations are responsible for assessing and monitoring the creditworthiness of their counterparties (e.g. brokers and policyholders). Local credit committees are responsible for ensuring these exposures are within the risk appetite of the local operations. Exposure monitoring and reporting is embedded throughout the organisation with aggregate credit positions reported and monitored at Group level.

The Group's credit risk strategy appetite and credit risk policy are developed by its BRC and are reviewed and approved by the Board on an annual basis. This is done through the setting of Group policies, procedures and limits.

In defining its appetite for credit risk the Group looks at exposures at both an aggregate and business unit level distinguishing between credit risks incurred as a result of offsetting insurance risks or operating in the insurance market (e.g. reinsurance credit risks and risks to receiving premiums due from policyholders and intermediaries) and credit risks incurred for the purposes of generating a return (e.g. invested assets credit risk).

Limits are set at both a portfolio and counterparty level based on likelihood of default, derived from the rating of the counterparty, to ensure that the Group's overall credit profile and specific concentrations are managed and controlled within risk appetite.

The Group's investment management strategy primarily focuses on debt instruments of high credit quality issuers and seeks to limit the overall credit exposure with respect to any one issuer by ensuring limits have been based upon credit quality. Restrictions are placed on each of the Group's investment managers as to the level of exposure to various rating categories including unrated securities.

The Group is also exposed to credit risk from the use of reinsurance in the event that a reinsurer fails to settle its liability to the Group.

The Group Reinsurance Credit Committee oversees the management of credit risk arising from the reinsurer failing to settle its liability to the Group. Group standards are set such that reinsurers that have a financial strength rating of less than 'A-' with Standard & Poor's, or a comparable rating, are removed from the Group's authorised list of approved reinsurers unless the Group's internal review discovers exceptional circumstances in favour of the reinsurer. Collateral is taken, where appropriate, to mitigate exposures to acceptable levels. At 31 December 2015 the extent of collateral held by the Group against reinsurers' share of insurance contract liabilities was **£69m** (2014: £90m).

The Group's use of reinsurance is sufficiently diversified that it is not concentrated on a single reinsurer, or any single reinsurance contract. The Group regularly monitors its aggregate exposures by reinsurer group against predetermined reinsurer Group limits, in accordance with the methodology agreed by the BRC. The Group's largest reinsurance exposures to active reinsurance groups are Munich Re, Lloyd's, and Berkshire Hathaway Inc. At 31 December 2015 the reinsurance asset recoverable from these groups does not exceed 3% of the Group's total financial assets. Stress tests are performed by reinsurer counterparty and the limits are set such that in a catastrophic event, the exposure to a single reinsurer is estimated not to exceed 7% of the Group's total financial assets.

The credit profile of the Group's assets exposed to credit risk is shown below. The credit rating bands are provided by independent rating agencies. The table below sets out the Group's aggregated credit risk exposure for its financial and insurance assets as at 31 December 2015 and 2014.

#### As at 31 December 2015

	Credit rating relating to financial assets that are neither past due nor impaired						Value including held for sale £'m	Less: Amounts classified as held for sale £'m	Total of financial assets that are neither past due nor impaired £'m
	AAA £'m	AA £'m	A £'m	BBB £'m	<BBB £'m	Not rated £'m			
Debt securities	5,737	1,612	2,818	1,166	82	73	11,488	376	11,112
Loans and receivables	50	-	1	-	4	45	100	-	100
Reinsurers' share of insurance contract liabilities	-	368	1,626	91	23	113	2,221	237	1,984
Insurance and reinsurance debtors <sup>1</sup>	106	22	715	148	93	1,864	2,948	469	2,479
Derivative assets	4	5	-	21	-	8	38	-	38
Other debtors	-	-	-	-	-	258	258	9	249
Cash and cash equivalents	304	116	346	57	14	76	913	97	816

#### Notes:

<sup>1</sup> The insurance and reinsurance debtors classified as not rated comprise personal policyholders and small corporate customers that do not have individual credit ratings. The overall credit risk to the Group is deemed to be low as the cover could be cancelled if payment were not received on a timely basis.

#### As at 31 December 2014

	Credit rating relating to financial assets that are neither past due nor impaired						Value including held for sale £'m	Less: Amounts classified as held for sale £'m	Total of financial assets that are neither past due nor impaired £'m
	AAA £'m	AA £'m	A £'m	BBB £'m	<BBB £'m	Not rated £'m			
Debt securities	6,068	2,122	3,331	893	94	141	12,649	401	12,248
Loans and receivables	36	1	1	-	3	56	97	-	97
Reinsurers' share of insurance contract liabilities	-	447	1,313	172	56	33	2,021	129	1,892
Insurance and reinsurance debtors <sup>1</sup>	281	38	591	101	106	2,013	3,130	143	2,987
Derivative assets	6	7	20	-	-	13	46	-	46
Other debtors	-	-	-	-	-	343	343	4	339
Cash and cash equivalents	302	140	449	67	24	153	1,135	124	1,011

#### Notes:

<sup>1</sup> The insurance and reinsurance debtors classified as not rated comprise personal policyholders and small corporate customers that do not have individual credit ratings. The overall credit risk to the Group is deemed to be low as the cover could be cancelled if payment were not received on a timely basis.

With the exception of AAA rated government debt securities, the largest single aggregate credit exposure does not exceed 3% of the Group's total financial assets.

## Ageing of financial assets that are past due but not impaired

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired as at 31 December 2015, excluding those assets that have been classified as held for sale.

### As at 31 December 2015

	Neither past due nor impaired	Financial assets that are past due but not impaired				Financial assets that have been impaired	Carrying value in the statement of financial position	Impairment losses charged to the income statement
		Up to three months	Three to six months	Six months to one year	Greater than one year			
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
<b>Debt securities</b>	<b>11,112</b>	-	-	-	-	-	<b>11,112</b>	<b>3</b>
<b>Loans and receivables</b>	<b>100</b>	-	-	-	-	-	<b>100</b>	<b>2</b>
<b>Reinsurers' share of insurance</b>								
<b>contract liabilities</b>	<b>1,984</b>	-	-	-	-	<b>4</b>	<b>1,988</b>	<b>1</b>
<b>Insurance and reinsurance debtors</b>	<b>2,479</b>	<b>121</b>	<b>18</b>	<b>18</b>	<b>17</b>	-	<b>2,653</b>	<b>4</b>
<b>Derivative assets</b>	<b>38</b>	-	-	-	-	-	<b>38</b>	-
<b>Other debtors</b>	<b>249</b>	<b>1</b>	-	-	<b>3</b>	-	<b>253</b>	-
<b>Cash and cash equivalents</b>	<b>816</b>	-	-	-	-	-	<b>816</b>	-

### As at 31 December 2014

	Neither past due nor impaired	Financial assets that are past due but not impaired				Financial assets that have been impaired	Carrying value in the statement of financial position	Impairment losses charged to the income statement
		Up to three months	Three to six months	Six months to one year	Greater than one year			
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Debt securities	12,248	-	-	-	-	-	12,248	-
Loans and receivables	97	-	-	-	-	-	97	-
Reinsurers' share of insurance								
contract liabilities	1,892	-	-	-	-	5	1,897	3
Insurance and reinsurance debtors	2,987	140	20	10	17	-	3,174	11
Derivative assets	46	-	-	-	-	-	46	-
Other debtors	339	3	-	1	7	-	350	-
Cash and cash equivalents	1,011	-	-	-	-	-	1,011	-

## Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly from fluctuations from equity and property prices, interest rates and foreign currency exchange rates. Market risk arises in our operations due to fluctuations in both the value of liabilities and in the value of investments held. At Group level, it also arises in relation to the overall portfolio of international businesses. Market risk is subject to the Board Risk Committee risk management framework, which is subject to review and approval by the Board.

Market risk can be further broken down into three key components:

### i. Price risk

Price risk arises as a result of fluctuations in the market prices of investments held, primarily equity. The price of debt investments is primarily driven by interest rate fluctuations, which is addressed below. The Group is also subject to property price risk due to the potential changes in fair market value of the property portfolio held as part of the Group's investment strategy. The table below illustrates the impact to the income statement of a hypothetical 15% change in equity prices or a 15% change in property prices.

Changes in the income statement and equity:

	Decrease in income statement		Decrease in other comprehensive income	
	2015	2014	2015	2014
	£'m	£'m	£'m	£'m
<b>Decrease of equity markets:</b>				
Direct impact on equities of a 15% fall in equity holdings	<b>(6)</b>	<b>(3)</b>	<b>(82)</b>	<b>(21)</b>
<b>Property markets:</b>				
Decrease of property markets of 15%	<b>(55)</b>	<b>(52)</b>	<b>(6)</b>	<b>(8)</b>

This analysis assumes that there is no correlation between equity price, interest rate and property market rate risks. It also assumes that all other assets and liabilities remain unchanged and that no management action is taken. This analysis does not represent management's view of future market change, but reflects management's view of key sensitivities. This analysis is presented gross of the corresponding tax credits/(charges). The equity price risk sensitivity analysis is indicative and is based on the Groups equity portfolio as at 31 December 2015.

## ii. Interest rate risk

Interest rate risk arises primarily from the Group's investments in long-term debt and fixed income securities and their movement relative to the value placed on the insurance liabilities. This impacts both the fair value and amount of variable returns on existing assets as well as the cost of acquiring new fixed maturity investments.

The table below illustrates the impact to the income statement and other comprehensive income of hypothetical 100bps change in interest rates on long-term debt and fixed income securities that are subject to interest rate risk.

Changes in the income statement and equity:

	Increase in income statement		Decrease in other comprehensive income	
	2015 £'m	2014 £'m	2015 £'m	2014 £'m
<b>Increase in interest rate markets:</b>				
Impact on fixed income securities of an increase in interest rates of 100bps	-	-	(435)	(481)

The Group manages interest rate risk by holding investment assets (predominantly fixed income) that generate cash flows which broadly match the duration of expected claim settlements and other associated costs.

The sensitivity of the fixed interest securities of the Group has been modelled by reference to a reasonable approximation of the average interest rate sensitivity of the investments held within each of the portfolios. The effect of movement in interest rates is reflected as a one time rise of 100bps on 1 January 2016 and 1 January 2015.

## iii. Currency risk

The Group incurs exposure to currency risk in two ways:

- Operational currency risk – by holding investments and other assets and by underwriting and incurring liabilities in currencies other than the currency of the primary environment in which the business units operate the Group is exposed to fluctuations in foreign exchange rates that can impact both its profitability and the reported value of such assets and liabilities;
- Structural currency risk – by investing in overseas subsidiaries the Group is exposed to the risk that fluctuations in foreign exchange rates impact the reported profitability of foreign operations to the Group, and the value of its net investment in foreign operations

Operational currency risk is principally managed within the Group's individual operations by broadly matching assets and liabilities by currency and liquidity. Operational currency risk is not significant.

Structural currency risk is managed at a Group level through currency forward option contracts within predetermined limits set by the Group Investment Committee. In managing structural currency risk the needs of the Group's subsidiaries to maintain net assets in local currencies to satisfy local regulatory solvency and internal risk based capital requirements are taken into account. These assets should prove adequate to support local insurance activities irrespective of exchange rate movements but may affect the value of the consolidated shareholders' equity expressed in sterling.

At 31 December 2015, the Group's total shareholders' equity deployed by currency was:

	Pounds Sterling £'m	Danish Krone/Euro £'m	Canadian Dollar £'m	Swedish Krona £'m	Other £'m	Total £'m
<b>Shareholders' equity at 31 December 2015</b>	<b>2,158</b>	<b>377</b>	<b>492</b>	<b>132</b>	<b>483</b>	<b>3,642</b>
Shareholders' equity at 31 December 2014	1,629	415	671	379	731	3,825

Shareholders' equity is stated after taking account of the effect of currency forward contracts and foreign exchange options. The analysis aggregates the Danish Krone exposure and the Euro exposure as the Danish Krone continues to be pegged closely to the Euro. The Group considers this aggregate exposure when reviewing its hedging strategy.

The table below illustrates the impact of a hypothetical 10% change in Danish Krone/Euro, Canadian Dollar or Swedish Krona exchange rates on shareholders' equity when retranslating into sterling:

	10% strengthening in Pounds Sterling against Danish Krone/Euro £'m	10% weakening in Pounds Sterling against Danish Krone/Euro £'m	10% strengthening in Pounds Sterling against Canadian Dollar £'m	10% weakening in Pounds Sterling against Canadian Dollar £'m	10% strengthening in Pounds Sterling against Swedish Krona £'m	10% weakening in Pounds Sterling against Swedish Krona £'m
<b>Movement in shareholders' equity at 31 December 2015</b>	<b>(34)</b>	<b>42</b>	<b>(45)</b>	<b>55</b>	<b>(12)</b>	<b>15</b>
Movement in Shareholders' equity at 31 December 2014	(37)	46	(61)	75	(34)	42

Changes arising from the retranslation of foreign subsidiaries' net asset positions from their primary currencies into Sterling are taken through the foreign currency translation reserve and so consequently these movements in exchange rates have no impact on profit.

### Liquidity risk

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

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

In addition the Group has committed credit facilities if needed.

The following table summarises the contractual repricing or maturity dates, whichever is earlier. Provision for unearned premium and provision for losses and loss adjustment expenses are also presented and are analysed by remaining estimated duration until settlement.

### As at 31 December 2015

	Less than one year £'m	One to two years £'m	Two to three years £'m	Three to four years £'m	Four to five years £'m	Five to ten years £'m	Greater than ten years £'m	Total £'m	Carrying value in the statement of financial position £'m
Subordinated guaranteed US\$ bonds	-	-	-	-	-	-	6	6	5
Perpetual guaranteed subordinated capital securities	-	375	-	-	-	-	-	375	359
Guaranteed subordinated notes due 2045	-	-	-	-	-	400	-	400	394
Guaranteed subordinated step-up notes due 2039	-	-	-	500	-	-	-	500	496
Provision for unearned premium	2,778	232	81	10	3	3	-	3,107	3,107
Provisions for losses and loss adjustment expenses	3,256	1,576	1,069	747	536	1,242	2,120	10,546	9,084
Direct insurance creditors	115	-	-	-	-	-	-	115	115
Reinsurance creditors	569	183	78	-	-	-	-	830	830
Borrowings	11	-	-	-	-	-	-	11	11
Deposits received from reinsurers	14	-	-	-	-	-	-	14	14
Derivative liabilities	50	1	1	18	-	19	-	89	89
<b>Total</b>	<b>6,793</b>	<b>2,367</b>	<b>1,229</b>	<b>1,275</b>	<b>539</b>	<b>1,664</b>	<b>2,126</b>	<b>15,993</b>	<b>14,504</b>
Interest on perpetual bonds and notes	93	81	68	39	21	101	2	405	

## As at 31 December 2014

	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years	Greater than ten years	Total	Carrying value in the statement of financial position
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Subordinated guaranteed US\$ bonds	-	-	-	-	-	-	6	6	5
Perpetual guaranteed subordinated capital securities	-	-	375	-	-	-	-	375	349
Guaranteed subordinated notes due 2045	-	-	-	-	-	-	400	400	394
Guaranteed subordinated step-up notes due 2039	-	-	-	-	500	-	-	500	495
Provision for unearned premium	3,036	276	87	13	6	20	-	3,438	3,438
Provisions for losses and loss adjustment expenses	3,755	1,719	1,104	736	516	1,204	2,040	11,074	9,828
Direct insurance creditors	275	2	-	-	-	-	-	277	277
Reinsurance creditors	484	102	41	-	-	-	-	627	627
Borrowings	299	-	-	-	-	-	-	299	299
Deposits received from reinsurers	25	-	-	-	-	-	-	25	25
Derivative liabilities	38	-	1	-	8	10	-	57	57
<b>Total</b>	<b>7,912</b>	<b>2,099</b>	<b>1,608</b>	<b>749</b>	<b>1,030</b>	<b>1,234</b>	<b>2,446</b>	<b>17,078</b>	<b>15,794</b>
Interest on perpetual bonds and notes	93	93	82	68	39	105	18	498	

The maturity analysis above is presented on an undiscounted basis. The carrying values in the statement of financial position are discounted where appropriate in accordance with Group accounting policy.

The capital and interest payable on the bonds and notes have been included until the dates on which the Group has the option to call the instruments and the interest rates are reset.



## SIGNIFICANT TRANSACTIONS AND EVENTS

### 6) DISCONTINUED OPERATIONS AND DISPOSALS

The Group classified the following operations as discontinued because they have either been sold or classified as held for sale and they also represent a separate geographical area of operation.

<u>Operation</u>	<u>Date of disposal</u>	<u>Acquirer</u>
Latvia	30 June 2014	Powszechny Zaklad Ubezpieczen sa
Poland	15 September 2014	Powszechny Zaklad Ubezpieczen sa
Lithuania	31 October 2014	Powszechny Zaklad Ubezpieczen sa
Estonia	31 October 2014	Powszechny Zaklad Ubezpieczen sa
Thailand	19 December 2014	LeapFrog Thailand Holdings Ltd and Mindo Asia Investments
Hong Kong	31 March 2015	Allied World Assurance Company
Singapore	31 March 2015	Allied World Assurance Company
Labuan	12 May 2015	Allied World Assurance Company
China	14 May 2015	Swiss Re Corporate Solutions
Indian associate	29 July 2015	Sundaram Finance Ltd
Italy	31 December 2015	ITAS Mutua
Latin America	Held for sale at 31 December 2015	Suramericana S.A.
Russia <sup>1</sup>	Held for sale at 31 December 2015	Joint Stock Insurance Company Blagosostoyanie
	Sale completed 29 January 2016	

<sup>1</sup> Further information about the completion of the sale of the Russian operation can be found in Appendix A Events after the reporting period (page 87).

The revenue, expenses and related income tax expense in 2015 and 2014 relating to these discontinued operations is set out below. The total profits on the disposal of discontinued operations after tax was **£170m** (2014: £172m).

## DISCONTINUED INCOME STATEMENT for the year ended 31 December 2015

		2015	Re-presented 2014
	Notes	£'m	£'m
Income			
Gross written premiums		1,365	1,563
Less: reinsurance premiums		(492)	(403)
Net written premiums	8	873	1,160
Change in the gross provision for unearned premiums		32	(1)
Less: change in provision for unearned reinsurance premiums		(53)	15
Change in provision for unearned premiums		(21)	14
Net earned premiums		852	1,174
Net investment return		60	64
<b>Total income</b>		<b>912</b>	<b>1,238</b>
Expenses			
Gross Claims incurred		(672)	(877)
Less: claims recoveries from reinsurers		222	193
Net claims		(450)	(684)
Underwriting and policy acquisition costs		(366)	(464)
Unwind of discount		(15)	(14)
Other operating expenses		(45)	(35)
<b>Total expenses</b>		<b>(876)</b>	<b>(1,197)</b>
Finance costs		-	(1)
Gain on disposal		170	172
Net share of profit after tax of associates		-	8
<b>Profit before tax</b>		<b>206</b>	<b>220</b>
Income tax expense	9	(50)	(36)
<b>Profit after tax</b>		<b>156</b>	<b>184</b>

## DISCONTINUED STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2015

	2015	Re-presented 2014
	£'m	£'m
<b>Profit for the year from discontinued operations</b>	<b>156</b>	<b>184</b>
<b>Items from discontinuing operations that may be reclassified to the income statement:</b>		
Exchange (gains)/losses recycled on disposal of discontinued operations net of tax	(39)	8
Exchange losses net of tax	(53)	(30)
Exchange losses on non-controlling interests net of tax	(3)	(3)
	<b>(95)</b>	<b>(25)</b>
Fair value gains recycled on disposal of discontinued operations net of tax	(6)	(8)
Fair value (losses)/gains on available for sale financial assets net of tax	(9)	14
	<b>(15)</b>	<b>6</b>
<b>Items from discontinuing operations that will not be reclassified to the income statement:</b>		
Movement in property revaluation, net of tax	4	-
<b>Other comprehensive expenses for the year from discontinued operations</b>	<b>(106)</b>	<b>(19)</b>
<b>Total comprehensive income for the year from discontinued operations</b>	<b>50</b>	<b>165</b>

**Held for Sale disposal groups**

The assets (including any goodwill allocated to the business) and the liabilities of the businesses held for sale are shown below.

**As at 31 December 2015**

	Latin America £'m	Russia £'m	Total £'m
<b>Assets classified as held for sale:</b>			
Goodwill and intangibles	63	-	63
Property and equipment	21	-	21
Investments	380	-	380
Reinsurers' share of insurance contract liabilities	237	-	237
Insurance and reinsurance debtors	468	1	469
Other debtors and other assets	77	3	80
Cash and cash equivalents	77	20	97
<b>Total assets of disposal groups</b>	<b>1,323</b>	<b>24</b>	<b>1,347</b>
<b>Liabilities directly associated with assets classified as held for sale:</b>			
Insurance contract liabilities	699	12	711
Insurance and reinsurance liabilities	175	-	175
Provisions and other liabilities	200	4	204
<b>Liabilities of disposal groups</b>	<b>1,074</b>	<b>16</b>	<b>1,090</b>
<b>Total net assets of disposal groups</b>	<b>249</b>	<b>8</b>	<b>257</b>

**As at 31 December 2014**

	Italy £'m	Singapore £'m	China £'m	Hong Kong £'m	Total £'m
<b>Assets classified as held for sale:</b>					
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
<b>Total assets of disposal groups</b>	<b>369</b>	<b>187</b>	<b>77</b>	<b>175</b>	<b>808</b>
<b>Liabilities directly associated with assets classified as held for sale:</b>					
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
<b>Liabilities of disposal groups</b>	<b>387</b>	<b>150</b>	<b>30</b>	<b>163</b>	<b>730</b>
<b>Total net assets of disposal groups</b>	<b>(18)</b>	<b>37</b>	<b>47</b>	<b>12</b>	<b>78</b>

## Discontinued operations disposed of during the year

### Year ended 31 December 2015

	Hong Kong, Singapore and Labuan	China	India (associate)	Italy	Total
	£'m	£'m	£'m	£'m	£'m
Consideration received	123	69	46	18	256
Less: transaction costs	(13)	(2)	-	(5)	(20)
Net proceeds from sales	110	67	46	13	236
Carrying value of net assets disposed of	(35)	(47)	(18)	-	(100)
Gains on sale before recycling of items from other comprehensive income	75	20	28	13	136
Recycle of items from other comprehensive income on disposals:					
Foreign currency translation reserve	27	8	(4)	8	39
Unrealised gains on available for sale investments	1	-	(3)	10	8
Related tax	-	-	-	(2)	(2)
Profits on sales of discontinued operations before tax	103	28	21	29	181
Tax on disposal	-	(2)	(4)	(5)	(11)
Profits on sales of discontinued operations after tax	103	26	17	24	170

### Year ended 31 December 2014

	Latvia	Lithuania	Estonia	Total Baltics	Poland	Thailand Associate	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Consideration received <sup>1</sup>	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

<sup>1</sup> 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.

## Gain on disposal of business

£3m of gains on disposal during the year of businesses not classified as discontinued include £2m relating to the disposal of the Engineering Inspection & Consultancy division in both UK & Ireland to Infexion Private Equity Partners on 1 November 2015.

Included within £203m of gains on disposal during 2014, £164m relates to the disposal of Noraxis Capital Corporation in Canada and the majority of the remainder relates to assets previously held for sale within the Scandinavian region.

## 7) REORGANISATION COSTS

Reorganisation costs represent external and clearly identifiable internal costs that are necessarily incurred and directly attributable to the Group's restructuring programme. The aim of the restructuring programme is to both reduce operating costs and improve profitability.

In 2015, the reorganisation costs of **£183m** are directly associated with continuing operations (2014: £110m - £102m continuing operations and £8m discontinued operations). The amounts were directly attributable in respect of redundancy **£59m** (2014: £73m) and other restructuring activity of **£124m** (2014: £29m). Restructuring costs in 2015 relate to amounts incurred across the Group for activities such as process re-engineering, office footprint consolidation, reducing spans of control, and renegotiation of supplier contracts. These include the transition to a new IT infrastructure provider, Wipro, in the UK, Ireland and Scandinavia.

## NOTES TO THE CONDENSED CONSOLIDATED INCOME STATEMENT AND CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

### 8) SEGMENTAL INFORMATION

Following a strategic review of its operations in 2014, the Group has disposed of or is in the process of disposing of a number of its businesses. Further information on the Group's disposal activity is disclosed in note 6. As a result of the review, the Group's operating segments of Scandinavia, Canada, UK & Ireland, Central Functions and non-core are split between core and non-core businesses, which is consistent with how the Group is managed.

These operating segments are based on geography and all are engaged in providing personal and commercial general insurance services. Central functions include the Group's internal reinsurance function and Group Corporate Centre.

#### Core businesses

The Group's core businesses are Scandinavia, Canada, and UK & Ireland. These represent three separate operating segments, and the major geographical areas in which the Group continues to operate through established businesses in mature markets. Each operating segment is managed by a member of the Group Executive Committee who is directly accountable to the Group Chief Executive and Board of Directors, who together form the central decision making function in respect of the operating activities of the Group. The UK is the Group's country of domicile and one of its principle markets. Amounts attributable to Central Functions are also included within the core business results.

#### Non-core businesses

The Group's non-core businesses in the table below comprises of the Group's UK legacy business and Middle East operation.

The Middle East is a separate operating segment, and the Group's UK legacy business is part of the UK operations.

As businesses become classified as discontinued (see note 6) their results on a segmental basis are re-presented from non-core and into discontinued operations including restating the 2014 comparatives.

#### Assessing segment performance

The Group uses the following key measures to assess the performance of its operating segments:

- Net written premiums;
- Underwriting result;
- Combined operating ratio ('COR');
- Operating result.

Net written premiums is the key measure of revenue used in internal reporting.

Underwriting result, COR and Operating result are the key internal measures of profitability of the operating segments. The COR reflects the ratio of claims costs and expenses (including commission) to earned premiums, expressed as a percentage.

Transfers or transactions between segments are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

**Year ended 31 December 2015**

	Core								
	UK & Ireland						Continuing operations per income statement	Add discontinued operations	Total Group
	Scandinavia	Canada (excl Noraxis)	UK (excluding Legacy)	Ireland	Central Functions	Non-core			
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Net written premiums	1,606	1,360	2,606	261	(111)	230	5,952	873	6,825
Underwriting result	94	116	12	(35)	50	(52)	185	35	220
Investment result	69	66	135	9	-	4	283	39	322
Central costs and other activities	-	-	-	-	(18)	1	(17)	(2)	(19)
Operating result (management basis)	163	182	147	(26)	32	(47)	451	72	523
Realised gains/(losses)							21	4	25
Unrealised gains, impairments and foreign exchange							(9)	4	(5)
Interest costs							(106)	-	(106)
Amortisation of intangible assets							(25)	(2)	(27)
Pension net interest and administration costs							(8)	-	(8)
Solvency II costs							(26)	-	(26)
Reorganisation costs							(183)	-	(183)
Impairment of goodwill and intangible assets							(9)	(42)	(51)
Non-recurring charges							(3)	-	(3)
Gains on disposals of businesses							3	181	184
Profit before tax							106	217	323
Tax on continuing operations							(18)	(50)	(68)
Tax on disposals of discontinued operations							-	(11)	(11)
Profit after tax							88	156	244
Combined operating ratio (%)	94.0	91.7	99.5	113.4		122.3	96.9	95.9	96.9

Year ended 31 December 2014 - Re-presented

	Core								
		UK & Ireland					Continuing operations per income statement	Add discontinued operations	Total Group
	Scandinavia	Canada (excl Noraxis)	UK (excluding Legacy)	Ireland	Central Functions	Non-core			
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Net written premiums	1,759	1,510	2,569	295	(42)	214	6,305	1,160	7,465
Underwriting result	169	21	4	(108)	(15)	(52)	19	22	41
Investment result	72	78	132	11	-	4	297	46	343
Central costs and other activities	-	-	-	-	(16)	(8)	(24)	5	(19)
Operating result (management basis)	241	99	136	(97)	(31)	(56)	292	73	365
Realised gains/(losses)							79	6	85
Unrealised gains/(losses), impairments and foreign exchange							13	1	14
Interest costs							(118)	(1)	(119)
Amortisation of intangible assets							(30)	(2)	(32)
Pension net interest and administration costs							(10)	-	(10)
Solvency II costs							(24)	(1)	(25)
Reorganisation costs							(102)	(8)	(110)
Impairment of goodwill and intangible assets							(88)	(11)	(99)
Economic assumption changes							(98)	-	(98)
Non-recurring charges							(58)	(9)	(67)
Gains on disposal of businesses							203	174	377
Transaction costs							(6)	-	(6)
Profit before tax							53	222	275
Tax on continuing operations							(161)	(36)	(197)
Tax on disposals of discontinued operation							-	(2)	(2)
(Losses)/profits after tax							(108)	184	76
Combined operating ratio (%)	90.4	98.6	99.9	132.8		124.0	99.7	98.1	99.5

## 9) INCOME TAX

The tax amounts charged/(credited) in the income statement are as follows:

	2015 £'m	Re-presented 2014 £'m
Current tax	85	51
Deferred tax	(67)	110
Total taxation attributable to continuing operations	18	161
Tax on disposal of discontinued operations	11	2
Tax on profits of discontinued operations	50	36
<b>Taxation attributable to the Group</b>	<b>79</b>	<b>199</b>

Reconciliation of the income tax expense:



	2015 £'m	Re-presented 2014 £'m
Profit before tax	106	53
Tax at the UK rate of 20.2% (2014: 21.5%)	21	11
Tax effect of:		
Income/gains not taxable	(8)	(53)
Expenses not deductible for tax purposes	8	19
Movement in deferred tax assets not recognised	(26)	143
(Increase)/release of tax provided in respect of prior periods	(4)	4
Different tax rates of subsidiaries operating in other jurisdictions	13	36
Effect of change in tax rates	15	1
Other	(1)	-
<b>Total income tax expense attributable to continuing operations</b>	<b>18</b>	<b>161</b>
<b>Total income tax expense attributable to discontinued operations</b>	<b>61</b>	<b>38</b>
<b>Income tax expense</b>	<b>79</b>	<b>199</b>

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

	Current Tax		Deferred Tax		Total	
	2015 £'m	2014 £'m	2015 £'m	2014 £'m	2015 £'m	2014 £'m
Fair value gains and losses	49	(67)	(33)	7	16	(60)
Remeasurement of net defined benefit pension liability	-	-	(16)	2	(16)	2
<b>Total credited/(charged) to other comprehensive income</b>	<b>49</b>	<b>(67)</b>	<b>(49)</b>	<b>9</b>	<b>-</b>	<b>(58)</b>

The aggregate current tax and deferred tax relating to items that are charged directly to equity is **£nil** (2014: £(1)m).

## Tax Rates

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

	2015		2014	
	Current Tax	Deferred	Current Tax	Deferred Tax
UK	20.2 %	18.0 %	21.5 %	20.0 %
Canada	26.8 %	26.8 %	26.6 %	26.6 %
Denmark	23.5 %	22.0 %	24.5 %	22.0 %
Ireland	12.5 %	12.5 %	12.5 %	12.5 %
Sweden	22.0 %	22.0 %	22.0 %	22.0 %

## 10) 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. These were 1,015,489,000 for basic EPS and 1,019,280,000 for diluted EPS (excluding those held in Employee Stock Ownership Plan (ESOP) and Share Incentive Plan (SIP) trusts). The number of shares in issue at 31 December 2015 was 1,016,318,206 (excluding those held in ESOP and SIP trusts).

### Basic EPS

	2015		Re-presented 2014	
	Continuing	Discontinued	Continuing	Discontinued
Profit/(loss) attributable to the shareholders of the Parent Company (£'m)	79	156	(115)	184
Less: cumulative preference dividends (£'m)	(9)	-	(9)	-
<b>Profit/(loss) for the calculation of earnings per share</b>	<b>70</b>	<b>156</b>	<b>(124)</b>	<b>184</b>
Weighted average number of ordinary shares in issue (thousands)	1,015,489	1,015,489	961,658	961,658
<b>Basic earnings/(loss) per share (p)</b>	<b>6.9</b>	<b>15.4</b>	<b>(12.9)</b>	<b>19.1</b>

### Diluted EPS

Re-presented

	2015 £'m	2014 £'m
Profit/(loss) for the calculation of earnings per share relating to continuing operations	70	(124)
Profit for the calculation of earnings per share relating to discontinued operations	156	184
Total profit for the calculation of earnings per share	226	60
Weighted average number of ordinary shares in issue (thousands)	1,015,489	961,658
Adjustments for share options and contingently issuable shares (thousands)	3,791	-
Total weighted average number of ordinary shares for diluted earnings per share (thousands) continuing operations	1,019,280	961,658
<b>Diluted earnings/(loss) per share (p) relating to continuing operations</b>	<b>6.9</b>	<b>(12.9)</b>
<b>Diluted earnings per share (p) relating to discontinued operations</b>	<b>15.3</b>	<b>19.1</b>

Note 17 includes further information of the outstanding share options and unvested share awards to Group employees that could potentially dilute basic earnings per share in the future, including those awards omitted from the calculation of diluted earnings per share because they were antidilutive in 2015 and 2014.

## 11) DISTRIBUTIONS PAID AND PROPOSED

The final dividend to equity holders is recognised as a liability when approved at the Annual General Meeting. The Company and its subsidiaries may be subject to restrictions on the amount of dividends they can pay to shareholders as a result of regulatory requirements. However, based on the information currently available, the Group does not believe that such restrictions materially impact the ability to meet obligations or pay dividends. At the Annual General Meeting (AGM) on 6 May 2016, a final dividend in respect of the year ended 31 December 2015 of 7.0p per ordinary share amounting to a total dividend of £71m is to be proposed. The proposed dividend will be paid and accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2016.

	2015 p	2014 p	2015 £'m	2014 £'m
Ordinary dividend:				
Final paid in respect of prior year	2.0	-	20	-
Interim paid in respect of current year	3.5	-	36	-
	5.5	-	56	-
Preference dividend			9	9
			65	9

## NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### 12) GOODWILL AND INTANGIBLE ASSETS

	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 2015	545	117	123	592	278	1,655
Additions and transfers	-	-	2	51	-	53
Disposals	-	(1)	(33)	(8)	(7)	(49)
Exchange adjustment	(31)	(7)	(6)	(21)	(26)	(91)
<b>At 31 December 2015</b>	<b>514</b>	<b>109</b>	<b>86</b>	<b>614</b>	<b>245</b>	<b>1,568</b>
Accumulated amortisation						
At 1 January 2015	-	114	77	318	149	658
Amortisation charge	-	2	10	56	22	90
Amortisation on disposals	-	(1)	(20)	(8)	(6)	(35)
Exchange adjustment	-	(7)	(3)	(11)	(14)	(35)
<b>At 31 December 2015</b>	<b>-</b>	<b>108</b>	<b>64</b>	<b>355</b>	<b>151</b>	<b>678</b>
Accumulated impairment						
At 1 January 2015	133	-	3	57	4	197
Impairment charge	18	-	-	3	1	22
Impairment on disposals	-	-	(1)	(3)	-	(4)
Exchange adjustment	-	-	(2)	(2)	-	(4)
<b>At 31 December 2015</b>	<b>151</b>	<b>-</b>	<b>-</b>	<b>55</b>	<b>5</b>	<b>211</b>
<b>Carrying amount at 31 December 2015</b>	<b>363</b>	<b>1</b>	<b>22</b>	<b>204</b>	<b>89</b>	<b>679</b>
<b>Less: Assets classified as held for sale</b>	<b>45</b>	<b>-</b>	<b>1</b>	<b>7</b>	<b>10</b>	<b>63</b>
<b>Carrying amount at 31 December 2015 net of held for sale</b>	<b>318</b>	<b>1</b>	<b>21</b>	<b>197</b>	<b>79</b>	<b>616</b>

	Goodwill	Intangible assets arising from acquired claims provisions	Externally acquired software	Internally generated software	Other	Total
	£'m	£'m	£'m	£'m	£'m	£'m
<b>Cost</b>						
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
<b>Accumulated amortisation</b>						
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
<b>Accumulated impairment</b>						
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	-	-	-	-	-	-
Carrying amount at 31 December 2014 net of held for sale	412	3	43	217	125	800

## Amortisation

Amortisation expense of **£63m** (2014: £72m) has been charged to underwriting and policy acquisition costs with the remainder recognised in other operating expenses.

## Impairments

Due to software replacement, a software impairment charge of **£1m** (2014: £44m) has been recognised within other operating expenses. In 2015, **£2m** (2014: £4m) impairment was charged to underwriting and policy acquisition costs.

When testing for impairment, the carrying value of the CGU to which goodwill has been allocated is compared to the recoverable amount as determined by a value in use calculation. These calculations use cashflow projections based on operating plans approved by management covering a three year period and 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 strategic report section. Cashflows beyond this period are extrapolated using the estimated growth rates which management deem appropriate for the CGU. The cashflow forecasts are adjusted by appropriate discount rates. Where a sales price has been agreed for CGU, the sales proceeds are considered the best estimate of the value in use.

Where the value in use is less than the current carrying value of the CGU in the Statement of Financial Position, the goodwill is impaired in order to ensure that the CGU carrying value is not greater than its future value to the Group.

Goodwill impairment charges of **£18m** (2014: £55m) have been recognised within other operating expenses, split between discontinued operations **£12m** (2014: £11m) and Scandinavia **£6m** (2014: UK and Ireland £44m) for the Argentinian and Scandinavian Marine subsidiaries respectively.

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

	2015 £'m	2014 £'m
Scandinavia	131	146
Canada	130	147
UK and Ireland	30	31
Non-core and discontinued	72	88
Total Goodwill	363	412

The value in use and key assumptions used in determining the value in use for the Scandinavian Marine CGU are as follows:

	Scandinavia Marine
Value in Use	£11m
Discount Rate	11%
Weighted average growth rate	2%

The impairment of **£6m** in Scandinavia is related to the Marine business due to the value in use exceeding the carrying value. This impairment on the Marine business is due to the use of prudent assumptions around the future profitability of the business. The carrying value of the goodwill of £6m has been fully impaired.

Goodwill of **£12m** in respect of the Group's Argentinian business has been impaired prior to its classification as Held for Sale in order to reduce the carrying value of its CGU to its recoverable value in use amount, which was determined as its expected net disposal proceeds.

### Impairment Sensitivity

Following completion of the Group impairment testing, it was identified that an additional Scandinavian CGU was sensitive to changes in key assumptions. This is the Norway CGU and the sensitivities are listed below.

	Norway Potential Impairment £'m
Headroom after 1% decrease in terminal value growth rate	(10)
Headroom after 1% increase to discount rate	(13)

At half year 2014, the Irish operation was impaired to its value in use. The impairment test for this operation at full year 2015 indicates that there is sufficient headroom in the operation to support the goodwill.

	Ireland £'m
Value in use	276
Carrying value	215
Headroom	61
Headroom after 1% decrease in terminal value growth rate	28
Headroom after 1% increase to discount rate	38

The range of pre-tax discount rates, which reflect specific risks relating to the CGU at the date of evaluation and weighted average growth rates used in 2015 for the cash generating units within each operating segment are shown below. The growth rates include improvements in trade performance, where these are forecast in the three year operational plan for the CGU.

	Pre-tax discount rate		Weighted average growth rate	
	2015	2014	2015	2014
Scandinavia	9%-11%	10%	2%-3%	2%
Canada	10%-11%	11%-12%	3%-4%	3%
UK & Ireland	10%-11%	10%-11%	2%	2%
Non-core and discontinued	10%	10%-20%	6%	5%-14%

**13) FINANCIAL ASSETS**

The following table analyses the Groups financial assets by classification as at 31 December 2015 and 31 December 2014.

**As at 31 December 2015**

	At FVTPL £'m	Available for sale £'m	Loans and receivables £'m	Total £'m
Equity securities	38	547	-	585
Debt securities	15	11,473	-	11,488
Financial assets measured at fair value	53	12,020	-	12,073
Loans and receivables	-	-	100	100
<b>Total financial assets</b>	<b>53</b>	<b>12,020</b>	<b>100</b>	<b>12,173</b>
Less: Assets classified as held for sale				
Debt securities	-	376	-	376
Total assets classified as held for sale	-	376	-	376
<b>Total financial assets net of held for sale</b>	<b>53</b>	<b>11,644</b>	<b>100</b>	<b>11,797</b>

**As at 31 December 2014**

	At FVTPL £'m	Available for sale £'m	Loans and receivables £'m	Total £'m
Equity securities	44	451	-	495
Debt securities	18	12,631	-	12,649
Financial assets measured at fair value	62	13,082	-	13,144
Loans and receivables	-	-	97	97
Total financial assets	62	13,082	97	13,241
Less: Assets classified as held for sale				
Debt securities	-	401	-	401
Total assets classified as held for sale	-	401	-	401
Total financial assets net of held for sale	62	12,681	97	12,840

The following table analyses the cost/amortised cost, gross unrealised gains and losses and fair value of financial assets.

	2015			2014
	Cost / amortised cost £'m	Unrealised gains £'m	Unrealised losses and impairments £'m	Fair value £'m
Equity securities	589	44	(48)	585
Debt securities	11,157	451	(120)	11,488
Financial assets measured at fair value	11,746	495	(168)	12,073
Loans and receivables	100	-	-	100
<b>Total financial assets</b>	<b>11,846</b>	<b>495</b>	<b>(168)</b>	<b>12,173</b>
Less: Assets classified as held for sale				
Debt securities	384	-	(8)	376
<b>Total assets classified as held for sale</b>	<b>384</b>	<b>-</b>	<b>(8)</b>	<b>376</b>
<b>Total financial assets net of held for sale</b>	<b>11,462</b>	<b>495</b>	<b>(160)</b>	<b>11,797</b>

The Group had entered into short term sale and repurchase agreements for UK government securities. The Group continued to recognise the debt securities in the statement of financial position as the Group remains exposed to the risks and rewards of ownership. There are no such agreements in place as at 31 December 2015. As at 31 December 2014, the carrying value of these debt securities recognised in the statement of financial position was £300m and the carrying value of the associated liabilities was £299m.

## Collateral

At 31 December 2015, the Group had pledged **£376m** (2014: £769m) of financial assets as collateral for liabilities or contingent liabilities. The nature of the assets pledged as collateral comprises government securities of **£314m** (2014: £711m), cash and cash equivalents of **£50m** (2014: £26m) and debt securities of **£12m** (2014: £32m). The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities.

At 31 December 2015, the Group has accepted **£554m** (2014: £429m) in collateral. The Group is permitted to sell or repledge collateral held in the event of default by the owner. The fair value of the collateral accepted is **£554m** (2014: £429m). The terms and conditions of the collateral held are market standard. The assets held as collateral are readily convertible into cash.

## Derivative financial instruments

The following table presents the fair value and notional amount of derivatives by term to maturity and nature of risk.

### As at 31 December 2015

	Fair Value		Notional Amount			Total £'m
	Asset £'m	Liability £'m	Less than 1 year £'m	From 1 to 5 years £'m	Over 5 years £'m	
<b>Designated as hedging instruments</b>						
Currency risk (net investment in foreign operation)	7	(8)	1,076	-	-	1,076
Cross currency interest swaps (fair value/cash flow)	-	(39)	-	160	158	318
<b>Total</b>	<b>7</b>	<b>(47)</b>				
<b>At FVTPL</b>						
Currency risk mitigation	-	(8)	252	39	-	291
Inflation risk mitigation	31	(34)	-	-	236	236
<b>Total</b>	<b>31</b>	<b>(42)</b>				

### As at 31 December 2014

	Fair Value		Notional Amount			Total £'m
	Positive (Asset) £'m	Negative (Liability) £'m	Less than 1 year £'m	From 1 to 5 years £'m	Over 5 years £'m	
<b>Designated as hedging instruments</b>						
Currency risk (net investment in foreign operation)	15	(3)	1,040	-	-	1,040
Cross currency interest swaps (fair value/cash flow)	-	(19)	-	158	117	275
<b>Total</b>	<b>15</b>	<b>(22)</b>				
<b>At FVTPL</b>						
Currency risk mitigation	3	(6)	461	-	-	461
Inflation risk mitigation	28	(29)	-	-	180	180
<b>Total</b>	<b>31</b>	<b>(35)</b>				

The use of derivatives can result in accounting mismatches when gains and losses arising on the derivatives are presented in the income statement in accordance with the Group's accounting policies and corresponding losses and gains on the risks being mitigated are not included in the income statement. In such circumstances the Group may apply hedge accounting in accordance with IFRS and the Group accounting policy on hedging.

The Group applies hedge accounting to derivatives acquired to reduce foreign exchange risk in its net investment in certain major overseas subsidiaries. There was no ineffectiveness recognised in the income statement in respect of these hedges during 2015 or 2014.

The Group also applies hedge accounting to specified fixed interest assets in its investment portfolio. During 2014, the Group invested in a portfolio of high investment grade corporate bonds denominated in US dollars to allow it to invest in a more diversified range of issuers. These investments are used to cover the insurance liabilities in the UK business. In order to remove exchange risk from this portfolio of investments the Group also acquired cross currency interest rate swaps to swap the cashflows from the portfolio into cash flows denominated in pounds sterling. The Group applies fair value hedge accounting when using 'fixed to floating' interest rate swaps and cash flow hedge accounting when using 'fixed to fixed' interest rate swaps. The interest rate swaps exactly offset the timing and amounts expected to be

received on the underlying investments. The investments have a remaining term of between two and eight years. There have been no default and no defaults are expected on the hedged investments.

The total losses on cash flow hedge instruments during 2015 was a **£4m** loss (2014: profit of £4m) in the condensed consolidated statement of other comprehensive income, and the amount reclassified to the income statement was **£nil** (2014: £nil). The ineffectiveness recognised in the income statement was **£nil** (2014: £nil). The total losses on the fair value hedge instruments recognised in the income statement were **£19m** (2014: £11m) and the offsetting gains related to the hedging risk were **£18m** (2014: £8m).

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting arrangements. In general, under such agreements the amounts owned by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one counterparty to the other. In certain circumstances, such as a credit default, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Group does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events. In the occurrence of the future event, the related items not offset in the table above would total **£nil** (2014: £6m) assets and **£79m** (2014: £53m) liabilities. In 2014, the Group also entered into similar arrangements with Repurchase Agreements under a master repurchase agreement. The related items not offset in 2014 totalled £299m.

#### 14) REINSURERS' SHARE OF INSURANCE CONTRACT LIABILITIES

	2015 £'m	2014 £'m
Reinsurers' share of provisions for unearned premiums	837	671
Reinsurers' share of provisions for losses and loss adjustment expenses	1,151	1,226
<b>Total reinsurers' share of insurance contract liabilities net of held for sale</b>	<b>1,988</b>	<b>1,897</b>
To be settled within 12 months	998	749
To be settled after 12 months	990	1,148

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

	2015 £'m	2014 £'m
Reinsurers' share of provision for unearned premiums at 1 January	709	366
Premiums ceded to reinsurers	1,398	1,391
Reinsurers' share of premiums earned	(1,145)	(1,044)
Changes in reinsurance asset	253	347
Reinsurers' share of portfolio transfers and (disposals)/acquisitions of subsidiaries	(2)	(8)
Exchange adjustment	1	4
<b>Reinsurers' share of provision for unearned premiums at 31 December</b>	<b>961</b>	<b>709</b>
<b>Less: Assets classified as held for sale</b>	<b>124</b>	<b>38</b>
<b>Total Reinsurers' share of provision for unearned premiums at 31 December net of held for sale</b>	<b>837</b>	<b>671</b>

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

	2015 £'m	2014 £'m
Reinsurers' share of provisions for losses and loss adjustment expenses at 1 January	1,317	1,660
Reinsurers' share of total claims incurred	589	321
Total reinsurance recoveries received	(558)	(636)
Reinsurers' share of portfolio transfers and (disposals)/acquisitions of subsidiaries	(57)	(14)
Exchange adjustment	(35)	(23)
Other movements	8	9
<b>Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December</b>	<b>1,264</b>	<b>1,317</b>
<b>Less: Assets classified as held for sale</b>	<b>113</b>	<b>91</b>
<b>Total Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December net of held for sale</b>	<b>1,151</b>	<b>1,226</b>



**15) CURRENT AND DEFERRED TAX****Current Tax**

	Asset		Liability	
	2015	2014	2015	2014
	£'m	£'m	£'m	£'m
To be settled within 12 months	48	10	28	31
To be settled after 12 months	8	11	35	52
<b>Net current tax position at 31 December</b>	<b>56</b>	<b>21</b>	<b>63</b>	<b>83</b>
<b>Less: Classified as held for sale</b>	<b>5</b>	<b>-</b>	<b>32</b>	<b>-</b>
<b>Net current tax position at 31 December net of held for sale</b>	<b>51</b>	<b>21</b>	<b>31</b>	<b>83</b>

**Deferred Tax**

	Asset		Liability	
	2015	2014	2015	2014
	£'m	£'m	£'m	£'m
<b>Deferred tax assets/liabilities</b>	<b>180</b>	<b>180</b>	<b>54</b>	<b>62</b>
<b>Less: Classified as held for sale</b>	<b>17</b>	<b>-</b>	<b>14</b>	<b>-</b>
<b>Net deferred tax position at 31 December net of held for sale</b>	<b>163</b>	<b>180</b>	<b>40</b>	<b>62</b>

The following are the major deferred tax assets/(liabilities) recognised by the Group:

	2015	2014
	£'m	£'m
Net unrealised gains on investments	(1)	(6)
Claims equalisation and other catastrophe reserves	(71)	(78)
Intangibles capitalised	(21)	(27)
Deferred acquisition costs	(24)	(31)
Tax losses and unused tax credits	123	90
Other deferred tax reliefs	11	19
Net insurance contract liabilities	(3)	2
Retirement benefit obligations	(3)	26
Provisions and other temporary differences	115	123
<b>Net deferred tax asset at 31 December</b>	<b>126</b>	<b>118</b>
<b>Less: Net assets classified as held for sale</b>	<b>3</b>	<b>-</b>
<b>Net deferred tax asset at 31 December net of held for sale</b>	<b>123</b>	<b>118</b>

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

	2015	2014
	£'m	£'m
Net deferred tax position at 1 January	118	220
Amounts credited/(charged) to income statement	79	(111)
Amounts (charged)/credited to other comprehensive income	(50)	9
Amounts charged to equity	(1)	(3)
Net arising on acquisition/disposal of subsidiaries and other transfers	(8)	5
Exchange adjustments	(4)	(2)
Effect of change in tax rates - income statement	(12)	-
- other comprehensive income	1	-
<b>Net deferred tax asset at 31 December</b>	<b>123</b>	<b>118</b>

At the end of the reporting period, the Group's continuing operations have unused tax losses of **£1,840m** (2014: £2,000m) for which no deferred tax asset is being recognised. This includes **£4m** (2014: £32m) which will expire between 2016 and 2024 and **£1,210m** (2014: £1,330m) capital losses for which it is unlikely that a deferred tax asset would be recognised mainly due to UK exemptions. In addition, the Group has unused tax credits of **£nil** (2014: £16m) and deductible temporary differences of **£486m** (2014: £456m) for which no deferred tax has been recognised.

The Group has temporary differences in respect of the retained earnings of overseas subsidiaries and associates not held for sale of **£1,053m** (2014: £1,093m) on which overseas taxes, including withholding taxes, might be incurred on the remittance of these earnings to the UK. This amount relates predominantly to the Group's subsidiaries in Canada. The Group is able to control the remittance of earnings to the UK and there is no intention to remit the retained 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 continuing overseas subsidiaries and associates.

Of the **£123m** (2014: £118m) net deferred tax asset recognised by the Group's continuing operations, **£117m** (2014: £123m) relate to tax jurisdictions in which the Group has suffered a loss in either the current or preceding period. The assets have been recognised on the basis that future taxable profits will be available against which these deferred tax assets 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.

## 16) CASH AND CASH EQUIVALENTS

The interest bearing financial assets included in cash and cash equivalents had an effective interest rate of 1.65% (2014: 2.51%) and had an average maturity of 32 days (2014: 30 days).

	2015 £'m	2014 £'m
Cash and cash equivalents and bank overdrafts (as reported within the Condensed Consolidated Statement of Cashflows)	902	1,135
Add: Overdrafts reported in Borrowings	11	-
<b>Total cash and cash equivalents</b>	<b>913</b>	<b>1,135</b>
<b>Less: Assets classified as held for sale</b>	<b>97</b>	<b>124</b>
<b>Total Cash and cash equivalents (as reported in the Condensed Consolidated Statement of Financial Position)</b>	<b>816</b>	<b>1,011</b>

## 17) SHARE CAPITAL

The issued 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 2015 is:

	2015 £'m	2014 £'m
<b>Issued and fully paid</b>		
1,017,059,842 Ordinary Shares of £1 each (2014: 1,015,486,873 Ordinary Shares of £1 each)	1,017	1,015
125,000,000 Preference Shares of £1 each (2014: 125,000,000 Preference Shares of £1 each)	125	125
	<b>1,142</b>	<b>1,140</b>

During 2015, the Company issued a total of 1,572,969 new Ordinary Shares of £1 each ranking pari passu with Ordinary Shares in issue (2014: 6,150,197 new Ordinary Shares of 27.5p each and 1,701,662 Ordinary Shares of £1 each), on the exercise of employee share options and in respect of employee share awards. The number of Ordinary Shares in issue, their nominal value and the associated share premiums are as follows:

	Number of shares	Nominal value £'m	Share premium £'m
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	6,150,197	2	4
Ordinary Shares of £1 each	1,701,662	2	-
Share consolidation / Transfer to capital redemption reserve	(4,055,140,844)	(381)	-
<b>At 1 January 2015</b>	<b>1,015,486,873</b>	<b>1,015</b>	<b>1,075</b>
<b>Issued in respect of employee share options and employee share awards</b>	<b>1,572,969</b>	<b>2</b>	<b>2</b>
<b>At 31 December 2015</b>	<b>1,017,059,842</b>	<b>1,017</b>	<b>1,077</b>

## **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 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 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 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 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**

741,636 Ordinary Shares (2014: 1,202,271 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. Own shares are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the own shares. Any consideration paid or received is recognised directly in equity.

At 31 December 2015, the total number of options over Ordinary Shares outstanding under the Group employee share option plans is 6,784,365 (2014: 7,866,932) and the total number of potential shares outstanding under the long term incentive plans and under the Sharebuild is 13,941,035 Ordinary Shares (2014: 14,299,045 Ordinary Shares).

## **18) INSURANCE CONTRACT LIABILITIES**

### **Estimation techniques and uncertainties**

Provisions for losses and loss adjustment expenses are subject to a robust reserving process by each of the Group's business units and at Group Corporate Centre, as detailed in the Risk Management note. The Group also engage external independent advisors to perform detailed reviews of major classes of specialist business where there is greatest inherent risk of uncertainty, for example the Group's exposure to asbestos related losses, to help inform the amount of the provision recognised.

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.

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

The Group uses a number of commonly accepted actuarial projection methodologies to determine the appropriate provision to recognise. These include methods based upon the following:

- The development of previously settled claims, where payments to date are extrapolated for each prior year.
- Estimates based upon a projection of claims numbers and average cost.
- Notified claims development, where notified claims to date for each year are extrapolated based upon observed development of earlier years.
- Expected loss ratios.
- Bornhuetter- Ferguson method, which combines features of the above methods.
- Bespoke methods for specialist classes of business.

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

Individually large and significant claims are generally assessed separately, being measured either at the face value of the loss adjusters' estimates or projected separately in order to allow for the future development of large claims.

The level of provision carried by the Group targets the inclusion of a margin of 5% for the core businesses on top of the Actuarial Indication outlined above. The appropriateness of the 5% target is subject to regular review as part of the Group reserving process at Group Corporate Centre.

### Discount assumptions

The total value of provisions for losses and loss adjustment expenses less related reinsurance recoveries before discounting for continuing operations is **£8,766m** (2014: £9,463m).

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

	Category	Discount rate		Average number of years to settlement from reporting date	
		2015	2014	2015	2014
		%	%	Years	Years
UK	Asbestos and environmental	4.0	4.0	11	11
Scandinavia	Disability	1.3	1.3	8	6

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

As at 31 December 2015, the value of the discount on net claims liability reserves is **£403m** (2014: £444m) 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 £127m.

A decrease of 1% in the real discount rate for UK & Scandinavia annuities would reduce the value of the discount by approximately £86m. The sensitivity calculation has taken into consideration the undiscounted reserves for each class of business and the respective average settlement period.

### Gross insurance contract liabilities and the reinsurers' share of insurance contract liabilities

The gross insurance contract liabilities and the reinsurers' share of insurance contract liabilities presented in the statement of financial position are comprised as follows:

	Gross	RI	Net
	2015	2015	2015
	£'m	£'m	£'m
Provision for unearned premiums	3,445	(961)	2,484
Provision for losses and loss adjustment expenses	9,457	(1,264)	8,193
<b>Total insurance contract liabilities</b>	<b>12,902</b>	<b>(2,225)</b>	<b>10,677</b>
Less: Held for sale provision for unearned premiums	338	(124)	214
Less: Held for sale provisions for losses and loss adjustment expenses	373	(113)	260
<b>Less: Total liabilities held for sale</b>	<b>711</b>	<b>(237)</b>	<b>474</b>
Provision for unearned premiums at 31 December net of held for sale	3,107	(837)	2,270
Provision for losses and loss adjustment expenses at 31 December net of held for sale	9,084	(1,151)	7,933
<b>Total insurance contract liabilities excluding held for sale</b>	<b>12,191</b>	<b>(1,988)</b>	<b>10,203</b>

	Gross	RI	Net
	2014	2014	2014
	£'m	£'m	£'m
Provision for unearned premiums	3,601	(709)	2,892
Provision for losses and loss adjustment expenses	10,336	(1,317)	9,019
<b>Total insurance contract liabilities</b>	<b>13,937</b>	<b>(2,026)</b>	<b>11,911</b>
Less: Held for sale provision for unearned premiums	163	(38)	125
Less: Held for sale provisions for losses and loss adjustment expenses	508	(91)	417
<b>Less: Total liabilities held for sale</b>	<b>671</b>	<b>(129)</b>	<b>542</b>
Provision for unearned premiums at 31 December net of held for sale	3,438	(671)	2,767
Provision for losses and loss adjustment expenses at 31 December net of held for sale	9,828	(1,226)	8,602
<b>Total insurance contract liabilities excluding held for sale</b>	<b>13,266</b>	<b>(1,897)</b>	<b>11,369</b>

### Provision for unearned premiums, gross of acquisition costs

The provision for unearned premiums is shown net of deferred acquisition costs of **£631m** (2014: £787m). The movement in deferred acquisition costs during 2015 is attributed to **£1,026m** (2014: £1,084m) increase due to acquisition costs deferred during the year, **£1,023m** (2014: £1,079m) decrease due to amortisation charged during the year, **£45m** exchange losses (2014: £31m exchange losses), **£40m** (2014: £26m) reduction due to disposal, **£50m** (2014: £23m decrease) increase due to other movements, and **£124m** (2014: £67m) reduction due to assets transferred to held for sale. The reinsurers' share of deferred acquisition costs is included within accruals and deferred income.

	2015 £'m	2014 £'m
Provision for unearned premiums at 1 January	<b>4,388</b>	4,787
Premiums written	<b>8,224</b>	8,858
Less: Premiums earned	<b>(8,158)</b>	(8,917)
Changes in provision for unearned premiums	<b>66</b>	(59)
Gross portfolio transfers and acquisitions	<b>(154)</b>	(129)
Exchange adjustment	<b>(94)</b>	(142)
Other movements	<b>(6)</b>	(69)
<b>Provision for unearned premiums (gross of acquisition costs) at 31 December</b>	<b>4,200</b>	4,388
<b>Less: Liabilities classified as held for sale</b>	<b>462</b>	163
<b>Provision for unearned premiums at 31 December net of held for sale</b>	<b>3,738</b>	4,225

### Provisions for losses and loss adjustment expenses

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

	2015 £'m	2014 £'m
Provisions for losses and loss adjustment expenses at 1 January	<b>10,336</b>	11,148
Gross claims incurred and loss adjustment expenses	<b>5,169</b>	5,699
Total claims payments made in the year net of salvage and other recoveries	<b>(5,250)</b>	(6,150)
Gross portfolio transfers, acquisitions and disposals	<b>(459)</b>	(116)
Exchange adjustment	<b>(404)</b>	(444)
Other movements	<b>65</b>	199
<b>Provisions for losses and loss adjustment expenses at 31 December</b>	<b>9,457</b>	10,336
<b>Less: Liabilities classified as held for sale</b>	<b>373</b>	508
<b>Provisions for losses and loss adjustment expenses at 31 December net of held for sale</b>	<b>9,084</b>	9,828

### Claims development tables

The tables below present changes in the historical provisions for losses and loss adjustment expenses that were established in 2005 and the provisions for losses and loss adjustment expenses arising in each subsequent accident year. The tables are presented at current year average exchange rates on an undiscounted basis and have been adjusted for operations that have been disposed of.

The top triangle of the tables presents the estimated provisions for ultimate incurred losses and loss adjustment expenses for each accident year as at the end of each reporting period.

The lower triangle of the tables presents the amounts paid against those provisions in each subsequent accounting period. The estimated provisions for ultimate incurred losses change as more information becomes known about the actual losses for which the initial provisions were set up and as the rates of exchange.

# Consolidated claims development table gross of reinsurance

	2005 and prior	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Estimate of cumulative claims												
At end of accident year	9,929	2,204	2,475	2,377	2,293	2,545	2,707	2,563	2,829	2,572	<b>2,593</b>	
One year later	9,966	2,232	2,447	2,390	2,379	2,648	2,744	2,576	2,884	2,628		
Two years later	9,538	2,138	2,416	2,369	2,338	2,605	2,762	2,551	2,798			
Three years later	9,046	2,064	2,330	2,312	2,298	2,632	2,690	2,538				
Four years later	8,892	2,005	2,261	2,306	2,322	2,619	2,635					
Five years later	8,701	2,004	2,251	2,268	2,318	2,585						
Six years later	8,524	1,954	2,242	2,253	2,303							
Seven years later	8,411	1,916	2,227	2,246								
Eight years later	8,434	1,896	2,224									
Nine years later	8,322	1,904										
Ten years later	8,417											
<b>2015 Movement</b>	<b>(95)</b>	<b>(8)</b>	<b>3</b>	<b>7</b>	<b>15</b>	<b>34</b>	<b>55</b>	<b>13</b>	<b>86</b>	<b>(56)</b>		<b>54</b>
Claims paid												
One year later	2,099	856	1,049	1,133	1,095	1,371	1,243	1,194	1,320	1,211		
Two years later	1,118	329	375	359	382	378	443	444	486			
Three years later	817	178	252	230	248	261	297	257				
Four years later	615	170	159	173	184	196	175					
Five years later	565	113	130	112	139	105						
Six years later	335	71	78	65	67							
Seven years later	229	56	34	36								
Eight years later	315	28	22									
Nine years later	274	17										
Ten years later	149											
<b>Cumulative claims paid</b>	<b>6,516</b>	<b>1,818</b>	<b>2,099</b>	<b>2,108</b>	<b>2,115</b>	<b>2,311</b>	<b>2,158</b>	<b>1,895</b>	<b>1,806</b>	<b>1,211</b>		
Reconciliation to the statement of financial position												
Current year provision before discounting	1,901	86	125	138	188	274	477	643	992	1,417	<b>2,593</b>	8,834
Exchange adjustment to closing rates												(13)
Discounting												(443)
Annuities												706
<b>Present value recognised in the condensed consolidated statement of financial position</b>												<b>9,084</b>
Held for sale												373
<b>Total Group</b>												<b>9,457</b>

# Consolidated claims development table net of reinsurance

	2005 and prior	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Estimate of cumulative claims												
At end of accident year	7,956	2,066	2,088	2,169	2,075	2,245	2,370	2,324	2,480	2,259	2,151	
One year later	7,941	2,064	2,079	2,160	2,131	2,299	2,357	2,335	2,569	2,269		
Two years later	7,628	1,976	2,049	2,158	2,094	2,287	2,338	2,308	2,487			
Three years later	7,346	1,894	1,972	2,115	2,067	2,302	2,288	2,273				
Four years later	7,128	1,838	1,906	2,103	2,094	2,305	2,248					
Five years later	6,901	1,814	1,896	2,075	2,096	2,271						
Six years later	6,715	1,785	1,893	2,056	2,087							
Seven years later	6,600	1,753	1,878	2,049								
Eight years later	6,590	1,740	1,876									
Nine years later	6,650	1,748										
Ten years later	6,772											
<b>2015 Movement</b>	<b>(122)</b>	<b>(8)</b>	<b>2</b>	<b>7</b>	<b>9</b>	<b>34</b>	<b>40</b>	<b>35</b>	<b>82</b>	<b>(10)</b>		<b>69</b>
Claims paid												
One year later	1,677	787	871	1,011	1,003	1,163	1,069	1,073	1,178	1,043		
Two years later	840	297	307	315	326	350	368	361	384			
Three years later	669	160	225	217	218	234	241	218				
Four years later	508	153	138	164	176	181	159					
Five years later	395	101	117	97	121	91						
Six years later	248	73	63	64	65							
Seven years later	201	51	34	32								
Eight years later	264	27	14									
Nine years later	227	13										
Ten years later	119											
<b>Cumulative claims paid</b>	<b>5,148</b>	<b>1,662</b>	<b>1,769</b>	<b>1,900</b>	<b>1,909</b>	<b>2,019</b>	<b>1,837</b>	<b>1,652</b>	<b>1,562</b>	<b>1,043</b>		
Reconciliation to the statement of financial position												
Current year provision before discounting	1,624	86	107	149	178	252	411	621	925	1,226	2,151	7,730
Exchange adjustment to closing rates												(17)
Discounting												(403)
Annuities												623
<b>Present value recognised in the condensed consolidated statement of financial position</b>												<b>7,933</b>
Held for sale												260
<b>Total Group</b>												<b>8,193</b>

## Insurance and reinsurance liabilities

	2015 £'m	2014 £'m
Direct insurance creditors	229	300
Reinsurance creditors	891	643
<b>Total insurance and reinsurance liabilities</b>	<b>1,120</b>	<b>943</b>
<b>Less: Liabilities classified as held for sale</b>	<b>(175)</b>	<b>(39)</b>
<b>Total</b>	<b>945</b>	<b>904</b>



## 19) POST-RETIREMENT BENEFITS AND OBLIGATIONS

Movement in surplus/(deficit) during the year:

	2015 £'m	2014 £'m
Deficit at 1 January	(98)	(165)
Current service costs	(30)	(29)
Past service costs	(4)	(4)
Pension net interest cost	-	(4)
Administration costs	(7)	(6)
Total pension expense	(41)	(43)
Contributions by the Group	113	114
Return on scheme assets less amounts included in pension net interest cost	(343)	821
Effect of changes in financial assumptions	322	(862)
Effect of changes in demographic assumptions	(24)	4
Experience gains and losses	140	37
Investment expenses	(14)	(9)
Remeasurements of net defined benefit liability	81	(9)
Exchange adjustment	12	5
<b>Pension and post retirement surplus/(deficit)</b>	<b>67</b>	<b>(98)</b>
Deferred tax in respect of net pension and post retirement surplus/(deficit)	(3)	26
<b>Net pension and post retirement surplus/(deficit) at 31 December</b>	<b>64</b>	<b>(72)</b>
<b>Net pension and post retirement surplus/(deficit) at 31 December net of held for sale</b>	<b>64</b>	<b>(72)</b>

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

	2015		2014	
	UK £'m	Other £'m	Total £'m	Total £'m
Present value of funded obligations	6,678	352	7,030	7,466
Present value of unfunded obligations	6	90	96	132
Present value of obligations	6,684	442	7,126	7,598
Equities	593	130	723	1,108
Government debt	3,982	131	4,113	4,192
Non government debt	2,393	102	2,495	2,255
Derivatives	476	-	476	698
Securities with quoted market price in an active market	7,444	363	7,807	8,253
Property	166	-	166	199
Cash	69	4	73	67
Other (including infrastructure, commodities, hedge funds, loans)	744	-	744	506
Other investments	979	4	983	772
Value of asset and longevity swaps	(1,597)	-	(1,597)	(1,525)
Total assets in the schemes	6,826	367	7,193	7,500
<b>Total surplus/(deficit)</b>	<b>142</b>	<b>(75)</b>	<b>67</b>	<b>(98)</b>
Defined benefit pension schemes	142	(31)	111	(35)
Other post retirement benefits	-	(44)	(44)	(63)
Schemes in surplus	179	16	195	129
Schemes in deficit	(37)	(91)	(128)	(227)

## **20) RESULTS FOR THE YEAR 2015**

This financial information set out above does not constitute statutory accounts for the years ended 31 December 2015 or 31 December 2014 but is derived from those accounts. The 2014 information has been re-presented in accordance with note 4. Statutory accounts for 2014 have been delivered to the Registrar of Companies, and those for 2015 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.

## APPENDIX A: EVENTS AFTER THE REPORTING PERIOD

On 29 January 2016, the Group completed the sale of its entire 75% shareholding of “Intouch Insurance” (‘RSA Russia’) to Joint Stock Insurance Company BLAGOSOSTOYANIE for approximately £5m in cash.

## APPENDIX B: EXCHANGE RATES

Local currency/£	12 Months 2015		12 Months 2014	
	Average	Closing	Average	Closing
Canadian Dollar	1.95	2.05	1.82	1.81
Danish Krone	10.27	10.13	9.25	9.60
Swedish Krona	12.88	12.47	11.28	12.22
Euro	1.38	1.36	1.24	1.29

## **RESPONSIBILITY STATEMENT**

We confirm that to the best of our knowledge:

- A) 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;
- B) 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
- C) The risk and capital management section within this preliminary announcement includes a description of the principal risks and uncertainties faced by the Group.

Signed on behalf of the Board

Stephen Hester  
Group Chief Executive

Scott Egan  
Group Chief Financial Officer

24 February 2016

24 February 2016