Registered Number: 00093792

Royal & Sun Alliance Insurance plc

Annual Report and Accounts

for the year ended 31 December 2015

Contents

Royal & Sun Alliance Insurance plc

Company Information

Directors

Mr. D P Coughlan

Mr. S Egan

Mr. S Lewis

Mr. S W Lowther

Mr. W R B McDonnell

Mr. P Whittaker

Secretary

Roysun Limited

Registered Office

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

Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

The Company is an important part of RSA Insurance Group plc (the Group). The Company transacts the majority of the UK business, as described in the Annual Report & Accounts of the Group. The directors of the Company have considered whether the Group approach to strategy, risk management, performance review and custody of assets fully meets the needs of the Company as a separate regulated entity. They have concluded that it does.

The directors present their annual report on the affairs of the Company and the audited financial statements for the year ended 31 December 2015.

Business review and principal activity

The principal activity of the Company, its subsidiaries and overseas branches is the transaction of insurance and related financial services in the United Kingdom and overseas. The subsidiaries and associated undertakings are listed in note 42 to the financial statements.

The results for the Company show a profit on ordinary activities before tax of £297m (2014: £159m) for the year, due principally to £267m (2014: £2,157m) of dividend income from subsidiary undertakings offset by the loss of the technical account £(183)m (2014: £(229)m) and £(13)m (2014: £(1,960)m) impairments of subsidiary undertakings following capital reductions and distributions. The technical account includes a £(44)m loss from reinsurance contracts with its Irish subsidiary which were entered into in 2015. Gross premiums written from continuing operations were £3,858m (2014: £3,481m). The funds attributable to equity holders of the Company were £6,865m as at 31 December 2015 (31 December 2014: £7,047m). The decrease in shareholders' funds is due principally to the revaluation of subsidiaries, partly offset by the profit for the year.

In 2014 the Company announced the sale of its branches in Singapore, Hong Kong and Italy; these disposals completed in 2015.

Key performance indicators

The directors of the Group manage the Group's operations on a divisional basis as described in the Annual Report & Accounts of the Group. For this reason the Company's directors believe that analysis using key performance indicators (KPIs) for the UK business in aggregate is relevant to the Company.

The most relevant of the Group's KPIs for the UK business of RSAI are:

Combined Operating Ratio (COR)
A measure of underwriting performance– the ratio of underwriting costs (claims, commissions and expenses) expressed in relation to earned premiums. The COR is used as a measure of underwriting efficiency across the industry. The aim is to achieve a COR as sustainably low as possible – that is without compromising reserves or uncompetitive pricing.

Customer retention
We use direct measures of satisfaction, such as NPS and indirect measures, including retention. Strong customer satisfaction translates to improved underwriting results. By ensuring customers are at the heart of everything we do we can optimise business performance.

Controllable expenses
Operating expenses incurred by the Group in undertaking business activities. Reduction of controllable expenses is a key element of the Group's and Company's turnaround strategy. The absolute level of expense and the expense ratio (expenses as a proportion of earned premium) are both monitored as part of the turnaround and ongoing performance focus

Attritional loss ratio
This is the underlying loss ratio (net incurred claims and claims handling expense as a proportion of net earned premiums) of our business prior to volatile impacts from weather, large losses and prior year reserve developments. Attritional loss ratios are a key lever in the Group's and Company's turnaround of financial performance. Investment in digitally enabled underwriting and claims excellence are targeted at reducing the attritional loss ratio.

Regulatory solvency
Another key performance indicator is regulatory solvency. As at 31 December 2015 the Company has an unaudited Solvency 1 surplus of approximately £1.9bn (unaudited) (2014: £1.8bn) and a coverage ratio of approximately 2.4 times (unaudited) at 31 December 2015 (2014: 2.2 times). In addition, as at 31 December 2015 we have reported an unaudited estimated Solvency II capital surplus based on the Group's approved internal Model for Solvency II reporting.

Business Review – Core UK
The Core UK business includes the insurance operations of the Company and its subsidiaries in the UK and the Company's European branches in Belgium, France, Netherlands and Spain and excludes the UK Legacy business. The business is managed on Group basis and so the review is on the consolidated Group.

In the UK, we are the second largest Commercial insurer with key positions in Property, Motor, Liability, and Marine, and exposures across the SME, Mid-Market and Global Specialty customer segments. We operate across the key UK market centres, as well as six European locations. We are a leading international Marine player through the London markets.

We also have strong positions in the UK Personal Household, Motor, and Pet markets. We have a direct insurance offering through our MORE TH>N brand, and a broker portfolio focused on profitable segments. We also have affinity relationships with some of the major UK retailers.

UK market context
The UK market remains very challenging. Despite the early signs of wider economic recovery, insurance markets remain tough. In personal lines we experience high levels of competition with a strong focus on price, driven in part by the increasing role of price comparison websites. Regulatory changes including the increase in insurance premium tax and the introduction of Flood Re will increase price pressure with the potential to further squeeze margins. In commercial lines we are experiencing a prolonged soft pricing market.

Premiums
Net written premium grew 2% in 2015 against a challenging and competitive landscape. Growth was driven in particular by the Commercial portfolio, where Property and Motor lines were significant contributors. In Personal lines premiums were down 4%, driven by a reduction in household, as increased market competition has led to lower retention levels. However, the partnership agreement announced with Nationwide Building Society towards the end of 2017 represents a marquee endorsement of our customer franchise and makes us market leaders in UK home insurance.

Operating result
The headline underwriting profit of £12m (2014: £4m) and combined ratio of 99.5% (2014: 99.9%) includes the impact of £134m of claims related to storms Desmond, Eva and Frank in December (£100m Commercial, £34m Personal). Adjusting for reinsurance recoveries, the UK underwriting profit was £40m and the combined ratio 98.5%.

Adding the investment result of £135m (2014: £132m) leads to a total operating result of £147m or £175m adjusted for reinsurance recoveries (2014: £136m).

Performance improvement
The UK continued to deliver on its performance improvement programme during the year. Greater focus was achieved through completion of the sale of our UK Engineering Inspection business, and withdrawal from the Specialty Property market in Germany. Current Year attritional loss ratios improved to 48.1%, (2014: 49.0%) with Commercial improving by two percentage points.

Controllable expenses are down 4% year-on-year (comprising 5% cost reduction, partly offset by 1% inflation) with opportunity to improve further as we continue to deploy our transformation programme.

Our strategy
Our strategy in the UK market is to invest in the business, developing our technical insurance capability, enhance our customer proposition and improve cost efficiency to enable RSA to compete in the top quartile of our competitor set. We have embarked on an ambitious transformation programme which includes the replacement of some of our legacy technology, introduction of new pricing and underwriting tools, streamlining and automating processes, increased use of offshore resources and development of a new operating model.

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.

Business Review - 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 portfolio is closed to new business and is part of our non-core operations. Remaining non-core operations will not all necessarily be disposed of.

Performance
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.

Principal risks and uncertainties

The Company's principal risks and uncertainties are integrated within and managed together with the principal risks of the Group. The principal risks and uncertainties of the Group, which include those of the UK business and branches, and hence the Company, are set out in notes 3 and 4 to the Company's accounts.

By order of the Board

E S Bell
For and on behalf of Roysun Limited
Secretary

Approved by the board of directors on 24 February 2016.

Directors

The names of the current directors are listed on page 1. The directors who held office during the year are listed below.

Mr. D P Coughlan	
Mr. S Egan	appointed 1 October 2015
Mr. R D Houghton	resigned 9 June 2015
Mr. S Lewis	appointed 1 January 2015
Mr. S W Lowther	appointed 1 April 2015
Mr. W R B McDonnell	
Mr. P Whittaker	
Mr. D A Weymouth	resigned 7 January 2015

Directors' responsibilities

The directors' responsibilities statement appears on page 6 and is incorporated by reference into this report.

None of the directors have any interest in the shares of the Company.

Dividends

Interim dividends of £nil (2014: £nil) were declared and paid during the year. The directors do not recommend payment of a final dividend (2014: £nil).

Information included within the Strategic Review

Information relating to overseas subsidiaries/branches or financial risk management, likely future developments and the Company's employment policy is contained within the Strategic report on pages 2 to 3 and is incorporated into this report by reference.

Political donations

The Company did not make any political donations during the financial year (2014: £nil).

Auditor

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

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

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

KPMG LLP were deemed re-appointed auditors of the RSA Insurance Group plc at its Annual General Meeting on 8 May 2015 and a resolution for their reappointment will be proposed at the 2016 Annual General Meeting.

Essential Contracts and change of control

The Company does not consider that it, or any of its subsidiaries, has any significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid that are required to be disclosed pursuant to paragraph 13(2) (j) of Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), other than as disclosed below:

Under the Company's £500m five year senior committed debt facility, if a change of control occurs, if the majority of lenders require, the facility can be cancelled with immediate effect and all outstanding loans, together with accrued interest, become due and payable.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause some options and awards granted to employees under such schemes and plans to vest in such circumstances.

Post Balance Sheet Events

Post balance sheet events are set out in note 41 on page 63 of these accounts.

Going concern

In considering the appropriateness of the going concern basis, the Board has reviewed the Company's ongoing commitments for the next twelve months and beyond. The Board's review included the Company's strategic plans and updated forecasts, capital position, liquidity and credit facilities and investment portfolio.

Based on this review no material uncertainties that would require disclosure have been identified in relation to the ability of the Company to remain a going concern for at least the next twelve months, from both the date of the balance sheet and the approval of the consolidated financial statements.

It is therefore concluded that the going concern basis is appropriate for the preparation of the 2015 financial statements.

Signed by order of the Board

E S Bell
For and on behalf of Roysun Limited
Secretary

Approved by the board of directors on 24 February 2016.

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare such financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to: -

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Royal & Sun Alliance Insurance plc

We have audited the financial statements of Royal & Sun Alliance Insurance plc for the year ended 31 December 2015 set out on pages 8 to 67. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS101 *Reduced Disclosure Framework*, having regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of the equalisations provisions, the amounts set aside at 31 December 2015, and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and profit before tax, are disclosed in note 32.

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

Respective responsibilities of the Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Murray Raisbeck

Murray Raisbeck (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants and Statutory Auditor
15 Canada Square
Canary Wharf
London
E14 5GL

24 February 2016

Royal & Sun Alliance Insurance plc

Profit and Loss Account

for the year ended 31 December 2015

Technical Account - General Business	Notes	Discontinued 2015 £m	Continuing 2015 £m	Total 2015 £m	Restated Discontinued 2014 £m	Restated Continuing 2014 £m	Restated Total 2014 £m
Gross premium written	5	206	3,858	4,064	404	3,481	3,885
Outward reinsurance premiums		(37)	(980)	(1,017)	(75)	(907)	(982)
Premiums written, net of reinsurance		169	2,878	3,047	329	2,574	2,903
Change in the gross provision for unearned premiums		32	(26)	6	21	22	43
Change in provision for unearned premiums, reinsurers' share		-	247	247	(4)	318	314
Earned premiums, net of reinsurance		201	3,099	3,300	346	2,914	3,260
Claims Paid							
Gross amount		(133)	(2,268)	(2,401)	(240)	(2,334)	(2,574)
Reinsurers' share		22	327	349	50	240	290
		(111)	(1,941)	(2,052)	(190)	(2,094)	(2,284)
Change in the provision for claims							
Gross amount		7	(295)	(288)	18	65	83
Reinsurers' share		(3)	80	77	(27)	24	(3)
		4	(215)	(211)	(9)	89	80
Claims incurred, net of reinsurance		(107)	(2,156)	(2,263)	(199)	(2,005)	(2,204)
Acquisition costs		(66)	(851)	(917)	(117)	(866)	(983)
Change in deferred acquisition costs	26	(6)	(5)	(11)	1	(8)	(7)
Administrative expenses		(10)	(293)	(303)	(19)	(296)	(315)
Reinsurance commissions and profit participation		9	8	17	16	18	34
Net operating expenses		(73)	(1,141)	(1,214)	(119)	(1,152)	(1,271)
Amortisation of renewal rights		-	-	-	-	(1)	(1)
Balance on the technical account before change in equalisation provision		21	(198)	(177)	28	(244)	(216)
Change in the equalisation provision	32	-	(6)	(6)	-	(13)	(13)
Balance on the technical account for general business		21	(204)	(183)	28	(257)	(229)

The attached notes on 14 to 67 form an integral part of these accounts.

Profit and Loss Account (continued)

for the year ended 31 December 2015

Non-Technical Account	Notes	Discontinued 2015 £m	Continuing 2015 £m	Total 2015 £m	Restated Discontinued 2014 £m	Restated Continuing 2014 £m	Restated Total 2014 £m
Balance on the technical account for general business		21	(204)	(183)	28	(257)	(229)
Investment income	8	7	468	475	9	2,355	2,364
Unrealised gains on investments	8	-	26	26	-	29	29
Unrealised losses on investments	8	-	(23)	(23)	-	(2)	(2)
Investment expenses, charges and interest	8	-	(117)	(117)	-	(2,079)	(2,079)
Foreign exchange losses		-	(17)	(17)	-	-	-
Other charges		-	-	-	(1)	1	-
Operating Profit		28	133	161	36	47	83
Profit on disposals	6	86	50	136	-	76	76
Profit on ordinary activities before tax		114	183	297	36	123	159
Taxation on profit on ordinary activities	14	(19)	37	18	(16)	(68)	(84)
Profit for the financial year		95	220	315	20	55	75
Profit for the financial year split by:							
Net profit on disposals		83	44	127	-	76	76
Net operating profit / (loss)		12	176	188	20	(21)	(1)

The attached notes on pages 14 to 67 form an integral part of these accounts.

Royal & Sun Alliance Insurance plc

Statement of Other Comprehensive Income

for the year ended 31 December 2015

	Notes	2015 £m	Restated 2014 £m
Profit from continuing operations		**220**	55
Profit for the year from discontinued operations		**95**	20
Profit for the financial year		**315**	75
Items from continuing operations that will be reclassified to profit or loss when specific conditions are met:			
Foreign exchange (losses) / gains net of tax		**(16)**	8
Share of associates' other comprehensive income		**-**	(1)
Unrealised losses on other financial instruments classified as available for sale net of tax	8	**(503)**	(99)
		(519)	(92)
Items from continuing operations that will not be reclassified to profit or loss:			
Pension – re-measurement of net defined benefit liability net of tax	12	**25**	34
Movement in property revaluation surplus net of tax	17	**1**	3
		26	37
Other comprehensive expense for the year from continuing operations		**(493)**	(55)
Other comprehensive income / (expense) for the year from discontinued operations		**-**	-
Total other comprehensive income / (expense) for the year		**(493)**	(55)
Total comprehensive expense for the year from continuing operations		**(273)**	-
Total comprehensive income for the year from discontinued operations		**95**	20
Total comprehensive expense for the year		**(178)**	20

The attached notes on pages 14 to 67 form an integral part of these financial statements.

Royal & Sun Alliance Insurance plc

Statement of Changes in Equity

for the year ended 31 December 2015

	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Foreign currency translation reserve £m	Profit and loss account £m	**Shareholders' funds £m**
Balance at 1 January 2014 (as previously reported)	**1,128**	**2,646**	-	-	**(224)**	**3,550**
Changes in accounting policy (Note 2)	-	-	**1,833**	49	1,144	**3,026**
Balance at 1 January 2014	**1,128**	**2,646**	**1,833**	**49**	**920**	**6,576**
Profit for the Financial Year	-	-	-	-	75	**75**
Other comprehensive income	-	-	(96)	8	33	**(55)**
Total comprehensive income/(expense) for the year	-	-	(96)	8	108	**20**
Shares issued	**87**	**308**	-	-	-	**395**
Interest on subordinated loan note	-	-	-	-	(22)	**(22)**
Balance at 1 January 2015 (restated)	**1,215**	**2,954**	**1,737**	**57**	**1,006**	**6,969**
Profit for the Financial Year	-	-	-	-	315	**315**
Other comprehensive income	-	-	(502)	(16)	25	**(493)**
Total comprehensive income for the year	-	-	(502)	(16)	340	**(178)**
Interest on subordinated loan note	-	-	-	-	(4)	**(4)**
Balance at 31 December 2015	**1,215**	**2,954**	**1,235**	**41**	**1,342**	**6,787**

The attached notes on pages 14 to 67 form an integral part of the financial statements.

Registered Number: 00093792
Royal & Sun Alliance Insurance plc

Balance Sheet
as at 31 December 2015

Assets	Notes	2015 £m	Restated 2014 £m
Intangible assets	16	**123**	156
Investments			
Land and Buildings	17	**397**	372
Investments in group undertakings and participating interests			
Shares in Group undertakings	18	**10,490**	10,822
Shares in associated undertakings	19	**-**	41
		10,490	10,863
Other financial investments			
Shares and other variable yield securities and units in unit trusts		**277**	240
Debt securities and other fixed income securities		**4,396**	4,343
Deposits with credit institutions		**50**	67
	20	**4,723**	4,650
Deposits with ceding undertakings		**217**	1
Total investments		**15,827**	15,886
Reinsurers' share of technical provisions			
Provision for unearned premiums	21	**775**	532
Claims outstanding	22	**781**	695
		1,556	1,227
Debtors			
Debtors arising out of direct insurance operations - policyholders		**325**	299
Debtors arising out of direct insurance operations - intermediaries		**1,277**	1,281
Debtors arising out of reinsurance operations		**235**	289
Amounts owed by group undertakings		**876**	294
Other debtors (including current taxation)	36	**286**	314
		2,999	2,477
Other assets			
Tangible assets	25	**36**	44
Deferred taxation	24	**154**	130
Cash at bank and in hand		**138**	104
		328	278
Prepayments and accrued Income			
Accrued interest and rent		**53**	57
Deferred acquisition costs	26	**399**	403
Other prepayments and accrued income		**117**	73
		569	533
		21,402	20,557
Assets held for sale and disposal groups	6	**39**	848
Total Assets		**21,441**	21,405

Balance Sheet (continued)
as at 31 December 2015

Liabilities	Notes	2015 £m	Restated 2014 £m
Capital and reserves			
Called up Share Capital	27	**1,215**	1,215
Share premium account		**2,954**	2,954
Revaluation reserve		**1,235**	1,737
Foreign currency translation reserve		**41**	57
Profit and loss account		**1,342**	1,006
Shareholders' funds		**6,787**	6,969
Other capital instruments			
Subordinated loan notes classified as equity instruments	28	**78**	78
Funds attributable to equity holders		**6,865**	7,047
Subordinated liabilities	28	**492**	492
Technical provisions			
Provision for unearned premiums	30	**2,140**	2,108
Claims outstanding	31	**4,536**	4,224
Equalisation provision	32	**338**	332
		7,014	6,664
Provisions for other risks	33	**133**	151
Deposits received from reinsurers		**-**	1
Creditors			
Creditors arising out of direct insurance operations		**85**	111
Creditors arising out of reinsurance operations		**794**	526
Amounts owed to credit institutions	34	**40**	342
Amounts owed to group undertakings		**5,488**	5,008
Other creditors (including taxation and social security)	35	**217**	162
		6,624	6,149
Accruals and deferred income		**274**	226
		21,402	20,730
Liabilities for disposal groups	6	**39**	675
Total Liabilities		**21,441**	21,405

The attached notes on pages 14 to 67 form an integral part of these accounts.

The financial statements were approved on 24 February 2016 by the Board of Directors and are signed on its behalf by:

Director
Scott Egan

Director
William McDonnell

1. Basis of preparation (Financial Statements)

The Company is a wholly owned subsidiary of Royal Insurance Holdings plc ('RIH'). Royal & Sun Alliance Insurance plc is a company incorporated and domiciled in the UK. The Company's ultimate parent company and controlling party is RSA Insurance Group plc, which is registered in England and Wales and is the parent company of the smallest and largest group to consolidate these financial statements. RSA Insurance Group plc has prepared its company accounts under IFRS as adopted by the EU since its date of transition to IFRS at 1 January 2004.

These financial statements were prepared in accordance with Financial Reporting Standard (FRS 101) Reduced Disclosure Framework and in compliance with the Companies Act 2006. The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

The Company's financial statements are presented in Pound Sterling, which is also the company's functional currency, and rounded to the nearest million except where otherwise indicated.

The financial statements have been prepared on the going concern basis.

In considering the appropriateness of the going concern basis, the Board has reviewed the Company's ongoing financial commitments for the next twelve months and beyond. The Board's review included strategic plans and updated forecast, capital position, liquidity and credit facilities and 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.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"), but makes amendments where necessary in order to comply with Companies Act 2006, having regard to the regulatory requirement for insurance companies to maintain equalization provisions (see note 32). The Company has set out below where advantage of FRS 101 exemptions has been taken.

The Company has written to its shareholder informing them that it will make use of these exemptions and received no objections.

The exemptions used by the Company are as follows:-

- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets, intangible assets and investment properties;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy; and
- Disclosures in respect of the compensation of Key Management Personnel.
- Disclosures in respect of transactions between two or more wholly owns subsidiaries of the group.

As the consolidated financial statements of RSA Insurance Group plc includes the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:-

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Disclosures required by IFRS 5 Non-current Assets Held for Sale and Discontinued Operations in respect of the cash flows of discontinued operations;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company in the current and prior periods including the comparative period reconciliation for goodwill; and
- Certain disclosures required by IFRS 13 Fair Value Measurement.

The Company has taken advantage of the exemption under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated accounts as it is a wholly-owned subsidiary of RSA Insurance Group plc, which prepares group accounts. The Report and Accounts containing these consolidated financial statements can be found at www.rsagroup.com.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 balance sheet at 1 January 2014 for the purposes of the transition to FRS 101 ('new UK GAAP'). The impact of the changes arising from the transition to new UK GAAP are disclosed in note 2.

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the comparative profit and loss account has been re-presented so that the disclosures in relation to discontinued operations relate to all operations that have been discontinued by the balance sheet date (see note 6).

(i) Selection of significant accounting policies, critical judgements and major sources of estimation uncertainty

The Company exercises judgement in selecting each Company accounting policy. The accounting policies of the Company are selected by the directors to present financial statements that they consider contain the most relevant information.

The preparation of the financial statement requires the Company to exercise judgements in the use of estimates and assumptions in a number of key areas. The most significant of these are as follows:-

Valuation of claims outstanding

The Company makes critical judgements when valuing claims outstanding. The methodology of measuring claims outstanding is described in Estimation Techniques, Risk Uncertainties and Contingencies. The results of applying this methodology and assumptions applied are set out in note 31.

1. Basis of preparation (Financial Statements) (continued)

Recognition and valuation of deferred tax assets

The Company makes judgements in its assessments on the likelihood of its ability to utilise deferred tax assets in the future when valuing deferred tax assets. This requires the use of models of the future profitability of the Company and assumptions on how these businesses will perform. The methodology employed is described in note 24.

Valuation of pension fund assets and liabilities

The Company exercises judgment in making assumptions when valuing pension and other post-retirement benefits accrued by its current and former employees. These assumptions include the estimation of the future mortality of its current and former employees, the value of the benefits that have been accrued and the appropriate discount rate used to value the obligations. These assumptions and the sensitivity of these assumptions are disclosed in note 12.

Business classified as discontinued and held for sale

The Company exercises judgements when determining the businesses that meet the criteria for designation as discontinued businesses and on the timing and valuation of those businesses that are designated as held for sale.

These judgements include the likelihood of the successful completion of a sale and valuation of the estimated proceeds from a future sale. The analysis of the businesses classified as discontinued and the analysis of those classified as held for sale are included in note 6.

Subsidiaries

Subsidiaries are entities over which the Company has control. The Company controls a subsidiary if the Company has all of the following; power over the subsidiary, exposure, or rights, to variable returns from its involvement with the subsidiary and the ability to use its power over the subsidiary to affect its returns. Investments in subsidiaries are accounted for at fair value as available for sale equity instruments.

Associates

Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for at fair value as available for sale equity instruments.

(ii) Translation of foreign currencies

Items included in the financial statements of each of the Company's branches are measured using the currency of the primary economic environment in which the branch operates (the functional currency).

The results and financial position of those Company branches whose functional currency is not Sterling are translated into Sterling as follows:

- Assets and liabilities for each balance sheet presented are translated at closing exchange rates at the end of the period
- Income and expenses for each profit and loss account are translated at average exchange rates during each period
- All resulting exchange differences are recognised in other comprehensive income within the foreign currency translation reserve

When a branch is sold, the cumulative exchange differences relating to that branch are recognised in the profit and loss account as part of the gain or loss on sale.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(iii) Intangible assets

Goodwill

Goodwill, being the difference between the cost of a business acquisition and the Company's interest in the net fair value of the identifiable assets, liabilities and continent liabilities acquired, is initially capitalised in the Balance Sheet at cost and is subsequently recognised at cost less accumulated impairment loss. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure. The cost of the acquisition is the amount of cash paid and the fair value of other purchase consideration.

For business combinations completed prior to 31 December 2009, the cost also includes costs directly attributable to the acquisition and the value of contingent consideration on settlement.

Goodwill is allocated to cash generating units for the purpose of impairment testing. Goodwill is subject to an impairment review at least annually. An impairment review is also carried out whenever there is an indication that goodwill is impaired. Where the carrying amount is more than the recoverable amount, impairment is recognised in the profit and loss account. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Other intangible assets

Other intangible assets comprise computer software, internally developed software, renewal rights, customer lists, brands and other acquired identifiable non-monetary assets without physical form.

Expenditure that enhances the future economic benefits arising from computer software is recognised as an intangible asset.

1. Basis of preparation (Financial Statements) (continued)

(iii) Intangible assets (continued)

Other intangible assets (continued)

Computer software and other intangible assets are carried at cost less accumulated amortisation and less any accumulated impairment losses. Amortisation on computer software and other intangible assets is calculated using the straight line method to allocate the cost over their estimated useful lives, which is normally estimated to be between 3 and 7 years.

An impairment review is carried out whenever there is an indication that an intangible asset is impaired. Where the carrying amount is more than the recoverable amount, an impairment charge is recognised in the profit and loss account.

Impairment losses previously recognised on intangible assets may be reversed in subsequent periods provided that the revised carrying amount does not exceed the value that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised.

(iv) Tangible assets

Tangible assets comprise fixtures, fittings and equipment (including computer hardware and motor vehicles). These assets are depreciated over their estimated useful life after taking into account residual values.

Depreciation is calculated on the straight line method to write down the cost of such assets to their residual value over their estimated useful lives as follows:

Fixtures and fittings	10 years
Motor vehicles	4 years
Equipment	3-5 years

All of the above assets are classified as equipment within note 25. The asset's residual values and useful lives are reviewed and adjusted if appropriate.

An impairment review is carried out whenever there is an indication that the assets are impaired. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(v) Land and buildings

Land and buildings comprise investment property and Company occupied property.

Investment property is recorded at fair value, measured by independent professionally qualified valuers who hold a recognised and relevant professional qualification and have recent experience in the location and category of the investment property being valued. Valuations are carried out on an annual basis or more frequently. For interim periods internal valuations are made by reference to current market conditions. Unrealised gains and unrealised losses are recognised in net investment return.

Company occupied property is stated at fair value, less subsequent depreciation for buildings. Depreciation is normally calculated over 30 years. Land is not depreciated.

Increases in the carrying amount arising on the revaluation of Company occupied property are credited to revaluation reserves in other comprehensive income. Decreases that offset the previous increases of the same asset are charged against revaluation surplus directly in other comprehensive income; other decreases are charged to the profit and loss account. Each year the difference between depreciation based on the fair value of the asset charged to the profit and loss account and depreciation based on the asset's original cost is transferred from revaluation reserve to the profit and loss account. Investment property income is recognised in the profit and loss account.

(vi) Investments

A financial asset is initially recognised on the date the Company commits to purchase the asset at fair value plus, in the case of all financial assets not classified as at fair value through the profit and loss account, transaction costs that are directly attributable to its acquisition. A financial asset is derecognised when the rights to receive cashflows from the investment have expired or have been transferred and when the Company has substantially transferred the risks and rewards of ownership of the asset.

On initial recognition, the financial assets may be categorised into the following categories: financial assets at fair value through profit and loss, loans and receivables, and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

The Company classifies investments in equity and debt securities in accordance with its investment strategy on the basis on which the investment return is managed and the performance is evaluated internally. Where the investment return is managed on the basis of the periodic cashflows arising from the investment, a financial asset is classified as an available for sale financial asset. Where the investment return is managed on the basis of the total return on the investment (including unrealised investment gains), the financial asset is designated as at fair value through profit and loss. Other investments, comprising loans and deposits with credit institutions, reinsurance deposits and other deposits, are classified as loans and receivables at amortised cost.

Financial assets (other than derivatives) arising from non-investment activities are categorised as loans and receivables at amortised cost. Investments in subsidiaries and associates are accounted for as available for sale equity investments.

Investment income is recognised in the profit and loss account. Dividends on equity investments are recognised on the date at which the investment is priced 'ex dividend'. Interest income is recognised using the effective interest rate method. Unrealised gains and losses on available for sale investments are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary items (which are recognised in the profit and loss account). The profit or loss in the period from unrealised gains and losses on assets classified as fair value through profit and loss is calculated as the difference between the current valuation of the asset at the balance sheet date and the cost at the date of acquisition or the last balance sheet date, whichever is the later.

1. Basis of preparation (Financial Statements) (continued)

(vi) Investments (continued)

When assets that are classified at fair value through profit and losses are disposed of cumulative unrealised gains and losses recognised in the current and earlier accounting periods in respect of such assets are reversed and the difference between the sale proceeds and the initial purchase price is recognised in the statement of comprehensive income. When assets that are classified as Available-For-Sale are disposed of the cumulative unrealised gains and losses included in the revaluation reserve is reversed and the difference between the sale proceeds and amortised cost is recognised in the statement of comprehensive income

On de-recognition of an investment classified as available for sale, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit and loss account.

For available for sale financial assets, where the cumulative changes in fair value recognised in other comprehensive income represent a loss, the individual asset or Company is reviewed to test whether an indication of impairment exists.

For securities whose fair values are readily determined and where there is objective evidence that such an asset is impaired, including, for equity investments, a significant or prolonged decline in the fair value below cost, the net loss previously charged to other comprehensive income is reclassified to the profit and loss account.

If the fair value of a previously impaired debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed and the reversal recognised in the non-technical account. Impairment losses on equity investments are not reversed.

For other loans and receivables, where there is evidence that the contracted cashflows will not be received in full, an impairment charge is recognised in the profit and loss account to reduce the carrying value of the financial asset to its recoverable amount.

(vii) Derivative financial instruments

Derivatives are recognised in the balance sheet on a trade date basis. They are classified as held for trading and are carried at fair value through profit and loss. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in its fair value are recognised in the profit and loss account.

(viii) Estimation of the fair value of financial assets and liabilities

The methods and assumptions used by the company in estimating the fair value of financial assets and liabilities are:-

- For fixed maturity securities, fair values are generally based upon quoted market prices. Where market prices are not readily available, fair values are estimated using either values obtained from quoted market prices of comparable securities or estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment
- For equity securities fair values are based upon quoted market prices
- If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models
- For mortgage loans on real estate and collateral loans, fair values are estimated using discounted cash flow calculations based upon prevailing market rates
- For cash at bank and in hand, loans and receivables, deposits with credit institutions, commercial paper, other assets, liabilities and accruals, carrying amounts approximate to fair values
- For notes, bonds, loans payable and loan capital, fair values are determined by reference to quoted market prices or estimated using discounted cash flow calculations based upon prevailing market rates. Loan capital is carried at amortised cost and when different, fair value is disclosed in the relevant note. For borrowings that carry a variable rate of interest (other than loan capital), carrying values approximate to fair values
- For derivatives, fair values are based upon market prices where available. Where market prices are not directly available, fair values are estimated using models of future cash flows with all significant inputs based on observable market prices
- For shares in group undertakings, fair value is calculated by applying various valuation models to the major trading companies. These valuation models apply use factors that are more widely used to value similar companies in the area of operation of the business. The values calculated are benchmarked against external valuations of the particular business where these are available. For non trading subsidiaries, the net asset value of the subsidiary, calculated using the Company's accounting policies, is used.

For disclosure purposes, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which fair value is observable:-

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include significant inputs for the asset or liability that are based on observable market data (unobservable inputs)

1. Basis of preparation (Financial Statements) (continued)

(ix) Insurance Contracts

Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the company agrees to compensate a policyholder if a specified uncertain future event (other than a change in financial variable) adversely affects the policyholder. Any contracts not meeting the definition of an insurance contract under IFRS are classified as investment contracts or derivative contracts, as appropriate.

Income recognition

Premiums written are accounted for in the period in which the contract is entered into and include estimates where the amounts are not determined at the end of the reporting period. Premiums written exclude taxes. Duties levied on premiums and directly related expenses, e.g. commissions, are recognised as an expense. Premiums are earned as revenue over the period of the contract and are calculated based on a daily pro rata basis.

Technical provisions

The provision for unearned premium represents the portion of the premiums written relating to the periods of insurance coverage subsequent to the end of the reporting period after the deduction of related acquisition costs.

Acquisition costs comprise the direct and indirect costs of obtaining and processing new insurance business. Deferred acquisition costs (DAC) are amortised on the same basis as the related unearned premiums are earned.

Claims outstanding comprise the estimated cost of claims incurred but not settled at the end of the reporting period. It includes related expenses and a deduction for the expected value of salvage and other recoveries. The provision is determined using the best information available of claims settlement patterns, forecast inflation and settlement of claims. Claims outstanding relating to long term permanent disability claims are determined using recognised actuarial methods.

Claims outstanding and related reinsurance recoveries are discounted where there is a particularly long period from incident to claims settlement or when nominal interest rates are high and where there exists a suitable claims payment pattern from which to calculate the discount. In defining those claims with a long period from incident to claims settlement, those categories of claims where the average period of settlement is six years or more has been used as a guide. The discount rate used is based upon an investment return expected to be earned by assets, which are appropriate in magnitude and nature to cover the provisions for losses and loss adjustment expenses being discounted, which in practice are bonds and property, during the period necessary for the payment of such claims.

Differences between the estimated cost and subsequent settlement of claims are recognised in the profit and loss account in the year in which they are settled or in which the claims outstanding are re-estimated.

At the end of each reporting period liability adequacy tests are performed to ensure the adequacy of the provision for unearned premium net of related DAC assets. In performing these tests best estimates of future contractual cash flows, claims handling and administrative expenses, as well as investment income on assets backing such liabilities are used. Any deficiency is charged to the technical account immediately by establishing a provision for liability adequacy (the unexpired risk provision). The unexpired risk provision is assessed in aggregate for business classes which, in the opinion of the Directors, are managed together.

Equalisation provisions are established in accordance with the Prudential Regulatory Authority's rules for insurers in the UK. These provisions, notwithstanding that they do not represent liabilities at the balance sheet date as they are over and above the anticipated ultimate cost of outstanding claims, are required by Schedule 3 to be included within technical provisions in the balance sheet and any change in the provisions during the year is required to be shown in the general business technical account.

Reinsurance ceded

Premiums payable in respect of reinsurance ceded are recognised in the period in which the reinsurance contract is entered into and include estimates where the amounts are not determined at the balance sheet date. Premiums are expensed over the period of the reinsurance contract, calculated principally on a daily pro-rata basis.

A reinsurance asset (reinsurers' share of claims outstanding) is recognised to reflect the amount estimated to be recoverable under the reinsurance contracts in respect of the provisions for outstanding claims reported under claims outstanding. The amount recoverable from reinsurers is initially valued on the same basis as the underlying provisions for outstanding claims. The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the Company may not receive all amounts due under the reinsurance contract and the event has a reliably measurable impact on the expected amount that will be recovered from the reinsurer.

The reinsurers' share of each unexpired risk provision is recognised on the same basis.

Annuities purchased by the Company to make payments under structured settlement arrangements are accounted for as reinsurance ceded if the Company remains liable for the settlement in the event of default by the annuity provider. Any gain or loss arising on the purchase of an annuity is recognised in the profit and loss account at the date of purchase.

(x) Other operating income

Administration fee income is charged to policyholders when mid-term adjustments are made to the cover provided and recognised in full on the date that the change is made.

Premium instalment policy fee income is charged to policyholders when premium is paid in instalments and is recognised over the period that the instalments are being made.

1. Basis of preparation (Financial Statements) (continued)

(x) Other operating income (continued)

Engineering inspection fees are charged for the inspection of plant and machinery and are recognised in full in the month in which the inspection is performed.

(xi) Cash at bank and in hand

Cash at bank and in hand are short term, highly liquid investments that are subject to insignificant changes in value and are readily convertible into known amounts of cash.

(xii) Subordinated Loans

Subordinated loans comprise loans which are initially measured at the fair value of consideration received less transaction costs.

Subordinated loans are classified as a separate class of equity capital when the terms of the loan contain no obligation on the Company to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company and there is no provision to settle the loan through the issue of equity instruments of the Company. Interest accrued on such subordinated loans is not recognised in the profit and loss account or other comprehensive income and is instead deducted from equity when paid.

Subordinated loans which are not classified as equity are classified as financial liabilities and measured at amortised cost using the effective interest method. Movements in the amortised cost are recognised in the profit and loss account. Derecognition occurs when the obligation has been extinguished.

(xiii) Taxation and deferred tax

Taxation and deferred tax is recognised in the profit and loss account, except to the extent that the tax arises from a transaction or event recognised either in other comprehensive income or directly in equity.

Taxation is based on profits and income for the year as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior years.

Deferred tax in respect of the unremitted earnings of overseas subsidiaries and principal associated undertakings is recognised as an expense in the year in which the profits arise, except where the remittance of earnings can be controlled and it is probable that remittance will not take place in the foreseeable future, in which case the tax charge is recognised on the dividends received.

Deferred tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and the carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the related deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which unused tax losses and temporary differences can be utilised.

(xiv) Employee benefits

The Company operates various pension schemes. The schemes are generally funded through payments to trustee administered funds. The Company has both defined contribution and defined benefit schemes. A defined benefit scheme is a pension scheme that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

Post-retirement benefits (including pension schemes and post-retirement health schemes)

Contributions to defined contribution pension schemes are charged in the period in which the employment services qualifying for the benefit are provided. The Company has no further payment obligations once the contributions have been paid. Differences between contributions payable in the year and contributions actually paid are shown as either prepayments or accruals in the balance sheet.

The value of the net defined benefit liability or asset recognised in the balance sheet for each individual post-retirement scheme is calculated as follows:

The present value of defined benefit obligation of the scheme at the end of the reporting period; minus the fair value at the end of the reporting period of the scheme assets out of which the obligations are to be settled directly.

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

The calculation of the present value of accrued benefits includes an actuarial assumption of future interest rates, which is used to discount the expected ultimate cost of providing the benefits. The discount rate is determined at the end of each reporting period by reference to current market yields on high quality corporate bonds identified to match the currency and estimated term of the obligations.

For those individual schemes in deficit, the resulting net liabilities are recognised in the balance sheet. For those individual schemes in surplus, an asset is recognised in the balance sheet to the extent that the Group can realise an economic benefit, in the form of a refund or a reduction in future contributions, at some point during the life of the scheme or when the scheme liabilities are settled.

1. Basis of preparation (Financial Statements) (continued)

(xiv) Employee benefits (continued)

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

- The current service cost
- The past service costs and gains or losses on settlements
- Net interest on the net defined benefit liability or asset
- Administration costs of operating the pension schemes

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

Past service costs arise from a plan amendment or curtailment. Past service costs are recognised in the profit and loss account at the earlier of when the plan amendment or curtailment occurs and, where applicable, when the Company recognises related restructuring costs or termination benefits.

The net interest on the net defined benefit liability or asset is determined by multiplying the net defined benefit liability or asset by the discount rate, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contribution and benefit payments.

Re-measurements of the net defined benefit liability or asset comprise actuarial gains and losses and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability or asset) and are recognised in other comprehensive income.

Actuarial gains and losses arise from changes to actuarial assumptions when revaluing future benefits and from actual experience in respect of scheme liabilities.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of when it can no longer withdraw the offer and when any related restructuring costs are recognised. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Share based payments

The value of the employee share options and other equity settled share based payments is calculated at fair value at the grant date using appropriate and recognised option pricing models.

Vesting conditions, which comprise service conditions and performance conditions, other than those based upon market conditions, are not taken into account when estimating the fair value of such awards but are taken into account by adjusting the number of equity instruments included in the ultimate measurement of the transaction amount. The value of the awards is recognised as an expense on a systematic basis over the period during which the employment services are provided. Where an award of options is cancelled by an employee, the full value of the award (less any value previously recognised) is recognised at the cancellation date.

(xv) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and where it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(xvi) Dividends to shareholders

Dividends payable on the Company's ordinary shares are recognised in equity in the period in which they are declared and paid. Interim dividends recognised in equity when paid.

(xvii) Leases

Rental income from operating leases is recognised on a straight line basis over the term of the lease. Payments made under operating leases are charged on a straight line basis over the term of the lease.

(xviii) Assets and liabilities held for sale and discontinued operations

Assets are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction, which is highly probable and will be completed within one year from the date of classification, rather than through continuing use. Where the asset comprises a separate business operation (e.g. a branch), the assets (including any goodwill allocated to the business) and the liabilities of the business are considered together and classified as a disposal group. Such assets are measured at the lower of carrying amount and fair value less costs to sell and are classified separately from other assets in the balance sheet. Assets and liabilities of a disposal group are not netted. In the period where a non-current asset or disposal group is recognised for the first time, the balance sheet for the comparative prior period presented is not restated.

Discontinued operations are operations that have been sold during the reporting period or classified as a disposal group and that represent a separate geographical area of operations.

1. Basis of preparation (Financial Statements) (continued)

(xviii) Assets and liabilities held for sale and discontinued operations (continued)

Discontinued operations are presented separately on the face of the profit and loss account. In the period where an operation is presented for the first time as discontinued, the profit and loss account for the comparative prior period presented is restated to present that operation as discontinued.

(xix) Current and non-current distinction

Assets are classified as current when expected to be realised within the Company's normal operating cycle of one year. Liabilities are classified as current when expected to be settled within the Company's normal operating cycle of one year. All other assets and liabilities are classified as non-current.

The Company's balance sheet is not presented using current and non-current classifications. However, the following balances are generally classified as current: cash at bank and in hand, insurance and reinsurance debtors and creditors; deferred acquisition costs; amounts owed by and to Group undertakings; amounts owed to credit institutions; non-current assets held for sale and assets in disposal groups and liabilities in disposal groups.

The following balances are generally classified as non-current: intangible assets; investments; shares in group undertakings, shares in associated undertakings; other financial instruments; deferred taxation; tangible assets; and subordinated liabilities.

The remaining balances are of a mixed nature. The current and non-current portions of such balances are set out in the respective notes or in the risk management section.

2. Adoption of FRS 101 and restatement of prior year results and financial position

In the transition to FRS 101 from old UK GAAP, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position, financial performance and cash flows of the Company is provided below.

Under old UK GAAP, the company's investments in subsidiaries and associates were previously valued at directors' valuation that equated to net asset value. Reductions in the recoverable amount of investments in subsidiaries and associates below historical cost and reversals of such reductions were taken to the profit and loss account. Other differences between net asset values and book values of investments in subsidiaries were taken to the revaluation reserve. Under new UK GAAP, the Company's investments in subsidiaries and associates are valued at fair value and classified as Available-For-Sale. The treatment of unrealised gains, realised gains, impairment and dividends from subsidiaries and associates is disclosed in note 1

Under old UK GAAP internally generated software was written off immediately as an expense in the profit and loss account. Under new UK GAAP internally generated software is capitalised as an intangible asset when the recognition criteria for the recognition of an asset are met. The impact of this change is to recognise the net book value of the internally generated software at 1 January 2014 and reverse the amounts previously written off through retained earnings. Additionally, there has been a reclassification of certain software assets from tangible fixed assets to intangible assets.

There are adjustments to the carrying value of the net pension obligations under new UK GAAP, primarily in respect of the valuation of certain scheme assets. Additionally under old UK GAAP the net scheme assets or liabilities were presented net of related deferred tax. Under new UK GAAP, the net scheme assets or liabilities are presented gross of deferred tax.

In addition, under old UK GAAP the Company occupied property was valued at market value and are valued annually by independent professionally qualified valuers at open market value with movements in valuation recognised in the non technical account. Under new UK GAAP, company occupied properties and valued on a vacant possession basis and as a result, at 1 January 2014, the accumulated unrealised gains / (losses) previously recognised in the non-technical account have been removed and the difference between purchase the purchase price and the valuation on a vacant possession basis recognised in the property revaluation reserve. From 1 January 2014, unrealised gains / (losses) previously recognised in the non-technical accounts have been recognised in other comprehensive income.

Under old UK GAAP, the Company's shares and other variable yield securities and units in unit trusts, debt securities and other fixed income securities, loans and deposits with credit institutions and derivatives were accounted for at fair value through profit and loss. Under new UK GAAP, all of the above with the exception of derivatives have been accounted for as available for sale financial instruments in line with the accounting policies adopted by the Company's ultimate parent company in its consolidated financial statements. The impact of this change has been to transferred accumulated unrealised gains/ (losses) previously recognised in the non-technical account to the revaluation reserve at 1 January 2014 and from 1 January 2014 unrealised gains / (losses) previously recognised in the non-technical accounts have been recognised in other comprehensive income.

Under old UK GAAP, goodwill was amortised on a straight line through the non-technical account. Under new UK GAAP, a true and fair override has been adopted and goodwill is not amortised. From 1 January 2014, amortisation previously recognised in the non-technical account has been removed.

2. Adoption of FRS 101 and restatement of prior year results and financial position (continued)

The impact of transitioning from old UK GAAP to new UK GAAP on the shareholders' funds and on the profits previously reported are set out below:-

Shareholders' funds	**31 Dec 2014**	1 Jan 2014
	£m	£m
At 1 January as previously reported	**4,282**	3,550
Impact of revaluing subsidiaries and associates on a fair value basis	**2,608**	2,849
Impact of recognising internally generated software as an asset (net of deferred tax)	**76**	72
Impact of changes in the valuation of net pension scheme liabilities (net of deferred tax)	**(14)**	88
Impact of changes in the valuation of Company occupied property	**9**	11
Impact of changes in the valuation of goodwill	**8**	6
As restated	**6,969**	6,576

Comprehensive income for the year ended 31 December 2014	**Profit for the period after tax**	Total comprehensive income
	£m	£m
At 1 January as previously reported	**283**	358
Reclassifications between Retained Earnings and the Foreign Currency Translation Reserve	**(4)**	-
Impact of revaluing subsidiaries and associates on a fair value basis	**(90)**	(240)
Impact of recognising internally generated software as an asset (net of deferred tax)	**3**	3
Impact of changes in the presentation of unrealised gains and losses / pensions (net of deferred tax)	**(117)**	(101)
Impact of changes in the valuation of Company occupied property	**(1)**	(1)
Impact of changes in the valuation of goodwill	**1**	1
As restated	**75**	20

3. Estimation Techniques, risks, uncertainties and contingencies

Introduction

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

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

Unearned premiums and unexpired risks represent the amount of income set aside by the company to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the end of the reporting period. Outstanding claims represent the company's estimate of the cost of settlement of claims that have occurred by the end of the reporting period but have not yet been finally settled.

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

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

Estimation techniques

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

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

- The development of previously settled claims, where payments to date are extrapolated for each prior year;
- Estimates based upon a projection of claims numbers and average cost;
- Notified claims development, where notified claims to date for each year are extrapolated based upon observed development of earlier years; and
- Expected loss ratios.

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

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

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability. The claims provisions are subject to close scrutiny both within the Company and the Group's corporate centre. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. The results of these reviews are considered when establishing the appropriate levels of provisions for outstanding claims and unexpired periods of risk. As an example, the Company's exposure to asbestos and environmental pollution is examined on this basis.

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

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

The pension assets and pension and post retirement liabilities are calculated in accordance with International Accounting Standard 19 (IAS 19). The assets, liabilities and profit and loss account charge, calculated in accordance with IAS 19, are sensitive to the assumptions made from time to time, including inflation, interest rate, investment return and mortality. IAS 19 compares, at a given date, the current market value of a pension fund's assets with its long term liabilities, which are calculated using a discount rate in line with yields on 'AA' rated bonds of suitable duration and currency. As such, the financial position of a pension fund on this basis is highly sensitive to changes in bond rates and will also be impacted by changes in equity markets.

Uncertainties and contingencies

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

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

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

3. Estimation Techniques, risks, uncertainties and contingencies (continued)

Uncertainties and contingencies (continued)

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

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

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

The sections below identify a number of specific risks relating to asbestos and environmental claims. There may be other classes of risk which could develop in the future and that could have a material impact on the Company's financial position.

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

Asbestos and environmental claims

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

Factors contributing to this higher degree of uncertainty include:

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

Potential change in discount rate for lump-sum damages awards

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

Acquisitions and disposals

The Company makes acquisitions and disposals of businesses as part of its normal operations. All acquisitions are made after due diligence, which will include, amongst other matters, assessment of the adequacy of claims reserves, assessment of the recoverability of reinsurance balances, inquiries with regard to outstanding litigation and inquiries of local regulators and taxation authorities. Consideration is also given to potential costs, risks and issues in relation to the integration of any proposed acquisitions with existing RSA operations. The Company will seek to receive the benefit of appropriate contractual representations and warranties in connection with any acquisition and, where necessary, additional indemnifications in relation to specific risks although there can be no guarantee that these processes and any such protection will be adequate in all circumstances. The Company may also provide relevant representations, warranties and indemnities to counterparties on any disposal. While such representations, warranties and indemnities are essential components of many contractual relationships, they do not represent the underlying purpose for the transaction.

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

Contracts with third parties

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

3. Estimation Techniques, risks, uncertainties and contingencies (continued)

Litigation, disputes and investigations

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

Reinsurance

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

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

Investment risk

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

Credit risk includes the non-performance of contractual payment obligations on invested assets and adverse changes in the credit worthiness of invested assets, including exposures to issuers or counterparties for bonds, equities, deposits and derivatives. Limits are set at both a portfolio and counterparty level based on likelihood of default to manage the Company's overall credit profile and specific concentrations within risk appetite. The Company's insurance investment portfolios are concentrated in listed securities with very low levels of exposure to assets without quoted market prices. The Company uses model based analysis to verify asset values when market values are not readily available.

Rating environment

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

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

Foreign exchange risk

The Company publishes financial statements in Pound Sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly other European currencies and the Canadian dollar, into Pound Sterling will impact the reported financial position, results of operations from period to period. These fluctuations in exchange rates will also impact the Pound Sterling value of and the return on the Company's investments.

Income and expenses for each profit & loss account item are translated at average exchange rates. Assets and liabilities, as reported in the Balance Sheet, are translated at closing exchange rates at the end of the reporting period.

4. Risk Management

Introduction

RSA Insurance Group plc, of which the Company is an important part, is managed along divisional lines. The Company transacts the majority of the Company's UK business. The directors of the Company have considered whether the Group's approach to strategy, risk management, performance review and custody of assets fully meets the needs of the Company as a separate regulated entity. They have concluded that it does. The following discussion sets out the approach of the Group, and hence of the Company, to risk management.

Risk Management

As an insurance company, the Company is in the business of actively seeking risk with a view to adding value by managing it. This note summarises the key risks to the Group, and hence the Company, and the steps taken to manage them.

The Group's Board of Directors (the 'Board') defines the risk appetite of the organisation. The Group employs a comprehensive Risk Management System that includes a full range of risk policies, procedures, measurement, reporting and monitoring techniques and a series of stress tests and scenario analyses to ensure that the risk exposures that arise from operating the Company's business are managed appropriately.

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

- Underwriting risk
- Reinsurance risk
- Reserving risk

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 Company is exposed, is of a short-term nature, and generally does not exceed 12 months. The Company'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 Company 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 Company's underwriters having specific licences that set clear parameters for the business they can underwrite, based on their expertise.

The Company has developed enhanced methods of recording exposures and concentrations of risk and has a centrally managed forum looking at Company underwriting issues, reviewing and agreeing underwriting direction and setting policy and directives where appropriate. The Company 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 Company'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 Company, conditions in the insurance market and a profit loading that adequately covers the cost of capital.

Reinsurance risk

Reinsurance risk refers to the risk of loss to the Company 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 Company'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 Company should not suffer total net insurance losses beyond the Group's risk appetite in any one year.

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

Reserving risk

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

The Company establishes an insurance contract liability provision 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 Company 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 Company 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.

4. Risk Management (continued)

Reserving risk (continued)

The Company seeks to reduce its reserving risk from 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 Company. 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 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 from transactions entered into by the Company, apart from those specifically relating to insurance risks, and includes the following risks:

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

The Company 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 Company 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 Group Board Risk Committee ('GBRC').

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

The Group Reinsurance Credit Committee oversees the management of credit risk arising from the reinsurer failing to settle its liability to the Company. 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.

4. Risk Management (continued)

Credit risk (continued)

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 GBRC. The Group's largest reinsurance exposures to active reinsurance groups are Lloyd's, Swiss Re, and Berkshire Hathaway Inc. At 31 December 2015 the reinsurance asset recoverable from these groups does not exceed 7% of the Company'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 4% of the Company's total financial assets.

The credit profile of the Company'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 Company's aggregated credit risk exposure for its financial and insurance assets as at 31 December 2015 and 2014.

	Credit rating relating to financial assets that are neither past due not impaired								
	AAA	AA	A	BBB	<BBB	Not rated	Value including held for sale	Less: Amounts classified as held for sale	Total Financial Assets that are neither past due nor impaired
As at 31 December 2015	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities	1,684	532	1,381	751	60	-	4,408	(12)	4,396
Other financial assets	-	-	-	-	-	4	4	-	4
Short term investments	-	17	29	-	-	-	46	-	46
Reinsurance assets	290	262	829	133	44	12	1,570	(16)	1,554
Insurance and reinsurance debtors (1)	60	16	857	113	80	664	1,790	(7)	1,783
Derivative assets	4	5	1	32	-	-	42	-	42
Cash at bank and in hand	42	29	64	-	4	3	142	(4)	138

	Credit rating relating to financial assets that are neither past due not impaired								
	AAA	AA	A	BBB	<BBB	Not rated	Value including held for sale	Less: Amounts classified as held for sale	Total Financial Assets that are neither past due nor impaired
As at 31 December 2014	£m	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	1,658	620	1,904	417	35	1	4,635	(292)	4,343
Other financial assets	-	-	-	-	-	7	7	-	7
Short term investments	-	32	86	-	-	-	118	(58)	60
Reinsurance assets	121	206	782	112	49	51	1,321	(95)	1,226
Insurance and reinsurance debtors (1)	51	12	1,168	95	98	683	2,107	(274)	1,833
Derivative assets	6	7	37	-	-	-	50	-	50
Cash at bank and in hand	1	30	85	11	3	1	131	(27)	104

Notes:

1. 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 risk to the Company is deemed to be low as the cover could be cancelled if payments were not received on a timely basis.

With the exception of AAA rated Government securities, the largest aggregate credit exposure does not exceed 3% of the Company's total financial assets.

4. Risk Management (continued)

Credit risk (continued)

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.

		Financial assets that are past due but not impaired						
As at 31 December 2015	**Neither past due nor impaired £m**	**0-3 months £m**	**3-6 months £m**	**6-12 months £m**	**Greater than 12 months £m**	**Impaired Financial Assets £m**	**Balance Sheet carrying value £m**	**Impairment losses charged to Profit and loss account £m**
Debt securities	**4,396**	**-**	**-**	**-**	**-**	**-**	**4,396**	**-**
Other financial assets	**4**	**-**	**-**	**-**	**-**	**-**	**4**	**-**
Short term investments	**46**	**-**	**-**	**-**	**-**	**-**	**46**	**-**
Reinsurance assets	**1,555**	**-**	**-**	**-**	**-**	**1**	**1,556**	**-**
Insurance and reinsurance debtors	**1,784**	**19**	**9**	**9**	**14**	**2**	**1,837**	**2**
Derivative assets	**42**	**-**	**-**	**-**	**-**	**-**	**42**	**-**
Cash at bank and in hand	**138**	**-**	**-**	**-**	**-**	**-**	**138**	**-**

		Financial assets that are past due but not impaired						
As at 31 December 2014	Neither past due nor impaired £m	0-3 months £m	3-6 months £m	6-12 months £m	Greater than 12 months £m	Impaired Financial Assets £m	Balance Sheet carrying value £m	Impairment losses charged to Profit and loss account £m
Debt securities	4,343	-	-	-	-	-	4,343	-
Other financial assets	7	-	-	-	-	-	7	-
Short term investments	60	-	-	-	-	-	60	-
Reinsurance assets	1,226	-	-	-	-	1	1,227	
Insurance and reinsurance debtors	1,833	20	6	3	6	1	1,869	12
Derivative assets	50	.	-	-	-	-	50	-
Cash at bank and in hand	104	-	-	-	-	-	104	-

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 Company's investments comprise a broad range of financial investments issued principally in the UK.

At 31 December 2015, the Company had pledged £376m (2014: £769m) of financial assets as collateral for liabilities or contingent liabilities and had accepted £476m (2014: £191m) in collateral. The nature of the assets pledged as collateral comprises government securities of £314m (2014: £711m), cash at bank and in hand of £50m (2014: £26m) and debt securities £12m (2014: £32m). The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities.

The Company is permitted to sell or re-pledge collateral held in the event of default by the owner, the fair value of which has been noted above at £476m. The terms and conditions of the collateral held are market standard. The assets held as collateral are readily convertible into cash.

At 31 December 2014, the Company had entered into short term sale and repurchase agreements for UK government securities. The Company recognised the debt securities on the balance sheet as the Company remains exposed to the risks and rewards of ownership. The carrying value of these debt securities recognised on the balance sheet at 31 December 2014 is £300m and the carrying value of the associated liabilities is £299m. The Company had not entered into any such agreements at 31 December 2015.

The Company 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 balance sheet. This is because the Company 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.

4. Risk Management (continued)

Credit risk (continued)

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in Balance Sheet			Related items not offset		
	Gross amounts	Amounts offset	Net amounts reported	Financial instruments	Financial collateral	Net amounts
As at 31 December 2015	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Derivative financial assets	6	-	6	-	-	6
Total assets	6	-	6	-	-	6
Derivative financial liabilities	96	-	96	(36)	(47)	13
Repurchase arrangements and other similar secured borrowing	-	-	-	-	-	-
Total liabilities	96	-	96	(36)	(47)	13

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in Balance Sheet			Related items not offset		
	Gross amounts	Amounts offset	Net amounts reported	Financial instruments	Financial collateral	Net amounts
As at 31 December 2014	£m	£m	£m	£m	£m	£m
Derivative financial assets	20	-	20	(5)	-	15
Total assets	20	-	20	(5)	-	15
Derivative financial liabilities	63	-	63	(31)	(25)	7
Repurchase arrangements and other similar secured borrowing	299	-	299	(299)	-	-
Total liabilities	362	-	362	(330)	(25)	7

Notes:
The Company's equity derivatives are exchange traded instruments and as such the Company treats the respective intermediary as one counter party in the above table.

Investments in structured entities

Under IFRS, a structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The Company does not securitise any of its investments in financial instruments and does not create, promote or administer structured entities on behalf of third party investors. The Company therefore considers that it does not act as a sponsor for any structured entity.

However, the Company invests in unleveraged entities created by and managed by external specialist investment managers where investments are pooled within an investment vehicle to provide a diversified exposure to particular classes of underlying investments. The use of these products allows the Company to broaden the diversification of its investment portfolio in a cost- efficient manner. The Company limits its exposures in individual structured entities to less than 20% of the total capital of the entity.

The Company is exposed to the risks of the underlying investment of the investment vehicles. The investment return from the structured entities is expected to reflect the returns from the underlying investments of the underlying vehicles.

In addition, the Company has commitments for future undrawn subscriptions limited to the amounts set out in the subscription agreements. The Company has no obligations to provide any other financial support to these entities. The Company has determined that its maximum exposure to structured entities is the sum of the carrying value and the undrawn commitments. These exposures as 31 December 2015 are summarised in the table below:-

4. Risk Management (continued)

Credit risk (continued)

Investments in structured entities (continued)

Class of investments	Nature of the underlying investments of the vehicle	Carrying Value	Undrawn Commitments	Exposure
		£m	£m	£m
Mortgage backed securities	Covered bonds subject to real estate risk	157	-	157
Collateralised debt obligations	Structured debt security backed by bonds	143	-	143
Cash Money Market Funds	Short term cash deposits	129	-	129
Other	Mainly consist of property funds	152	82	234
		581	**82**	**663**

	£m
Investments - financial assets - equity securities	188
Investments - financial assets - debt securities	265
Cash at bank and in hand	128
	581

Market risk

The Company is exposed to the risk of potential losses from adverse movements in market prices including those of interest rates, equities, property, exchange rates and derivatives.

Exposures are controlled by the setting of investment limits and managing asset-liability matching in line with the Company's risk appetite.

The Company Investment Committee (CIC), on behalf of the Board, is responsible for reviewing and approving the investment strategy for the Company's investment portfolios. It provides approval for all major changes of the Company's investment strategy and, in particular, approves any substantive changes to the balance of the Company's funds between the major asset classes. Importantly the CIC also approves the terms of reference of the Company's main operational investment committee, the Company Asset Management Committee (CAMC). The GBRC issues CAMC with investment risk limits.

Interest rate risk

The fair value of the Company's portfolio of fixed income securities is inversely correlated to changes in the market interest rates. Thus, if interest rates fall, the fair value of the portfolio would tend to rise and vice versa as set out in the sensitivity analysis on page 32 to 33.

Equity price risk

The Company's portfolio of equity securities is subject to equity risk arising from changes in market price. Thus if the value of equities rises so will the fair value of its portfolio and vice versa as set out in the sensitivity analysis on page 32 to 33.

The Company sets appropriate risk limits to ensure that no significant concentrations to individual companies arise. The Company takes a long term view in selecting shares and looks to build value over a sustained period of time rather than utilising high level of purchase and sales in order to generate short term gains from its equity holdings.

Property price risk

The Company's portfolio of properties is subject to property price risk arising from changes in market value of properties. Thus if the value of property falls so will the fair value of the portfolio and set out in the sensitivity analysis on page 32 to 33.

A number of the Company's property holdings are Company occupied. The Company's investment in investment property is recorded as such and these investments are held as part of an efficient portfolio management strategy.

Currency risk

The Company incurs exposure to foreign currency exchange risk in two ways:

- Operational currency risk – by underwriting liabilities in currencies other than the currency of the primary environment in which the business units operate (non-functional currencies)
- Structural currency risk – by investing in overseas subsidiaries and operating an international insurance group.

Operational currency risk is principally managed within the Company's individual operations by broadly matching assets and liabilities by currency.

4. Risk Management (continued)

Market risk (continued)

Currency risk (continued)

Structural currency risk is managed at a Group level through currency forward and foreign exchange option contracts within the limits that have been set. 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.

Derivatives

The Company may use 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 Company 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.

	Remaining Life			Fair Value		Notional Principal Amounts	
	Less than 1 year	1-5 Years	More than 5 Years	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m
Cross currency							
Asset	**778**	-	-	**11**	22	**778**	1,285
Liability	**804**	**160**	**154**	**61**	30	**1,118**	950
Inflation							
Asset	-	-	-	**31**	28	**See below**	See below
Liability	-	-	-	**34**	39	**See below**	See below
Equity / Index							
Asset	-	-	-	-	-	**See below**	See below
Liability	-	-	-	-	-	**See below**	See below

The Company is party to a series of swap contracts which collectively provide limited cover against a sharp increase in long term inflation. In total the swap contracts provide inflation cover over a nominal value of £180m *(2014: £180m)* and are split over different contract terms.

At 31 December 2015 the Company holds currency forward contracts and foreign exchange options to reduce structural foreign exchange risk.

Sensitivity Analysis

The Company uses a number of sensitivity or stress-test based risk management tools to understand the impact of the above risks on earning and capital in both normal and stressed conditions. These stress tests combine deterministic shocks, analysis of historical scenarios and stochastic modelling using the internal capital model to inform the Company's decision making, planning process and also for identification and management of risks within the business units.

The following tables provide an indication for the Company of some of the single factor changes adopted within the Group:

Impact of a 10% change in Pounds Sterling against Danish Krone, Euro, Canadian Dollar or Swedish Krona on shareholders' funds.

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

Impact on fair value of investments (note 3)

4. Risk Management (continued)

Market risk (continued)

Sensitivity Analysis (continued)

	Increase / (decrease) in profit and loss account		Increase / (decrease) in other comprehensive income	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Interest rate markets (note 3):				
Impact on fixed interest securities of increase in interest rates of 100 bps	**12**	12	**(208)**	(202)
Decrease of equity markets (note 4):				
Direct impact on equities of a 15% fall in equity holdings	**(6)**	(6)	**(36)**	(30)
Property markets (note 4):				
Decrease of property markets of 15%	**(55)**	(51)	**(5)**	(5)

Notes

1. This analysis assumes that there is no correlation between equity price, interest rate and property market rate risks. It also assumes 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.
2. The sensitivity of the fixed interest securities of the Company has been modelled by reference to a reasonable approximation of the average interest rate sensitivity of the investments held within each of the portfolios.
3. The effect of movements in equity and property markets is reflected as a one time decrease of worldwide equity and property markets on 1 January 2016 and 1 January 2015 which results in a 1% decline in the value of the Company's assets in the investment categories.
4. This analysis has not considered the impact of the above market changes on the valuation of the Company's claims outstanding or retirement benefit obligations.
5. This analysis is presented gross of the corresponding tax credits / (charge).
6. The equity price risk sensitivity analysis is indicative and is based on the Company's equity portfolio as at 31 December 2015

Liquidity Risk

Liquidity risk is the risk that the Company may unable to pay obligations when due as a result of assets not being available in a form that can be immediately converted into cash. The investment risk limits set by the GBRC ensure that a large part of the Company's portfolio is kept in highly liquid marketable securities sufficient to meet its liabilities as they fall due based on actuarial assessment and allowing for contingencies. The limits are monitored at a Company level as part of the Company Risk exposure monitoring and GBRC reporting process. In addition the Company has committed credit facilities available as set out in note 34.

4. Risk Management (continued)

Liquidity risk (continued)

Maturity period or contractual repricing

The following table summarises the contractual repricing or maturity dates (whichever is earlier) for financial liabilities that are subject to fixed and variable interest rates. Direct insurance creditors are also presented and are analysed by remaining duration until settlement.

As at 2015	Less than 1 Year £m	1 - 2 Years £m	2 - 3 Years £m	3 - 4 Years £m	4 - 5 Years £m	5 - 10 Years £m	Total £m	Balance Sheet carrying value £m
Financial Liabilities								
Subordinated liabilities	-	-	-	-	-	492	492	492
Amounts owed to Group Undertakings	5,488	-	-	-	-	-	5,488	5,488
Amounts owed to Credit Institutions	40	-	-	-	-	-	40	40
Derivative trading liabilities	22	1	1	18	-	53	95	95
Direct insurance creditors	85	-	-	-	-	-	85	85
Reinsurance creditors	533	183	78	-	-	-	794	794
Total	6,168	184	79	18	-	545	6,994	6,994
Interest on subordinated liabilities	46	46	46	46	46	230	460	-

As at 2014	Less than 1 Year £m	1 - 2 Years £m	2 - 3 Years £m	3 - 4 Years £m	4 - 5 Years £m	5 - 10 Years £m	Total £m	Balance Sheet carrying value £m
Financial Liabilities								
Subordinated liabilities	-	-	-	-	-	492	492	492
Amounts owed to Group Undertakings	5,008	-	-	-	-	-	5,008	5,008
Amounts owed to Credit Institutions	342	-	-	-	-	-	342	342
Derivative trading liabilities	20	-	1	-	9	39	69	69
Direct insurance creditors	111	-	-	-	-	-	111	111
Reinsurance creditors	310	152	63	1	-	-	526	526
Total	5,791	152	64	1	9	531	6,548	6,548
Interest on subordinated liabilities	46	46	46	46	46	230	460	-

Operational Risk

Operational risk is the risk of direct or indirect losses resulting from human factors, external events and inadequate or failed internal processes and systems. Operational risks are inherent in the Group's operations and are typical of any large enterprise. Major sources of operational risk can include operational process reliability, outsourcing of operations, dependence on key suppliers, implementation of strategic and operational change, integration of acquisitions, fraud, human error, customer service quality, adequacy of business continuity arrangements, recruitment, training and retention of staff, and social and environmental impacts.

The Company manages operational risk using a range of techniques and tools to identify monitor and mitigate its operational risk in accordance with Group's risk appetite. These tools include Risk and Control Self Assessments, Key Risk Indicators (e.g. fraud and service indicators), Scenario Analysis and Loss Reporting. In addition, the Group has developed a number of contingency plans including Incident Management and Business Continuity Plans. Quantitative analysis of operational risk exposures material to the Group is used to inform decisions on the overall amount of capital held and the adequacy of contingency arrangements.

4. Risk Management (continued)

Own Risk and Solvency Assessment (ORSA)

The Solvency II directive introduces a requirement for undertakings to conduct an ORSA. In anticipation of this requirement, the Company has updated its risk and capital management processes.

The Group defines its ORSA as a series of inter-related activities by which it establishes:

- The quantity and quality of the risks which it seeks to assume
- The level of capital required to support those risks
- The actions it will take to achieve and maintain the desired levels of risk and capital.

The assessments of how much risk to assume and how much capital to hold are inextricably linked. In some situations, it may be desirable to increase the amount of risk assumed or retained in order to make the most efficient use of capital available or else to return excess capital to capital providers. In other situations, where the risk assumed give rise to a capital requirement that is greater than the capital immediately available to support those risks, it will be necessary either to reduce the risk assumed or to obtain additional capital.

The assessment of risk and solvency needs is in principle carried out continuously. In practice, the assessment consists of a range of specific activities and decisions carried out at different times of the year as part of an annual cycle, supplemented as necessary by ad hoc assessments of the impact of external events and developments and of internal business proposals.

Papers are presented to the Board throughout the year dealing with individual elements that make up the ORSA. The information contained in those papers and the associated decisions taken are summarised in an annual ORSA report.

Capital Management

The Company is the major UK insurer within the group of companies (the 'Group') controlled by RSA Insurance Group plc and is regulated by the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA')

Capital Appetite

The Company's objective is to maintain sufficient capital, which comprises shareholders' equity and subordinated loan capital, to meet its plan and objectives. This represents sufficient surpluses for both regulatory and economic capital, as well as, sufficient capital to support the Group's and the Company's aim of maintaining single 'A' ratings. To assist in managing its capital position, the Group has set internal target coverage ratios for each of the principal capital measures.

The Group's regulated entities hold appropriate levels of capital to satisfy applicable local regulations. In certain instances this could restrict the subsidiaries' ability to transfer funds to the UK parent where retained earnings form part of the local required regulatory capital. Additionally, regulation in certain countries in which the Group's subsidiaries operate may also impose other limitations such as foreign exchange control restrictions.

Solvency II

Historically, economic capital has been the Group's preferred measure of capital sufficiency. This has been focussed around the Group conducting its own assessment of the amount of capital it needs to hold to meet its obligations given the Group's risk appetite and has been referred to as the economic capital assessment (ECA). Given the introduction of Solvency II and the approval of the Group's internal model in December 2015, the Group's capital assessment is now focussed on the Solvency Capital Requirement (SCR) calculated by the internal model.

Regulatory Solvency Position

The Company remain compliant with both the PRA's risk based ICA methodology and Solvency I, which is used to calculate the Insurance Groups Directive (IGD) requirement.

As at 31 December 2015 the Group and Company have an estimated unaudited Solvency 1 surplus of approximately £1.9bn (unaudited) (2014: £1.8bn) and £1.8bn (unaudited) (2014: £1.8bn) respectively. The coverage ratio for the Company stood at approximately 2.4 times (unaudited) at 31 December 2015 (2014: 2.2 times).

The ICA was a forward looking, economic assessment of the capital requirements of the Group and Company based on the assessment of the risks to which it is exposed. The internal model used to determine the ICA has been amended to calculate the Solvency II SCR, and this model was approved by the Group's regulators in December 2015. The models used to determine the ICA have been integrated into the Company's business processes and are used to enhance the management of the Company.

5. Segmental information by business class and geographical area

a) By business class

2015	Accident & Health £m	Motor £m	Fire & property £m	Marine Aviation & Transport £m	Third Party Liability £m	Assistance £m	Other £m	Re-insurance £m	Total £m
Gross premium written	**44**	**984**	**1,378**	**309**	**294**	**13**	**311**	**731**	**4,064**
Gross Premiums Earned	**51**	**968**	**1,372**	**310**	**326**	**13**	**287**	**743**	**4,070**
Gross Claims Incurred	**(29)**	**(784)**	**(662)**	**(262)**	**(212)**	**(5)**	**(196)**	**(539)**	**(2,689)**
Gross Operating Expenses	**(16)**	**(193)**	**(567)**	**(94)**	**(142)**	**(8)**	**(130)**	**(87)**	**(1,237)**
Gross Technical Result	**6**	**(9)**	**143**	**(46)**	**(28)**	**-**	**(39)**	**117**	**144**
Reinsurance Result	**(5)**	**(24)**	**(206)**	**(21)**	**(47)**	**-**	**2**	**(26)**	**(327)**
Net Technical Result	**1**	**(33)**	**(63)**	**(67)**	**(75)**	**-**	**(37)**	**91**	**(183)**

2014	Accident & Health £m	Motor £m	Fire & property £m	Marine Aviation & Transport £m	Third Party Liability £m	Assistance £m	Other £m	Re-insurance £m	Total £m
Gross premium written	46	916	1,519	347	408	14	272	363	3,885
Gross Premiums Earned	54	939	1,516	342	423	14	264	376	3,928
Gross Claims Incurred	(31)	(704)	(765)	(238)	(342)	(5)	(183)	(223)	(2,491)
Gross Operating Expenses	(17)	(225)	(607)	(114)	(161)	(9)	(90)	(95)	(1,318)
Gross Technical Result	6	10	144	(10)	(80)	-	(9)	58	119
Reinsurance Result	(5)	(39)	(178)	(26)	(41)	-	1	(60)	(348)
Net Technical Result	1	(29)	(34)	(36)	(121)	-	(8)	(2)	(229)

All of the business above relates to general insurance which is considered to be the only business segment.

b) By geographical segment

	2015	2014
Gross premiums written for direct business by origin:	**£m**	£m
UK	**2,998**	2,995
Other EEA	**270**	314
Other	**65**	213
	3,333	3,522

Gross premiums are disclosed by origin. There is no material difference between the amounts shown and those by reference to destination (i.e. location of risk).

Total commissions for direct insurance business accounted for by the Company during the year, excluding payments to employees, amounted to **£577m** (2014: £640m).

6. Discontinued operations and disposals

a) Discontinued operations

As a result of the strategic action plan Royal & Sun Alliance Insurance plc announced and completed the following disposals of operations:

The Company completed sales of its Singapore, Hong Kong and Labuan branch operations to Allied World Assurance Company on 1 April 2015 (announced 21 August 2014) and its Italian branch business to ITAS Mutua on 31 December 2015 (announced 17 October 2014). The total gains realised on these disposals was £83m after tax. During 2015 the Company announced the sale of its Argentinian branch which is expect to complete in 2016.

During 2014, the Company completed the sales of its Eastern European subsidiaries to Powszechny Zaklad Ubezpieczen sa with Latvia completed on 30 June 2014 and Lithuania on 31 October 2014. The total gains realised on these disposals was £76m after tax.

Each of these businesses has been classified as a discontinued operation in accordance with the Company's accounting policies.

b) Held for sale disposal groups

At 31 December 2015

	Argentina
Assets classified as held for sale	£m
Investments	12
Reinsurers' share of claims outstanding	16
Insurance and reinsurance debtors	7
Cash at bank and in hand	4
Total assets of disposal groups	**39**
Liabilities directly associated with assets classified as held for sale	
Claims outstanding	17
Insurance and reinsurance liabilities	9
Provisions and other liabilities	13
Liabilities of disposal groups	**39**
Total net assets of disposal groups	**-**

At 31 December 2014

	Italy	Singapore	Hong Kong	China	Total
Assets classified as held for sale	£m	£m	£m	£m	£m
Goodwill	-	-	5	-	5
Property and equipment	-	1	-	-	1
Shares in Group undertakings	-	-	-	67	67
Investments	98	104	90	-	292
Reinsurers' share of claims outstanding	11	60	24	-	95
Insurance and reinsurance debtors	202	38	35	-	275
Other debtors and other assets	23	4	1	-	28
Cash at bank and in hand	15	45	25	-	85
Total assets of disposal groups	**349**	**252**	**180**	**67**	**848**
Liabilities directly associated with assets classified as held for sale					
Claims outstanding	347	137	146	-	630
Insurance and reinsurance liabilities	2	14	11	-	27
Provisions and other liabilities	-	9	9	-	18
Liabilities of disposal groups	**349**	**160**	**166**	**-**	**675**
Total net assets of disposal groups	**-**	**92**	**14**	**67**	**173**

6. Discontinued operations and disposals (continued)

c) Discontinued operations disposed of during the year

	Italy	Singapore	Labuan	Hong Kong	**2015 Total**
	£m	£m	£m	£m	**£m**
Consideration received	1	85	-	38	**124**
Transaction costs	-	(7)	-	(2)	**(9)**
Net proceeds from sales	1	78	-	36	**115**
Carrying value of net assets disposed	-	(41)	(1)	(7)	**(49)**
Gains / (losses) on sale before recycling items from other comprehensive income	1	37	(1)	29	**66**
Recycle of items from other comprehensive income on disposals					
Foreign currency translation reserve	1	15	-	3	**19**
Unrealised gains / (losses) on available for sale investments	2	(1)	-	-	**1**
Profits / (losses) on sales of discontinued operations before tax	4	51	(1)	32	**86**
Tax on disposal	(3)	-	-	-	**(3)**
Profit / (loss) on sales of discontinued operations after tax	1	51	(1)	32	**83**

	Latvia	Lithuania	Other	**2014 Total**
	£m	£m	£m	**£m**
Consideration received	41	150	-	**191**
Transaction costs	(1)	(7)	-	**(8)**
Net proceeds from sales	40	143	-	**183**
Carrying value of net assets disposed	(27)	(75)	(5)	**(107)**
Gains / (losses) on sale before recycling items from other comprehensive income	13	68	(5)	**76**
Recycle of items from other comprehensive income on disposals				
Foreign currency translation reserve	-	-	-	-
Unrealised gains on available for sale investments	-	-	-	-
Related tax	-	-	-	-
Profits / (losses) on sales of discontinued operations before tax	13	68	(5)	**76**
Tax on disposal	-	-	-	-
Profit / (loss) on sales of discontinued operations after tax	13	68	(5)	**76**

7. Exchange Rates

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

	2015 Cumulative Average	**2015 End of Period**	2014 Cumulative Average	2014 End of Period
United States Dollar	**1.53**	**1.47**	1.65	1.56
Euro	**1.38**	**1.36**	1.24	1.29
Hong Kong Dollar	**11.85**	**11.42**	12.77	12.09
Singapore Dollar	**2.10**	**2.09**	2.09	2.07

The statement of other comprehensive income contains net losses of £(16)m (2014: net of tax gains of £8m) on the retranslation of foreign currency items.

The profit and loss account contains net losses of £(17)m (2014: net of tax gains / losses of £nil) on the retranslation of foreign currency items.

8. Investment income, expenses and charges

	Investment income		Net realised gains / (losses)		Net unrealised gains / (losses)		Total investment return	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Investment property	**22**	22	**-**	-	**26**	29	**48**	51
Equity securities								
Available for sale	**10**	2	**14**	34	**-**	-	**24**	36
At fair value through the profit and loss account	**-**	5	**1**	2	**(7)**	(2)	**(6)**	5
Debt securities								
Available for sale	**125**	120	**1**	(1)	**-**	-	**126**	119
At fair value through the profit and loss account	**-**	-	**-**	-	**-**	-	**-**	-
Other investments								
Loans secured by mortgages	**-**	-		-	**-**	-	**-**	-
Other loans	**8**	5		-	**-**	-	**8**	5
Other	**-**	-		-	**-**	-	**-**	-
Deposits, cash at bank and in hand	**1**	6		-	**-**	-	**1**	6
Derivatives	**1**	-	**18**	4	**(16)**	-	**3**	4
Continuing Operations	**167**	160	**34**	39	**3**	27	**204**	226
Discontinued Operations	**7**	8	**-**	-	**-**	-	**7**	8
Total net investment return	**174**	168	**34**	39	**3**	27	**211**	234
Dividends from subsidiary undertakings	**267**	2,157	**-**	-	**-**	-	**267**	2,157
	441	2,325	**34**	39	**3**	27	**478**	2,391

	2015	2014
Investment expenses, charges and interest		
Impairment of available for sale investments	**(16)**	(1,960)
Interest on bank loans and overdrafts	**(1)**	(3)
Interest on other loans	**(96)**	(111)
Investment management expenses	**(4)**	(5)
	(117)	(2,079)
Net investment return	**361**	312

The net investment return on derivatives represents the investment return on financial assets that the Company is required to classify as held for trading investments. The derivatives are used to provide a protection hedge for fair value changes of assets held within the investment portfolio and foreign currency cash flows.

During 2015, the accrued interest income on impaired financial assets was £nil (2014: £nil).

Direct operating expenses (including repairs and maintenance) arising from investment properties were not material in 2015 or 2014.

8. Investment income, expenses and charges (continued)

Unrealised gains and losses recognised in other comprehensive income for available for sale assets are as follows:-

	Net unrealised gains / (losses)		Net realised gains / (losses) transferred to profit and loss account		Net movement recognised in other comprehensive income	
	2015	2014	**2015**	2014	**2015**	2014
	£m	£m	**£m**	£m	**£m**	£m
Equity securities	**(24)**	(32)	**14**	15	**(10)**	(17)
Debt securities	**(101)**	121	**1**	3	**(100)**	124
Subsidiary and associate undertakings	**(439)**	(288)	**47**	81	**(392)**	(207)
Other	**-**	-	**-**	-	**-**	-
Total continuing operations	**(564)**	**(199)**	**62**	**99**	**(502)**	**(100)**
Discontinued Operations	**(1)**	**1**	**-**	**-**	**(1)**	1
Total	**(565)**	**(198)**	62	99	**(503)**	**(99)**

9. Auditor's remuneration

Fees payable to KPMG LLP for the audit of the Company's accounts for the year ended 31 December 2015 were £930,000 (31 December 2014: £1,098,875). Details of non-audit fees payable to KPMG LLP are disclosed in the RSA Insurance Group plc 2015 Annual Report and Accounts. Audit fees of £313,391 (2014: £235,185) are also paid by Royal & Sun Alliance Insurance plc on behalf of certain subsidiary undertakings.

10. Directors' emoluments

	2015	2014
The aggregate emoluments of the directors, including amounts received from subsidiaries, were as follows:	**£000**	£000
Salaries and bonuses	**3,580**	2,018
Allowances, benefits and other awards	**2,618**	327
	6,198	2,345

The criteria for making bonus awards are based on targeted levels of business sector profit and specific business objectives.

At 1 January 2014 and at 1 April 2015 there were interest free loans of £5,000 outstanding to A P Brown (repaid during 2014) and to S W Lowther (repaid during 2015) respectively. The loans were provided under the standard terms of the Group's UK Car Ownership Scheme, which is open to all UK managers within a qualifying salary band.

At 1 January 2014 C J R Rash had a loan outstanding from the Company of £12,000. The loan was provided to cover personal tax paid but recoverable relating to his employment with a subsidiary of the Company. The loan was repaid in January 2014.

	2015	2014
The emoluments of the highest paid director (S Egan (2014: D A Weymouth)) are as follows:-	**£m**	£m
Salary, bonuses, allowances, benefits and other awards	**1,741**	718

The amounts paid into a pension scheme in respect of the highest paid directors' qualifying services during 2015 were £13,125 (2014: £nil)

During 2014, retirement benefits accrued under defined benefit schemes for C J R Rash. During 2015, contributions of £73,875 (2014: £34,851) were made to Group defined contribution schemes during the year in respect of three directors (2014: four directors).

During 2015, no directors exercised share options (2014: two directors) and three directors (2014: four directors) had shares awards vesting under long term incentive schemes in respect of ordinary shares of the Company' ultimate parent company.

11. Employees and Staff Costs

	2015 £m	2014 £m
Wages and salaries	**294**	323
Social security costs	**31**	36
Other pension costs	**37**	39
Total staff costs	**362**	398
Staff costs relating to continuing operations	**357**	379
Staff costs relating to discontinued operations	**5**	19
Total staff costs	**362**	398

Other pension costs include only those items included within operating costs.

The average monthly number of persons (including executive directors) employed by the company during the year was:-

	2015	2014
UK & Ireland	**6,495**	7,072
Other EEA	**198**	243
Other	**103**	320
Average number of employees during the year	**6,796**	7,635
Average number of employees during the year relating to continuing operations	**6,710**	7,334
Average number of employees during the year relating to discontinued operations	**86**	301
Total average number of employees during the year	**6,796**	7,635

UK & Ireland includes staff employed in Group Corporate Centre.

12. Retirement Benefits

Defined contribution pension schemes

Costs of £12m (2014: £14m) were recognised in respect of defined contribution schemes by the Company.

Defined benefit pension schemes and other post-retirement benefits

The major defined benefit pension schemes are located in the UK. The assets of these schemes are mainly held in separate trustee administered funds.

The UK defined benefit schemes were effectively closed to new entrants in 2002. Two of the 3 main schemes merged in 2014, creating two main UK schemes.

The profile of the members of the two main UK schemes at 30 September 2015 (the latest date at which full information is available) are as follows:-

	Number
Active members - members in employment with the Company and accruing benefits	2,216
Deferred members - members no longer accruing and not yet receiving benefits	25,980
Pensioners - members and dependants receiving benefits	17,469
Total members at 30 September 2015	**45,665**

Active members of the schemes accrue additional benefits in each year based on salaries (subject to a salary cap) in that year. Employees are entitled to join the stakeholder pension scheme for earnings above the cap.

Accrued benefits are revalued up to retirement in accordance with Government indices for inflation. A cap of 2.5% per annum applies to the revaluation of accrued benefits. A cap of 5% per annum applies for benefits which accrued prior to March 2010.

After retirement, pensions in payment are increased each year based on the increases in the Government indices for inflation. A cap of 5% applies to benefits (in excess of Guaranteed Minimum Pensions) which accrued prior to 31 December 2005, and a cap of 2.5% applies to benefits accruing after that date.

12. Retirement Benefits (continued)

Defined benefit pension schemes and other post-retirement benefits (continued)

The UK schemes are managed through trusts with independent trustees responsible for the safeguard of the interests of all members. The trustees meet regularly with Group management to discuss the funding position and any proposed changes to the schemes. The schemes are regulated by The Pension Regulator. Each scheme is subject to triennial valuations, which are used to determine the future funding of the schemes by the Group including funding to repair any funding deficit. The effective date of the most recent valuations of the main UK funds is 31 March 2015.

The Group is exposed to risks through its obligation to fund the schemes. These risks include market risk (assets not performing as well as expected), inflation risk and longevity risk over the lives of the members. The Group and the trustees of the schemes work together to reduce these risks through agreement of investment policy including the use of interest rate, inflation rate and longevity swaps.

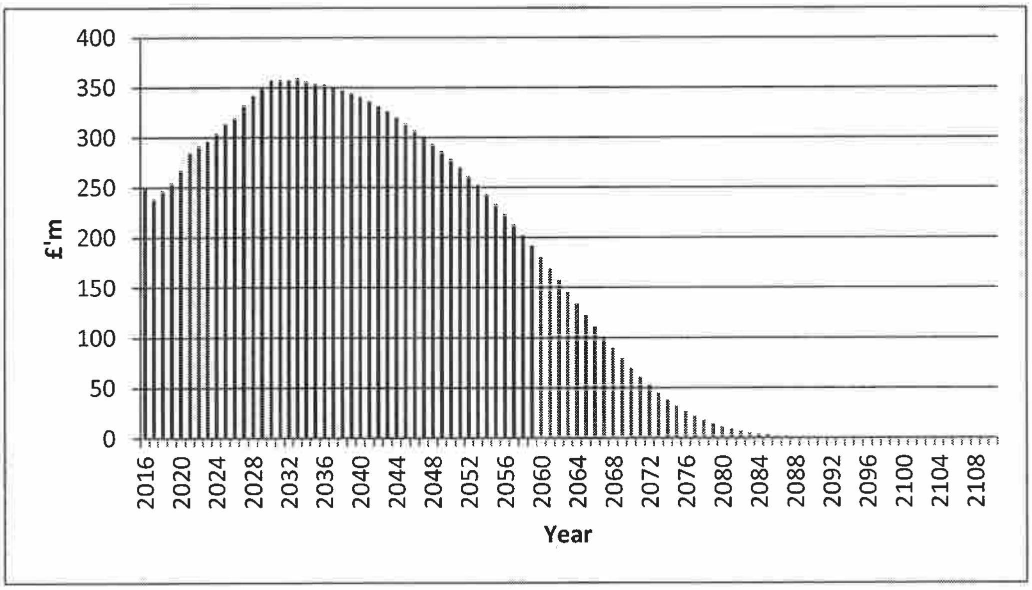
During 2009 the Group entered into arrangement that provide coverage against longevity risk for 55% of the retirement obligations relating to pensions in payment of the two largest UK schemes at that time. The arrangement provides for reimbursement of the covered pension obligations in return for the contractual return receivable on portfolios of assets (including some interest rate swaps) held by the pension funds at the inception of the arrangement. The arrangement is accounted for as a longevity swap. The pension schemes continue to hold the original assets used to fund the arrangements.

At the most recent funding valuations, the main UK funds had an aggregate funding deficit of £392m, equivalent to a funding level of 95%. The group and the trustees agreed funding plans at that time to eliminate the funding deficits by 2025. Details of the deficit contributions paid in 2015 and that are due to be paid in 2016 under these plans are disclosed below. The funding plans will be reviewed again following the next triennial funding valuations which will have an effective date of 31 March 2018

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

For the two main UK defined benefit schemes, the level of contributions in 2015 were £93m (2014: £93m) of which £65m (2014: £64m) were additional contributions in line with the plan to reduce funding deficits. Expected contributions to the two schemes for the year ending 31 December 2016 are approximately £85m including £65m of additional contributions to reduce the deficit.

The maturity profile of the undiscounted cash flows of the main UK schemes are as shown below:-



The weighted average duration of the defined benefit obligation of the two main UK schemes at the end of the reporting period is 17 years.

The 2002 Scheme (which was the scheme to which new UK employees had been admitted following the closure of the main defined benefit schemes) has been closed to further accrual from 1 January 2006. It has been replaced by a stakeholder arrangement and members of the 2002 Scheme and future new employees in the UK now accrue future benefits on a defined contribution basis under the stakeholder pension scheme.

The estimated discounted present values of the accumulated obligations are calculated in accordance with the advice of independent, qualified actuaries.

12. Retirement Benefits (continued)

Defined benefit pension schemes and other post-retirement benefits (continued)

	2015	2014
	£m	£m
Asset / (Deficit) at 1 January	**41**	(73)
Current service cost	**(18)**	(17)
Past service cost	**(5)**	(4)
Pension net interest cost	**4**	-
Administration cost	**(6)**	(5)
Gain on settlement / curtailment	**-**	1
Total pension expense	**(25)**	(25)
Contributions by the Group	**96**	96
Return on scheme assets less amounts included in pension net interest cost	**(342)**	789
Effect of changes in financial assumptions	**286**	(775)
Effect of changes in demographic assumptions	**(31)**	-
Experience gains and losses	**131**	38
Investment expenses	**(14)**	(9)
Re-measurements of net defined benefit liability	**30**	43
Exchange adjustment	**(1)**	-
Pension and post retirement asset	**141**	41
Deferred tax in respect of net pension and post retirement deficit	**(25)**	(8)
Net pension and post retirement asset at 31 December	**116**	33

The value of scheme assets / defined benefit liability that is included at 31 December in the financial statements are as follows:-

	2015	2014
	£m	£m
Present value of funded obligations	**6,666**	7,032
Present value of unfunded obligations	**7**	8
Present value of obligations	**6,673**	7,040
Equities	**589**	961
Government debt	**3,982**	4,047
Non government debt	**2,392**	2,139
Derivatives	**476**	698
Other (including infrastructure, commodities, hedge funds, loans)	**-**	-
Securities with quoted market price in an active market	**7,439**	7,845
Property	**166**	199
Cash	**68**	62
Other (including infrastructure, commodities, hedge funds, loans)	**738**	500
Other investments	**972**	761
Value of asset and longevity swaps	**(1,597)**	(1,525)
Fair value of assets held by pension schemes	**6,814**	7,081
Total surplus / (deficit)	**141**	41
Defined benefit pension schemes	**141**	41
Other post-retirement benefits	**-**	-
Schemes in surplus	**178**	127
Schemes in deficit	**(37)**	(86)

12. Retirement Benefits (continued)

Defined benefit pension schemes and other post-retirement benefits (continued)

The following is a reconciliation of the Company's retirement benefit obligations:-

	2015	2014
	£m	£m
Retirement benefit obligations at 1 January	7,040	6,248
Current service costs	18	17
Past service costs and losses arising from settlements	5	4
Interest costs	256	284
Actuarial (gain) / loss on obligations	(386)	737
Gains on curtailments	-	(9)
Payment from schemes	(260)	(241)
Retirement benefit obligations at 31 December	6,673	7,040

The following is a reconciliation of the Company's pension scheme's assets:-

	2015	2014
	£m	£m
Pension scheme's assets at 1 January	7,081	6,175
Return on scheme's assets (included in pension net interest cost)	260	284
Return on scheme assets less amounts included in pension net interest cost	(342)	789
Contributions by the Group	96	96
Total expenses paid from the scheme	(20)	(14)
Payments from the scheme	(260)	(241)
Settlement / curtailment	-	(8)
Exchange rate adjustment	(1)	-
Pension scheme's assets at 31 December	6,814	7,081

The principal actuarial assumptions used were as follows:-

	2015	2014
	%	%
Assumptions used in calculation of retirement benefit obligation		
Discount Rate / Interest rate used to discount liabilities	3.92	3.70
Annual rate of retail price index inflation (RPI)	3.02	3.00
Annual rate of consumer price index (CPI)	1.92	2.20
Annual rate of increase in salaries	3.02	3.00
Annual rate in increase in pensions[1]	2.93	2.90
Assumptions used in calculation of profit and loss account credit / (charge) in the year:		
Discount rate	3.70	4.60

[1]The annual rate of increase in pensions shown is the rate that applies to pensions that increase at RPI subject to a cap of 5%.

Mortality Rate

The mortality assumptions are set following investigations of the main schemes' recent experience by the schemes' actuaries for the funding valuations. At the funding valuation in March 2015, the mortality assumptions adopted for the main UK schemes used the S2 base tables with percentage adjustments to reflect the schemes' recent experience compared with that expected under these tables.

Reductions in future mortality rates are allowed for using the CMI 2015 tables with a long term rate of 1.25%. The weighted average assumptions imply that a current pensioner aged 60 has an expected future lifetime of 28.0 (2014: 27.6) years (males) and 29.1 (2014: 28.9) years (females) and a future pensioner aged 60 in 15 years' time has a future expected lifetime from age 60 of 29.3 (2014: 28.7) years (males) and 30.6 (2014: 30.1) years (females).

12. Retirement Benefits (continued)

Defined benefit pension schemes and other post-retirement benefits (continued)

Sensitivity Analysis

Sensitivities for the defined benefit obligations of the two main UK schemes are shown below (net of tax):-

	Changes in assumption	2015	2014
Discount rate	Increase by 0.25%	**(222)**	(237)
RPI / CPI[2]	Increase by 0.25%	**166**	177
Mortality long term rate	Increase by 0.25%	**62**	70
Life expectancy	Increase by 1 year	**187**	192

[2] The impact shown is for the appropriate increase in the revaluation of deferred pensions and the increases to pensions in payment resulting from the specific increase in RPI and CPI.

13. Share Based Payments

Employees of the Company participate in all of the share schemes of RSA Insurance Group (the Group). The Group has five types of share based payment plans which are settled in the form of ordinary shares: the Long Term Incentive Plan (LTIP), the Performance Share Plan (PSP), the Sharesave Plan (SAYE), the Sharebuild Plan and the Executive Share Option Scheme (ESOS). Dilution levels for all schemes are held strictly within Association of British Insurers limits. Further information on the LTIP and PSP schemes is included below and further disclosures in respect of the ESOS, SAYE and Sharebuild schemes have not been made on the grounds that the schemes are immaterial to the Company.

The total employment cost recorded in the profit and loss account for all plans is £11m in 2015 (2014: £6m).

Analysis of share scheme costs (per profit and loss account)

	2015	2014
	£m	£m
LTIP	**1**	1
PSP	**7**	2
SAYE	**1**	1
Sharebuild	**2**	2
Total	**11**	6

Analysis of awards costs

	2015		2014	
	Charge for year	**Total value**	Charge for year	Total value
	£m	**£m**	£m	£m
LTIP	-	-	-	-
PSP	**4**	**9**	2	4
SAYE	-	**1**	-	1
Sharebuild	-	**1**	-	2
Total	**4**	**11**	2	7

Performance Share Plan

The PSP for Executive Directors and other selected executives was adopted following approval obtained at the Group's 2014 AGM. The first awards were made under this scheme in 2014.

The structure of the plan allows for three different types of awards to be made.

The Remuneration Committee of the Group may defer a portion of an individual's gross bonus (limited to 50% of that bonus) into an award over shares referred to for the purpose of the plan as Deferred Bonus Shares. Deferred Bonus Shares awards are generally retained if an employee leaves the Group unless the employee is dismissed for cause. The awards are not subject to performance conditions.

13. Share Based Payments (continued)

Additionally, the Remuneration Committee may make conditional awards of Performance Shares to senior executives and conditional awards of Restricted Shares to other executives and senior managers. Awards of Performance Shares are subject to a performance condition consisting of a combination of a return on tangible equity target, a total shareholder return target (with performance measured by comparison against other European insurance companies) and a business review scorecard target over a single three year performance period. Restricted Shares are not subject to performance conditions. All awards vest on the third anniversary of the date of grant to the extent that the performance conditions have been met. If an employee resigns from the Group, then Performance Shares and Restricted Shares lapse at date of leaving the Group. However, the Group Remuneration Committee has the discretion to modify the treatment of leavers' share awards that have yet to be released, based on the leaving circumstances, where this is appropriate and in shareholders' interests. Awards retained will vest on the normal vesting date.

Long Term Incentive Plan

The LTIP for Executive Directors and other selected executives was adopted following approval obtained at the Group's 2006 AGM. Awards had been made each year since 2006 following shareholder approval until 2013 when the scheme was replaced by PSP.

The structure of the plan allows for a number of different types of awards to be made.

Voluntary Invested Deferred Shares are purchased by participants from net bonus payable (limited to a maximum value of 33% of net bonus). Voluntary Invested Deferred Shares are held in trust for three years.

In addition, for senior executives, the Remuneration Committee may defer a portion of an individual's gross bonus (limited to 33% of that bonus) into an award over shares referred to for the purpose of the plan as Compulsory Deferred Shares. Compulsory Deferred Shares awards are normally forfeited on an employee leaving the Group. No further performance conditions apply.

The Remuneration Committee may make a conditional award of shares on a 'matched' basis to Voluntary Invested and Compulsory Deferred Shares ('Matching Shares') up to a maximum of 2:1 and these are normally forfeited on an employee leaving the Group.

Additionally, the Remuneration Committee may make conditional awards of Performance Shares to senior executives and conditional awards of Restricted Shares to other executives and senior managers.

Awards of Performance Shares and Matching Shares related to Compulsory Deferred Shares are subject to a performance condition consisting of a combination of a return on equity target and a total shareholder return target (with performance measured by comparison against other European insurance companies) over a single three year performance period. Matching Shares related to Voluntary Invested Deferred Shares are subject only to the return on equity performance condition. Restricted Shares are not subject to performance conditions. All awards vest on the third anniversary of the date of grant to the extent that the performance conditions have been met. Performance Shares and Restricted Shares are normally forfeited on an employee leaving the Group.

14. Taxation

The charge / (credit) for taxation in the profit and loss account comprises:

	2015	2014
	£m	£m
Current tax		
UK corporation tax	**23**	(30)
Overseas taxation	**16**	8
Adjustments in respect of prior periods (UK & Overseas)	**7**	(3)
Total current tax	**46**	(25)
Deferred tax		
Origination and reversal of temporary differences	**(75)**	97
Adjustments in respect of prior periods	**(4)**	12
Adjustments for change in tax rate	**15**	-
Total deferred tax (see note 24)	**(64)**	109
Total tax (credit) / charge for the year	**(18)**	84
Tax on disposal of discontinued operations	**3**	-
Tax on profits of discontinued operations	**16**	16
Total taxation attributable to continuing operations	**(37)**	68

The UK corporation tax for the current year is based on a rate of 20.25% (2014: 21.49%). The rate of corporation tax has reduced from 21% to 20% effective 1 April 2015, and as a result a composite rate of 20.25% has been used in the accounts.

14. Taxation (continued)

Reconciliation of the total tax (credit) / charge

The tax (credit) / charge for the year is less than 20.25% (2014: more than 21.49%) due to the items set out in the reconciliation:

	2015	2014
	£m	£m
Profit on ordinary activities before tax	**297**	159
Profit before tax at 20.25% (2014: 21.49%)	**60**	34
Factors affecting (credit) / charge:		
Expenses not deductible for tax purposes	**4**	424
Income / gains not taxable	**(78)**	(480)
Fiscal adjustments	**(7)**	(11)
Adjustment to tax charge in respect of previous periods	**3**	9
Effect of change in tax rates	**22**	(1)
Group relief (surrendered) / received without payment	**-**	6
Unrelieved foreign tax credits	**9**	10
Deferred tax assets not recognised	**(31)**	93
Total tax (credit) / charge for the year	**(18)**	84

15. Dividends

	2015	2014
	£m	£m
Interim dividend of 0p (2014: 0p) per ordinary share paid	**-**	-

The directors do no recommend payment of a dividend in respect of the year ended 31 December 2015 (2014: £nil)

16. Intangible fixed assets

	Goodwill on acquisition	Renewal Rights	Externally acquired software	Internally generated software	Other	Total
Cost	£m	£m	£m	£m	£m	£m
At 1 January 2015	21	5	73	192	25	316
Additions and transfers	-	-	-	15	-	15
Disposals	(12)	(5)	(1)	(5)	-	(23)
At 31 December 2015	9	-	72	202	25	308
Accumulated Amortisation						
At 1 January 2015	-	(5)	(46)	(88)	(16)	(155)
Disposals	-	5	-	3	-	8
Charge for the year	-	-	(7)	(28)	(3)	(38)
At 31 December 2015	-	-	(53)	(113)	(19)	(185)
Net Book Value						
At 31 December 2015	**9**	**-**	**19**	**89**	**6**	**123**
Less: Assets Classified as Held for Sale	-	-	-	-	-	-
	9	**-**	**19**	**89**	**6**	**123**

	Goodwill on acquisition	Renewal Rights	Externally acquired software	Internally generated software	Other	Total
Cost	£m	£m	£m	£m	£m	£m
At 1 January 2014	21	5	146	438	14	624
Additions and transfers	-	-	-	21	11	32
Disposals	-	-	(73)	(267)	-	(340)
At 31 December 2014	21	5	73	192	25	316
Accumulated Amortisation						
At 1 January 2014	-	(5)	(89)	(150)	(11)	(255)
Disposals	-	-	54	82	-	136
Charge for the year	-	-	(11)	(20)	(5)	(36)
At 31 December 2014	-	(5)	(46)	(88)	(16)	(155)
Net Book Value						
At 31 December 2014	**21**	**-**	**27**	**104**	**9**	**161**
Less: Assets Classified as Held for Sale	(5)	-	-	-	-	(5)
	16	**-**	**27**	**104**	**9**	**156**

17. Investments – Land and Buildings

	2015	Restated 2014
	£m	£m
Land and Buildings		
Freehold land and buildings	**379**	354
Long leasehold	**18**	18
Total land and buildings	**397**	372
Of which Company occupied	**33**	34

The Company's Property portfolio (including the Company occupied properties) is almost exclusively located in the UK. An increase of 100bps in the discount rate used to value the UK property portfolio would result in a decrease of £61m in the fair value of the portfolio.

17. Investments – Land and Buildings (continued)

	2015	2014
	£m	£m
Movement in the carrying value of land and buildings in detailed below:-		
Land and buildings at 1 January	372	317
Purchases	-	23
Fair value gains taken to profit and loss account	26	29
Fair value gains taken to statement of other comprehensive income	1	3
Depreciation taken to the profit and loss account	(2)	-
Land and buildings at 31 December	397	372

The historical cost of property at 31 December 2015 is £343m (2014: £343m).

	2015	2014
	£m	£m
Property Reserve at 1 January	8	4
Fair value gains	1	4
Property Reserve at 31 December	9	8

Investment properties are included in the Company's investment portfolio to provide investment returns over the longer term in accordance with investment strategy. Investment properties are managed by external managers.

These lease agreements are normally drawn up in line with local practice and the Company has no significant exposure to leases that include contingent rents.

Company occupied property and investment property

Company occupied properties are valued on a vacant possession basis. Investment properties are valued at their highest and best use.

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

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

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

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

18. Shares in Group Undertakings

The Company's subsidiaries at 31 December 2015 are set out in note 42. The companies are principally all engaged in the transaction of insurance or related business. The countries shown are those of incorporation and principal operation. Subsidiaries in the balance sheet comprise:-

	2015	2014
	£m	£m
Fair value at 1 January	10,889	13,039
Additions / Acquisitions	28	115
Disposal	(67)	(183)
Revaluation	(347)	(122)
Impairments	(13)	(1,960)
Fair value at 31 December	10,490	10,889
Less: Assets Classified as Held for Sale	-	(67)
	10,490	10,822

The historic cost of investments in subsidiaries is £11,721 (2014: £11,735m).

18. Shares in Group Undertakings (continued)

Acquisitions of £28m in 2015 comprise capital injections £18m into RSA Insurance Ireland Ltd, £4m into Royal & Sun Alliance Property Services Limited, £3m into InTouch Insurance Group B.V., £2m into Royal & Sun Alliance Seguros (Colombia) S.A. and £1m into RSA Asia Management Office PTE. LTD. Disposals of £(67)m relates to the disposal of Sun Alliance Insurance China. Impairments of £13m relate to RSA Insurance Ireland Ltd, InTouch Insurance Group B.V., RSA Asia Management Office PTE. LTD and Royal & Sun Alliance Property Services Limited.

Profit on disposal of subsidiaries comprises the following: -

	2015	2014
	£m	£m
Proceeds	**69**	189
Less: Carrying Value	**(67)**	(183)
Add: Unrealised gains released from revaluation reserve	**26**	81
Profit on disposal of subsidiaries	**28**	87

19. Shares in associated undertakings

The Company disposed of its 26% holding of ordinary shares in Royal Sundaram Alliance Insurance Limited during the year which operates and is incorporated in India.

	2015	2014
	£m	£m
Fair value at 1 January	**41**	45
Disposal	**(41)**	-
Revaluation	**-**	(4)
Fair value at 31 December	**-**	41

Profit on disposal of associates comprises the following: -

	2015	2014
	£m	£m
Proceeds	**46**	-
Less: Carrying Value	**(41)**	-
Add: Unrealised gains released from revaluation reserve	**17**	-
Profit on disposal of associate	**22**	-

20. Financial Assets

	2015	2014
	£m	£m
Equity securities	**277**	240
Debt securities	**4,408**	4,635
Financial assets measured at fair value	**4,685**	4,875
Loans and receivables	**50**	125
Total financial assets	**4,735**	5,000
Less: Assets classified as held for sale		
Debt securities	**(12)**	(292)
Loans and receivables	**-**	(58)
Total assets classified as held for sale	**(12)**	(350)
Total financial assets net of held for sale	**4,723**	4,650

Fair Value measurement

Fair value is used to value a number of assets within the Statement of Financial Position and basically represents its market value at the reporting date.

Cash at bank and in hand, loans and receivables

For cash, loans and receivables, commercial paper, other assets, liabilities and accruals, their carrying amounts are considered to be as approximate fair values.

20. Financial Assets (continued)

Company occupied property and investment property

Company occupied properties are valued on a vacant possession basis using third party valuers. Investment properties are valued, at least annually, at their highest and best use.

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

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

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

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

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

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

Derivative financial instruments

Derivative financial instruments are financial contracts whose fair value is determined on a market basis by reference to underlying interest rate, foreign exchange rate, equity or commodity instrument or indices.

Loan capital

The fair value measurement of the Company's loan capital instruments, with the exception of the subordinated guaranteed US$ bonds, are based on pricing obtained from a range of financial intermediaries who base their valuations on recent transactions of the Group's loan capital instruments and other observable market inputs such as applicable risk free rate and appropriate credit risk spreads.

The fair value measurement of the subordinated guaranteed US$ bonds is also obtained from an indicative valuation based on the applicable risk free rate and appropriate credit risk spread.

Fair value hierarchy

Fair value for all assets and liabilities which are either measured or disclosed is determined based on available information and categorised according to a three-level fair value hierarchy as detailed below:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from data other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 fair value measurements are those derived from valuation techniques that include significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).

A financial instrument is regarded as quoted in an active market (Level 1) if quoted prices for that financial instrument are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Quoted prices are not always available, or the asset may not be traded very often or not at all on a market. In these instances, internal calculations that maximise the use of observable data are used to estimate fair value. The valuation technique, which is predominantly used is discounted cash flows. This incorporates all the factors that market participants would take into account in pricing a transaction. When all significant inputs to the calculation are observable, then the valuation is classified as a Level 2 valuation.

In limited circumstances, the Group uses input parameters that are not based on observable market data. Unobservable inputs are based on assumptions that are neither supported by prices from observable current market transactions for the same instrument nor based on available market data. In these cases, judgment is required to establish fair values. Valuations that require the significant use of unobservable data are considered Level 3 valuations.

20. Financial Assets (continued)

Fair value hierarchy (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

	Fair Value Hierarchy				
	Level 1 2015 £m	Level 2 2015 £m	Level 3 2015 £m	Less amounts classified as held for sale	**Total 2015 £m**
Available for sale financial assets:					
Equity securities	96	-	143	-	**239**
Debt securities	4,148	107	153	(12)	**4,396**
Financial assets at fair value through the profit and loss account:-					
Equity securities	-	-	38	-	**38**
Debt securities	-	-	-	-	**-**
	4,244	107	334	(12)	**4,673**
Derivative assets at fair value through the profit and loss account	-	42	-	-	**42**
Total assets measured at fair value	**4,244**	**149**	**334**	**(12)**	**4,715**
Derivative liabilities at fair value through the profit and loss account	-	96	-	-	**96**
Total derivatives measured at fair value	-	**96**	-	-	**96**

	Fair Value Hierarchy				
	Level 1 2014 £m	Level 2 2014 £m	Level 3 2014 £m	Less amounts classified as held for sale	Total 2014 £m
Available for sale financial assets:					
Equity securities	138	-	59	-	197
Debt securities	4,528	105	2	(292)	4,343
Financial assets at fair value through the profit and loss account:-					
Equity securities	-	-	43	-	43
Debt securities	-	-	-	-	-
	4,666	105	104	(292)	4,583
Derivative assets at fair value through the profit and loss account	-	50	-	-	50
Total assets measured at fair value	4,666	155	104	(292)	4,633
Derivative liabilities at fair value through the profit and loss account	-	69	-	-	69
Total derivatives measured at fair value	-	69	-	-	69

None of the Company's claims outstanding are measured at fair value. There were no transfers between Level 1 and Level 2 during the year.

20. Financial Assets (continued)

Fair value hierarchy (continued)

A reconciliation of Level 3 fair value measurements of financial assets is shown in the table below.

	Available for Sale		At fair value through profit and loss		
	Equity securities	Debt securities	Equity securities	Debt securities	**Total**
	£m	£m	£m	£m	**£m**
Balance at 1 January 2014	25	2	34	-	61
Total gains or losses recognised in:					
Profit and loss account	-	-	(1)	-	(1)
Other comprehensive income	(2)	-	-	-	(2)
Purchases	36	-	22	-	58
Disposals	-	-	(12)	-	(12)
Balance at 31 December 2014	59	2	43	-	104
Total gains or losses recognised in:					
Profit and loss account	-	-	(6)	-	(6)
Other comprehensive income	(4)	2	-	-	(2)
Purchases	88	149	7	-	244
Disposals	-	-	(6)	-	(6)
Balance at 31 December 2015	**143**	**153**	**38**	**-**	**334**

The Company's investments in financial assets classified at Level 3 in the hierarchy are primarily investments in various private fund structures investing in debt instruments where the valuation includes estimates of the credit spreads on the underlying holdings. The estimates of the credit spread are based upon market observable credit spreads for what are considered to be assets with similar credit risk. The aggregate value of these holdings included in the table above at 31 December 2015 is £296m. An increase in the estimate of the credit spread of the underlying holdings of 100bps would result in a reduction in the fair value of these investments of £12m.

There were no transfers into or out of Level 3 during the period. There are no financial liabilities measured at fair value using Level 3 fair value measurements.

21. Reinsurer's share of provision for unearned premiums

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

	2015	2014
	£m	£m
Reinsurer's share of provisions for unearned premiums at 1 January	**563**	256
Premiums ceded to reinsurers	**1,017**	983
insurer's share of premiums earned	**(770)**	(668)
Changes in reinsurance asset	**247**	315
Reinsurer's share of portfolio transfers and (disposals) / acquisitions of subsidiaries	**(25)**	(4)
Exchange adjustment	**(1)**	(4)
Reinsurer's share of provision for unearned premiums at 31 December	**784**	563
Less: Assets classified as held for sale	**(9)**	(31)
Total Reinsurer's share of provision for unearned premiums at 31 December	**775**	532

22. Reinsurer's share of provision for outstanding claims

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

	2015	2014
	£m	£m
Reinsurer's share of provisions for losses and loss adjustment expenses at 1 January	**759**	768
Reinsurer's share of total claims incurred	**427**	287
Total reinsurance recoveries received	**(348)**	(290)
Reinsurer's share of portfolio transfers and (disposals) / acquisitions of subsidiaries	**(45)**	(2)
Exchange adjustment	**(5)**	(4)
Reinsurer's share of provisions for losses and loss adjustment expenses at 31 December	**788**	759
Less: Assets classified as held for sale	**(7)**	(64)
Total Reinsurer's share of provisions for losses and loss adjustment expenses at 31 December	**781**	695

23. Current Tax

	Asset		Liability	
	2015	2014	2015	2014
	£m	£m	£m	£m
To be settled within 12 months	**5**	1	**13**	8
To be settled after 12 months	**5**	35	**1**	-
Net current tax position at 31 December	**10**	36	**14**	8

24. Deferred Tax

Deferred tax for the current year is based on a rate of 18% (2014: 20%)

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

	2015	2014
	£m	£m
Net unrealised gains on investments	**-**	(2)
Tax losses and unused tax credits	**88**	55
Other deferred tax reliefs	**2**	2
Retirement benefit obligations	**(25)**	(8)
Provisions and other temporary differences	**89**	83
Net deferred tax asset at 31 December	**154**	130
Less: Assets classified as held for sale	**-**	-
	154	130

Provisions and other temporary differences arise predominately in respect of capital expenditure £74m (2014: £78m) and amounts for which no relief is available until settled £18m (2014: £27m).

The movement in the net deferred tax asset recognised by the Company is as follows:

	2015	2014
Deferred Tax Movement Table	£m	£m
Deferred tax assets at 1 January	**130**	239
Amount (charged) / credited – Profit and Loss Account	**79**	(109)
Amount (charged) / credited - Other Comprehensive Income	**(41)**	-
Effect of change in tax rate – Profit and Loss Account	**(15)**	-
Effect of change in tax rate - Other Comprehensive Income	**1**	-
Deferred tax asset at 31 December	**154**	130

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

	Current Tax		Deferred Tax		Total	
	2015	2014	**2015**	2014	**2015**	2014
	£m	£m	**£m**	£m	**£m**	£m
Exchange gains and losses	**-**	(1)	**-**	(1)	**-**	(2)
Fair Value gains and losses	**22**	27	**(35)**	(9)	**(13)**	18
Re-measurement of net defined benefit pension liability	**-**	-	**(4)**	9	**(4)**	9
Total credit / (charge) to other comprehensive income	**22**	26	**(39)**	(1)	**(17)**	25

At the end of the reporting period, the Company has unused tax losses of £2,045m (2014: £1,862m) and unused tax credits of £nil (2014: £3.5m) available for offset against future profits. The Company's unused tax losses are made up of 'capital' losses of £1,063m (2014: £1,179m) and other 'income' losses of £982m (2014: £520m). A deferred tax asset of £88m (2014: £56m) has been recognised in respect of 'income' losses and £nil (2014: £3m) has been recognised in respect of tax credits included within other temporary differences at 31 December 2015. No deferred tax asset has been recognised in respect of the tax losses of £1,556m (2014: £1,582m) due to the unpredictability of future profit streams. It is unlikely that a deferred tax asset will ever be recognised in respect of the £1,063m (2014: £1,179m) capital losses due to UK exemptions. Tax losses include £4m (2014: £6m) which will expire between 2016 and 2024 of which none has been recognised for deferred tax. Other tax losses (including capital tax losses and unused credits) may be carried forward indefinitely.

The Company has temporary differences in respect of the retained earnings of overseas subsidiaries and associates 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 Canada. The company is able to control the remittance of earnings to the UK and there is no intention to remit any such earnings in the foreseeable future if the remittance would trigger a material incremental tax liability. As such the Company has not recognised any deferred tax in respect of the potential taxes on the temporary differences arising on unremitted earnings of overseas subsidiaries and associates.

Net deferred tax assets of £154m (2014: £130m), that relate to tax jurisdictions in which the Company has suffered a loss in either the current or preceding period, have been recognised on the basis that future taxable profits will be available against which these can be utilised. The evidence for the future taxable profits is a forecast consistent with the three year operational plans prepared by the relevant businesses, which are subject to internal review and challenge. Where relevant, the forecast includes extrapolations of the operational plans using assumptions consistent with those used in the plans.

25. Tangible fixed assets

	Equipment	Total
Cost	**£m**	**£m**
At 1 January 2015	86	86
Additions	3	3
Disposals	(5)	(5)
At 31 December 2015	**84**	**84**
Depreciation		
At 1 January 2015	42	42
Charge for the year	9	9
Impairment charge	1	1
Depreciation on disposals	(4)	(4)
At 31 December 2015	**48**	**48**
Net Carrying Amount		
At 31 December 2015	**36**	**36**

	Equipment	Total
Cost	**£m**	**£m**
At 1 January 2014	81	81
Additions	27	27
Disposals	(22)	(22)
At 31 December 2014	86	86
Depreciation		
At 1 January 2014	52	52
Charge for the year	9	9
Depreciation on disposals	(19)	(19)
At 31 December 2014	42	42
Net Carrying Amount		
At 31 December 2014	**44**	**44**

26. Deferred Acquisition Costs

	2015	2014
	£m	£m
Balance at 1 January	**443**	453
Acquisition costs during the year	**380**	389
Amortisation charge during the year	**(391)**	(396)
Changes in deferred acquisition costs	**(11)**	(7)
Exchange adjustment	**(3)**	(2)
Disposals	**(38)**	-
Other movements	**11**	(1)
Balance at 31 December	**402**	443
Less: Classified as Held for Sale	**(3)**	(40)
	399	403

27. Share Capital

	2015	2014
	£m	£m
Allotted, issued and fully paid		
4,859,811,537 ordinary A shares at 25p each (2014: 4,859,811,537 ordinary A shares at 25p each)	**1,215**	1,215
1 ordinary B share at $1 each (2014: 1 ordinary B share at $1 each)	**-**	-

The Company has two classes of shares, ordinary Class A shares of 25p each and ordinary Class B share of US$1. Each ordinary Class A share carries the right to one vote at general meetings of the Company, the right to receive dividend payments in accordance with the number of shares held and the right to participate in any distribution of capital of the Company including on a winding-up. Each ordinary Class B share carries no voting rights and no right to a dividend, but carries the right on winding-up of the Company to a distribution in priority to the Class A shares equivalent to the US$/£ exchange rate gain as set out in the Articles of Association, payable in sterling or US Dollars.

28. Subordinated loan notes

	2015	2014
	£m	£m
Subordinated loan note equity instruments	**78**	78
Subordinated liabilities	**492**	492

Subordinated loan note equity instruments

On 5 June 2006, the Company obtained a subordinated loan from RSA Insurance Group plc, its ultimate parent company, of £78m, derived from the issue of £375m of step up perpetual guaranteed subordinated capital securities on 12 May 2006. The notes have an annual coupon of 6.701%. The claims of the ultimate parent company on the loan are subordinated to the same extent as the claims of the holders of the capital securities. There is no contractual obligation to pay interest that accrues and in addition, the Group cannot call up payment of the balance. The company has the right to waive any interest and therefore this instrument is classified as equity.

On 8 December 2014, the company repaid a subordinated loan from RSA Insurance Group plc, its ultimate parent company, of £294m.

Interest of £4m (2014: £23m) net of tax was paid during the year on the subordinated loan note equity instruments and has been recognized in the statement of changes in equity.

Subordinated liabilities

On 30 June 2009, the Company obtained a subordinated loan from RSA Insurance Group plc, its ultimate parent company, of £492m, derived from the issue of £500m of subordinated guaranteed step-up notes on 20 May 2009. The notes have an annual coupon of 9.375%. The claims of the ultimate parent company on the loan are subordinated to the same extent as the claims of the holders of the notes. The loan has a maturity date of 20 May 2039. At 31 December 2015, the fair value of subordinated liabilities is £573m (2014: £602m) and if this was held at fair value in the financial statements it would have been included in 'level 2' of the fair value hierarchy as it is valued based inputs other than quoted prices

29. Total Other Comprehensive Income

	Revaluation reserves	**Foreign currency translation reserve**	**Profit and loss account**	**Total equity**
Year ended 31 December 2015	**£m**	**£m**	**£m**	**£m**
Exchange losses net of tax	**-**	**(16)**	**-**	**(16)**
Fair value losses net of tax	**(503)**	**-**	**-**	**(503)**
Pension – remeasurement of net defined benefit liability net of tax	**-**	**-**	**25**	**25**
Movement in property revaluation net of tax	**1**	**-**	**-**	**1**
Total other comprehensive income / (expense) for the year	**(502)**	**(16)**	**25**	**(493)**

	Revaluation reserves	Foreign currency translation reserve	Profit and loss account	Total equity
Year ended 31 December 2014	£m	£m	£m	£m
Exchange gains net of tax	-	8	-	8
Share of associates other comprehensive expense	-	-	(1)	(1)
Fair value losses net of tax	(99)	-	-	(99)
Pension - remeasurement of net defined benefit liability net of tax	-	-	34	34
Movement in property revaluation net of tax	3	-	-	3
Total other comprehensive income / (expense) for the year	(96)	8	33	(55)

30. Provision for unearned premiums, gross of acquisition costs

	2015 £m	2014 £m
Provisions for unearned premiums at 1 January	**2,304**	2,362
Premiums written	**4,064**	3,885
Premiums earned	**(4,070)**	(3,928)
Changes in provision for unearned premiums	**(6)**	(43)
Gross portfolio transfers and acquisitions	**(147)**	(2)
Exchange adjustment	**5**	(10)
Other movements	**(4)**	(3)
Provision for unearned premiums (gross of acquisition costs) at 31 December	**2,152**	2,304
Less: Liabilities classified as held for sale	**(12)**	(196)
	2,140	2,108

31. Claims Outstanding

The following changes have occurred in the technical provisions - claims outstanding:-

	2015 £m	2014 £m
Provisions for losses and loss adjustment expenses at 1 January	**4,698**	4,809
Gross claims incurred and loss adjustment expenses	**2,653**	2,452
Total claims payments made in the year net of salvage and other recoveries	**(2,366)**	(2,535)
Gross portfolio transfers, acquisitions and disposals	**(429)**	2
Exchange adjustment	**(12)**	(30)
Other movements	**-**	-
Provisions for losses and loss adjustment expenses at 31 December	**4,544**	4,698
Less: Liabilities classified as held for sale	**(8)**	(474)
	4,536	4,224

Claims outstanding include claims on certain classes of business which have been discounted. The total value of outstanding claims provisions less related reinsurance recoveries before discounting amounted to £4,289m (2014: £4,485m). The total value of gross outstanding claims provisions before discounting amounted to £5,265m (2014: £5,449m).

Claims are discounted as follows:-

		Discount Rate		Average period to settlement in years	
		2015	2014	**2015**	2014
Country	**Category**	**%**	%		
UK	Asbestos & Environmental	**4.00**	4.00	**10**	10

Assumptions

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 reserves is **£336m** (2014: £347m) 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 £85m. A decrease of 1% in the real discount rate for UK annuities would reduce the value of the discount by approximately £19m. The sensitivity calculation has taken into consideration the undiscounted reserves for each class of business and the respective average settlement period.

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 change.

31. Claims Outstanding (continued)

Claims development table gross of reinsurance

	2005 and prior year £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	**Total £m**
Estimate of cumulative claims												
At end of accident year	5,457	1,149	1,195	1,197	1,043	1,348	1,093	1,247	1,259	1,258	1,602	
One year later	5,520	1,193	1,245	1,197	1,146	1,420	1,135	1,234	1,288	1,327		
Two years later	5,235	1,147	1,224	1,195	1,150	1,413	1,131	1,250	1,238			
Three years later	4,949	1,098	1,177	1,171	1,132	1,433	1,103	1,225				
Four years later	4,907	1,084	1,148	1,167	1,129	1,426	1,081					
Five years later	4,860	1,090	1,139	1,140	1,130	1,405						
Six years later	4,830	1,046	1,140	1,126	1,129							
Seven years later	4,914	1,051	1,128	1,120								
Eight years later	4,974	1,048	1,121									
Nine years later	5,004	1,040										
Ten years later	4,995											
2015 movement	**9**	**8**	**7**	**6**	**1**	**21**	**22**	**25**	**50**	**(69)**		**80**
Claims paid												
One year later	1,268	497	554	548	514	779	468	612	590	619		
Two years later	638	183	190	175	181	201	223	223	207			
Three years later	437	84	124	129	130	152	134	109				
Four years later	348	95	81	104	102	115	92					
Five years later	255	55	62	61	78	54						
Six years later	146	32	39	31	37							
Seven years later	302	50	21	16								
Eight years later	158	24	11									
Nine years later	152	3										
Ten years later	78											
Cumulative claims paid	**3,782**	**1,023**	**1,082**	**1,064**	**1,042**	**1,301**	**917**	**944**	**797**	**619**		
Reconciliation to the Balance Sheet												
Current year provision before discounting	**1,213**	**17**	**39**	**56**	**87**	**104**	**164**	**281**	**441**	**708**	**1,602**	**4,712**
Exchange adjustment to closing rates												12
Discounting												(370)
Annuities												182
Present Value recognised in the Balance Sheet												**4,536**

31. Claims Outstanding (continued)

Claims development table net of reinsurance

	2005 and prior year	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	4,267	1,076	962	1,041	960	978	987	1,044	1,104	1,037	1,289	
One year later	4,263	1,083	1,006	1,067	1,055	1,022	998	1,057	1,163	1,085		
Two years later	4,060	1,032	992	1,069	1,052	1,014	975	1,061	1,121			
Three years later	3,932	985	957	1,047	1,039	1,024	951	1,039				
Four years later	3,818	974	929	1,039	1,040	1,021	934					
Five years later	3,734	963	928	1,020	1,042	1,001						
Six years later	3,702	939	931	1,004	1,042							
Seven years later	3,710	929	921	998								
Eight years later	3,741	914	914									
Nine years later	3,805	907										
Ten years later	3,831											
2014 movement	**(26)**	**7**	**7**	**6**	**-**	**20**	**17**	**22**	**42**	**(48)**		**47**
Claims paid												
One year later	1,035	445	426	488	482	514	431	522	539	514		
Two years later	442	163	156	158	155	164	163	178	183			
Three years later	307	74	108	117	125	109	119	96				
Four years later	281	84	71	96	101	92	83					
Five years later	173	53	64	46	74	40						
Six years later	99	37	36	30	32							
Seven years later	79	30	20	13								
Eight years later	141	7	5									
Nine years later	141	2										
Ten years later	56											
Cumulative claims paid	**2,754**	**895**	**886**	**948**	**969**	**919**	**796**	**796**	**722**	**514**		
Reconciliation to the Balance Sheet												
Current year provision before discounting	**1,077**	**12**	**28**	**50**	**73**	**82**	**138**	**243**	**399**	**571**	**1,289**	**3,962**
Exchange adjustment to closing rates												10
Discounting												(336)
Annuities												119
Present Value recognised in the Balance Sheet												**3,755**
Held for sale												1
Total												**3,756**

32. Equalisation provisions

	2015	2014
	£m	£m
Provisions at 1 January	**332**	319
Charged to the technical account - general business and in the profit on ordinary activities before tax	**6**	13
Provisions at 31 December	**338**	332

As explained in note 3, the effect of this provision is to decrease on shareholders' funds by £338m (2014: £332m). The increase (2014: increase) in the provision during the year had the effect of decreasing (2014: decreasing) the balance on the technical account for general business or the profit on ordinary activities before taxation by £6m (2014: £13m). As per note 41 the requirement for the company to hold an equalisation provision ceased from 1 January 2016.

33. Provisions for other risks

	2015	2014
	£m	£m
Provision for pensions and similar obligations	37	86
Other provisions	101	65
Total provisions at 31 December	138	151
Less: Liabilities classified as held for sale	(5)	-
	133	151

Of the above £47m (2014: £108m) is due to be settled outside of 12 months.

See note 12 for further information regarding the pension and post-retirement benefit obligations.

Movements in provisions for other risks

	2015	2014
	£m	£m
Provisions at 1 January	65	55
Charged to Profit and Loss Account	92	88
Utilised	(47)	(73)
Released	(9)	(5)
Provisions at 31 December	101	65
Less: Liabilities classified as held for sale	(5)	-
	96	65

Provisions include provisions of **£14m** (2014: £14m) held relating to vacant property leases, dilapidations and refurbishments, the costs relating to which will be borne across the period over which the leases expire, which is up to 20 years. Provisions also include Motor Insurance Bureau provision of **£13m** (2014: £14m) and reorganisation provisions of **£45m** (2014: £11m).

34. Borrowings

	2015	2014
	£m	£m
Amounts owed to credit institutions	40	342

Borrowings comprise secured loans from credit institutions and bank overdrafts which are repayable on demand. At 31 December 2015 and 2014 the Company had in place a one billion US Dollar Euro commercial paper programme. There were no amounts outstanding at 31 December 2015 (2014: £nil).

35. Other creditors

Other creditors including current taxation and social security includes £14m (2014: £8m) in respect of corporation tax payable.

36. Other debtors

Other debtors including current taxation and social security includes £10m (2014: £36m) in respect of corporation tax recoverable.

37. Operating lease commitments

The Company leases various outlets and offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

Operating lease commitments where the Company is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:-

37. Operating lease commitments (continued)

The future aggregate minimum lease payments in respect of non-cancellable operating leases are as follows:

	Land and Buildings		Other	
	2015	2014 Restated	**2015**	2014 Restated
	£m	£m	**£m**	£m
One year or less	**11**	14	**-**	1
Between one and five years	**29**	34	**1**	-
After five years	**40**	45	**-**	-
	80	93	**1**	1
Recoveries under sub tenancies	**(6)**	(8)	**-**	-
Total	**74**	85	**1**	1

Operating lease commitments where the Company is the lessor

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:-

	Land and Buildings	
	2015	2014
	£m	£m
One year or less	**23**	21
Between one and five years	**81**	74
After five years	**72**	80
Total	**176**	175

Funding commitments to structured entities

The future commitments to structured entities are disclosed in the risk management section of these financial statements.

38. Capital commitments

The estimated amount of capital commitments contracted but not provided for in these financial statements is £7m (2014: £11m).

The Company's capital commitments in respect of property and equipment and intangible assets are detailed as follows:-

	2015	2014
	£m	£m
Property and equipment	**2**	3
Intangible assets	**5**	8
Total	**7**	11

39. Contingent Liabilities

The Company receives liability claims and may also become involved in actual or threatened litigation, during the ordinary course of its business operations. The Group reviews and, in the opinion of the Directors, maintains sufficient provisions, capital and reserves in respect of such claims.

In addition, the Company has given guarantees, indemnities and warranties in relation to the disposals of its businesses and business interests to external parties. These are kept under review and, in the opinion of the Directors, no material loss will arise in respect of these guarantees, indemnities and warranties.

39. Contingent Liabilities (continued)

Royal & Sun Alliance Insurance plc has guaranteed on behalf of RSA Insurance Group plc the following:-

- the US $24m 8.95% subordinated guaranteed bonds due 15 October 2029;
- the issue of £375m step up perpetual guaranteed subordinated capital securities. There is an option to repay the bonds on specific dates starting 12 July 2017;
- the issue of £500m 9.375% subordinated guaranteed step-up notes. There is an option to repay the notes on specific dates from 20 May 2019;
- the issue of £400m 5.125% fixed rate reset guaranteed subordinated notes. There is an option to repay the notes on specific dates from 10 October 2025;and
- a £500m committed credit facility, of which £nil has been drawn.

40. Parent companies

The Company's immediate parent company is Royal Insurance Holdings plc, a company incorporated in the England and Wales.

The Company's ultimate parent company and controlling party is RSA Insurance Group plc, which is registered in England and Wales and is the parent company of the smallest and largest group to consolidate these financial statements. A copy of that company's accounts can be obtained from 17th Floor, 20 Fenchurch Street, London, EC3M 3AU.

Royal & Sun Alliance Insurance plc does not prepare consolidated financial statements on the basis that its results and those of its subsidiaries are consolidated within the aforementioned financial statements.

41. Post Balance Sheet Event

As at 31 December 2015 equalisation provisions were established in accordance with the Prudential Regulatory Authority's rules for insurers in the UK. As at 1 January 2016 these rules were repealed and replaced by the Solvency II rules, accordingly, and consequently the requirement for the company to hold an equalisation provision cease from that date.

42. Subsidiaries

The Company's subsidiaries at 31 December 2015 were as follows:

Name	Country of incorporation	Class of shares held	Percentage of normal value and voting rights held by the Company
Aseguradora de Creditos y Garantias S.A.	Argentina	Ordinary	100.00
Atlantis Sociedad Inversora S.A.	Argentina	Ordinary	100.00
Royal & Sun Alliance Seguros (Argentina) S.A.	Argentina	Ordinary	99.35
Santa Maria del Sol S.A.	Argentina	Ordinary	100.00
Royal & Sun Alliance Insurance (Middle East) BSC (c)	Bahrain	Ordinary	50.00
Royal & Sun Alliance Insurance PLC - Escritório de Representação no Brasil Ltda.*	Brazil	Ordinary	99.98
Royal & Sun Alliance Seguros (Brasil) SA	Brazil	Ordinary	100.00
2278857 Ontario Inc	Canada	Ordinary	100.00
3342484 Canada Limited	Canada	Ordinary	100.00
8301140 CANADA LIMITED	Canada	Ordinary	100.00
8301140 CANADA LIMITED	Canada	Preferred	100.00
8842264 Canada Limited	Canada	Ordinary	100.00
Ascentus Insurance Ltd.	Canada	Ordinary	100.00
Canadian Northern Shield Insurance Company	Canada	Ordinary	100.00
Coast Underwriters Limited	Canada	Class 1 Preferred Unlimited	100.00
Coast Underwriters Limited	Canada	Class 2 Preferred Unlimited	100.00
Coast Underwriters Limited	Canada	Class A Shares Unlimited	85.42
Coast Underwriters Limited	Canada	Class B1 Shares	100.00
Groupe Viau Inc. (Associate)	Canada	A Common	20.00
Johnson Inc.	Canada	Common (series B)	100.00
Johnson Inc.	Canada	Common (series A)	100.00
Johnson, L. Inc.	Canada	A Common Shares	100.00
Johnson, L. Inc	Canada	B Common Shares	100.00
MRM Solutions Limited	Canada	A Common	85.41
MRM Solutions Limited	Canada	B Common Shares (non-voting	100.00
Quebec Assurance Company	Canada	Ordinary	100.00
Roins Financial Services Limited	Canada	Ordinary	100.00
Roins Financial Services Limited	Canada	Preference (non-voting)	100.00
Roins Holding Limited	Canada	Common Unlimited	100.00
Royal & Sun Alliance Insurance Company of Canada	Canada	Ordinary	100.00
Royal & Sun Alliance Insurance Company of Canada	Canada	Class A Preferred (non-voting)	100.00
RSA Canada Holdings Limited	Canada	Preferred	100.00
RSA Canada Holdings Limited	Canada	Ordinary	100.00
RSA Travel Insurance Inc	Canada	Ordinary	100.00
The Johnson Corporation	Canada	Ordinary	100.00
Unifund Assurance Company	Canada	Preferred (non-voting)	100.00
Unifund Assurance Company	Canada	Common	100.00
Shaw Sabey & Associates Ltd (Associate)	Canada	Common Unlimited	25.00
Unifund Claims Inc.	Canada	Ordinary	100.00
Veinot, Morin and Associates Inc.	Canada	Ordinary	100.00
Western Assurance Company Corporation	Canada	Ordinary	100.00
RSA Seguros Chile S.A. – Roya & Sun Alliance Seguros (Chile) SA	Chile	Ordinary	98.48
RSA Seguros de Vida S.A.	Chile	Ordinary	100.00

42. Subsidiaries (continued)

Subsidiaries	Country of incorporation	Class of shares held	Percentage of normal value and voting rights held by the Company
Servicios y Ventas Compania Limitada	Chile	Ordinary	99.74
RSA Chilean Holding SpA	Chile	Ordinary	100.00
Inversiones RSA Chile Limitada	Chile	Ordinary	100.00
Financia Expreso RSA SA	Colombia	Ordinary	98.57
PROTECCIÓN GARANTIZADA LTDA	Colombia	Ordinary	50.27
Royal & Sun Alliance Seguros (Colombia) S.A.	Colombia	Ordinary	98.49
Besigtelses Kontoret af 1914 A/S	Denmark	Ordinary	100.00
Codan A/S	Denmark	Ordinary	100.00
Codan Ejendomme II A/S	Denmark	Ordinary	100.00
Codan Forsikring A/S	Denmark	Ordinary	100.00
Forsikringsselskabet Privatsikring A/S	Denmark	Ordinary	100.00
NIS 2 A/S	Denmark	Ordinary	100.00
NIS Denmark A/S	Denmark	Ordinary	100.00
Insurance Corporation of the Channel Islands Limited*	Guernsey	Ordinary	100.00
Insurance Corporation Service Company Limited	Guernsey	Ordinary	99.98
Royal & Sun Alliance IT Solutions (India) Private Limited*	India	Ordinary	100.00
RSA Actuarial Services (India) Private Limited*	India	Ordinary	100.00
123 Money Limited	Ireland	C Ordinary (non-voting)	100.00
123 Money Limited	Ireland	B1 Ordinary (non-voting)	100.00
123 Money Limited	Ireland	B2 Ordinary(non-voting)	100.00
123 Money Limited	Ireland	B3 Ordinary(non-voting)	100.00
123 Money Limited	Ireland	B4 Ordinary(non-voting)	100.00
123 Money Limited	Ireland	B5 Ordinary(non-voting)	100.00
123 Money Limited	Ireland	Ordinary	100.00
Benchmark Underwriting Limited*	Ireland	Ordinary	100.00
EGI Holdings Limited*	Ireland	Ordinary	100.00
Europa General Underwriters Limited	Ireland	Ordinary	100.00
Royal & Sun Alliance (Ireland) Limited*	Ireland	Ordinary	100.00
RSA Insurance Ireland Limited*	Ireland	Ordinary	100.00
RSA Overseas (No.3) Limited	Ireland	Ordinary	100.00
RSA Overseas Holdings (No. 1)	Ireland	Ordinary	100.00
RSA Overseas Holdings (No. 2)	Ireland	Ordinary	100.00
RSA Reinsurance Ireland Limited*	Ireland	Ordinary	100.00
Sertus Underwriting Limited	Ireland	Ordinary	100.00
The Patriotic Limited	Ireland	Ordinary	100.00
Ellan Vannin RSA (No. 1) Limited	Isle of Man	Ordinary	100.00
Ellan Vannin RSA (No. 2) Limited*	Isle of Man	Ordinary	100.00
Ellan Vannin RSA (No. 4) Limited	Isle of Man	Ordinary	100.00
Ellan Vannin RSA (No. 5) Limited	Isle of Man	Ordinary	100.00
Royal Insurance Service Company (Isle of Man) Limited	Isle of Man	Ordinary	100.00
RSA Isle of Man No.1 Limited*	Isle of Man	Ordinary	100.00
RSA Manx Holdings Limited	Isle of Man	A Ordinary	100.00
Tower Insurance Company Limited	Isle of Man	Ordinary	100.00
Urica Capital Ltd*	Jersey	Participating	49.90
RSA Overseas Holdings (Luxembourg) (No 1) SARL	Luxembourg	Ordinary	100.00
Royal & Sun Alliance Seguros (Mexico) S.A. de C.V.	Mexico	I Series M	100.00
Royal & Sun Alliance Seguros (Mexico) S.A. de C.V.	Mexico	I Series E	100.00
GDII - Global Direct Insurance Investments V.O.F.	Netherlands	Partnership Interest	100.00
IDIP Direct Insurance B.V.	Netherlands	Ordinary	100.00
Intouch Insurance Group B.V.*	Netherlands	Ordinary	100.00
Royal & SunAlliance Benelux Holdings NV	Netherlands	Ordinary	100.00

42. Subsidiaries (continued)

Subsidiaries	Country of incorporation	Class of shares held	Percentage of normal value and voting rights held by the Company
Royal Insurance Global B.V.*	Netherlands	Ordinary	100.00
RSA Overseas (Netherlands) B.V.	Netherlands	Ordinary	100.00
RSA Overseas Holdings B.V.	Netherlands	Ordinary	100.00
Sun Alliance Finance B.V.	Netherlands	Ordinary	100.00
NIS Norway AS	Norway	Ordinary	100.00
Al Ahlia Insurance Company SAOC	Oman	Ordinary	70.00
GDII - Rus L.L.C.	Russian Federation	Ordinary	100.00
Joint Stock Company "Intouch Insurance"	Russian Federation	Ordinary	74.56
Joint Stock Company "Intouch Insurance" (Non voting)	Russian Federation	Preference	100.00
Al Alamiya for Cooperative Insurance Company	Saudi Arabia	Ordinary	50.07
RSA Asia Management Office PTE. LTD.*	Singapore	Ordinary	100.00
Survey Association Pte Ltd	Singapore	Ordinary	100.00
Holmia Livforsakring AB	Sweden	Ordinary	100.00
CAB Group AB (Associate)	Sweden	Ordinary	27.30
NIS Sweden I AB	Sweden	Ordinary	100.00
NIS Sweden II AB	Sweden	Ordinary	100.00
Acrecrest Limited*	United Kingdom	Ordinary	100.00
Alliance Assurance Company Limited	United Kingdom	Ordinary	100.00
B.E. Inspection Limited*	United Kingdom	Ordinary	100.00
Bradford Insurance Trustee Limited*	United Kingdom	Ordinary	100.00
British and Foreign Marine Insurance Company Limited*	United Kingdom	Ordinary	100.00
British Aviation Insurance Company Limited*	United Kingdom	Ordinary	57.10
Caunce O'Hara & Company Limited (Associate)	United Kingdom	Ordinary	39.00
Centrium Management Company Limited (Associate)*	United Kingdom	Ordinary	31.45
Century Insurance Company Limited	United Kingdom	Ordinary	100.00
Codan Finance Limited	United Kingdom	Ordinary	100.00
Coverselect Limited	United Kingdom	Ordinary	100.00
Eurotempest Limited (Associate)*	United Kingdom	Ordinary	33.33
Fyfe Group Limited*	United Kingdom	Ordinary	100.00
Liability Insurance Solutions Limited	United Kingdom	Ordinary	100.00
Liverpool Marine and General Insurance Company Limited	United Kingdom	Ordinary	100.00
London Guarantee & Reinsurance Company Limited	United Kingdom	Ordinary	100.00
Magian Underwriting Agency (1998) Limited*	United Kingdom	Ordinary	100.00
Martello Professional Risks Limited*	United Kingdom	Ordinary	100.00
Millhood Limited*	United Kingdom	Ordinary	100.00
Motor Trade Solutions Limited	United Kingdom	Ordinary	100.00
National Vulcan Engineering Insurance Group Limited	United Kingdom	Ordinary	100.00
Noble Marine (Insurance Brokers) Limited*	United Kingdom	Ordinary	100.00
Noble Marine (Underwriting Agencies) Limited*	United Kingdom	Ordinary	100.00
Non-Destructive Testers Limited*	United Kingdom	Ordinary	100.00
Oak Underwriting plc*	United Kingdom	Ordinary	100.00
PI Brokernet Limited	United Kingdom	Ordinary	100.00
Polaris U.K. Limited (Associate)*	United Kingdom	Ordinary	25.38
Professional Indemnity Direct Limited*	United Kingdom	Ordinary	100.00
Punchbowl Park Management Limited*	United Kingdom	Ordinary	65.09
R&SA Global Network Limited*	United Kingdom	Ordinary	64.00
Road Runner Motor Trade Limited	United Kingdom	Ordinary	100.00
Royal & Sun Alliance Insurance (Global) Limited*	United Kingdom	Ordinary	100.00
Royal & Sun Alliance Property Services Limited*	United Kingdom	Ordinary	100.00
Royal & Sun Alliance Reinsurance Limited*	United Kingdom	Ordinary	100.00
Royal Insurance (U.K.) Limited*	United Kingdom	Ordinary	100.00

42. Subsidiaries (continued)

Subsidiaries	Country of incorporation	Class of shares held	Percentage of normal value and voting rights held by the Company
Royal Insurance Operational Services (U.K.) Limited*	United Kingdom	Deferred Ordinary	100.00
Royal Insurance Operational Services (U.K.) Limited*	United Kingdom	Ordinary	100.00
Royal International Insurance Holdings Limited*	United Kingdom	Ordinary	100.00
Roysun Limited	United Kingdom	Ordinary	100.00
RSA Claims Management Limited*	United Kingdom	Ordinary	100.00
RSA Direct Limited	United Kingdom	Ordinary	100.00
RSA Finance*	United Kingdom	Ordinary	100.00
RSA Finance (Isle of Man) Limited	United Kingdom	Ordinary	100.00
RSA Law Limited*	United Kingdom	A Ordinary	90.00
RSA Northern Ireland Insurance Limited	United Kingdom	Ordinary	100.00
RSA Overseas Holdings (UK) Limited	United Kingdom	Ordinary	100.00
Saturn Professional Risks Limited*	United Kingdom	Ordinary	100.00
Sun Alliance and London Insurance plc*	United Kingdom	Ordinary	100.00
Sun Alliance Insurance International Limited	United Kingdom	Ordinary	100.00
Sun Alliance Insurance Overseas Limited*	United Kingdom	Ordinary	100.00
Sun Alliance Insurance UK Limited	United Kingdom	Ordinary	100.00
Sun Alliance Management Services Limited	United Kingdom	Ordinary	100.00
Sun Insurance Office Limited	United Kingdom	Ordinary	100.00
The Globe Insurance Company Limited	United Kingdom	Ordinary	100.00
The London Assurance	United Kingdom	Ordinary	100.00
The Marine Insurance Company Limited*	United Kingdom	Ordinary	100.00
The Northern Maritime Insurance Company Limited	United Kingdom	Ordinary	100.00
The Sea Insurance Company Limited	United Kingdom	Ordinary	100.00
The Union Marine and General Insurance Company Limited	United Kingdom	Ordinary	100.00
The Westminster Fire Office Limited*	United Kingdom	Ordinary	100.00
Westgate Properties Limited*	United Kingdom	Ordinary	100.00
Royal & Sun Alliance Insurance Agency Incorporation	United States	Ordinary	100.00
Royal & Sun Alliance Seguros (Uruguay) SA	Uruguay	Ordinary	100.00

*Directly owned

Other notes:

- All of the entities listed are included in the consolidated accounts.
- Except where indicated, the proportion of voting power held equals the proportion of ownership interest. For Al Ahlia Insurance Company SAOC, and Al Alamiya for Cooperative Insurance Company, the percentage held relates to the actual percentage of the share capital held and not the effective percentage held (which is 35.00% and 25.04% respectively).
- Except where indicated, there is no subsidiary where the Group holds less than 50% of the voting rights and there are no entities where the Group holds more than 50% of the voting rights which are not subsidiaries.
- No subsidiary holds a disclosable interest in the shares of the Company.