RSA Annual Report
and Accounts 2015

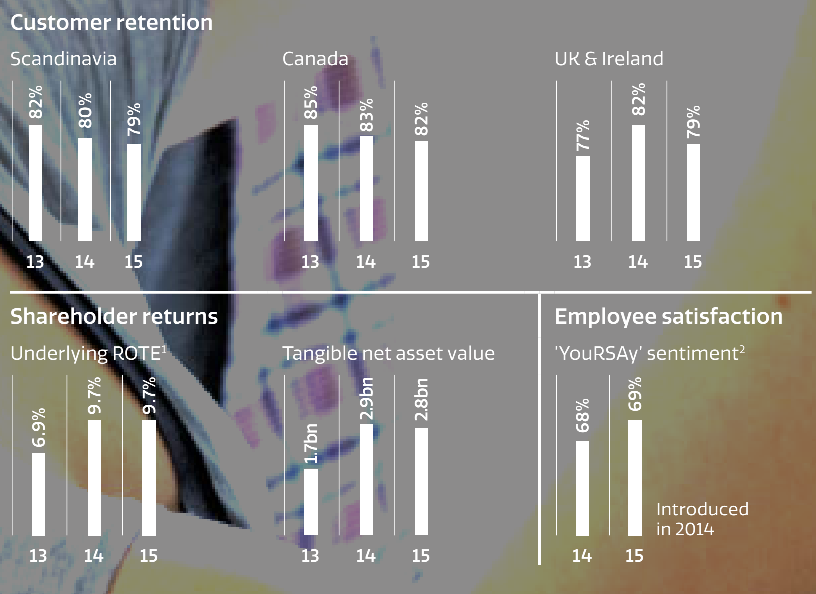
Focused, Stronger, Better

We are RSA

Our business is built around our customers. By focusing on their needs we challenge ourselves to achieve more.

As one of the world's oldest insurance companies we know that we can only continue to win for customers and shareholders if we adapt, and anticipate their needs.

By doing this we can continue to retain and satisfy customers, provide a challenging and engaging environment for our people, and build strong foundations for attractive shareholder returns.



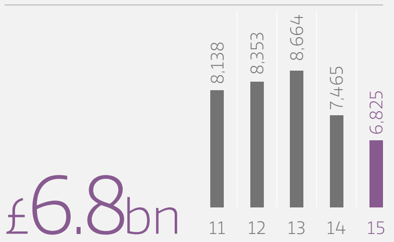
Notes:
1. Return on opening tangible equity.
2. Overall staff sentiment, per YouRSAy staff survey.

We are making things better together

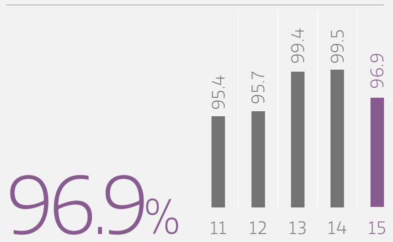
We've been protecting customers from risk and uncertainty for more than 300 years. However, as the world evolves, so do the needs of our customers. As new risks and opportunities emerge, we must constantly innovate and improve to serve our customers well and win in our chosen markets.

Financial summary

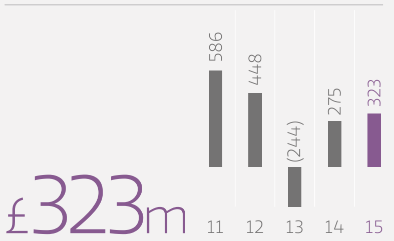
Net written premiums



Combined operating ratio[1]



Profit before tax[2]



Dividend for the year

Notes:
1. Combined ratios prior to 2014 do not reflect expense reallocations made during 2015.
2. Includes continuing and discontinued operations.

Contents

Explore online

Visit us online to see summary information and listen to our Group Chief Executive's statement at: rsagroup.com/annualreport

This Annual Report and Accounts contains 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. For further details, reference should be made to the 'important disclaimer' on the inside back cover. Pages 2 to 39 constitute the Strategic Report of RSA and are incorporated by reference into the Directors' and Corporate Governance Report set out on pages 40 to 96. The Directors' and corporate governance report has been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

RSA at a glance

What we do

We are one of the world's longest standing general insurers, providing peace of mind to individuals and protecting small businesses and large corporations from uncertainty.

At RSA we operate across society, providing award-winning Personal, Commercial and Specialty insurance products and services. Whether it's direct-to-customer, via our broker relationships or partner organisations, we use our experience to anticipate and exceed customer expectations and improve outcomes across our value chain.

Where we operate

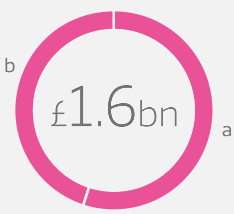
We have tightened our strategic focus onto three core regions; the UK & Ireland, Scandinavia and Canada.

These core markets are where we have established leadership positions, giving us the scale, relationships and track-record needed to compete and win for customers, for shareholders and our broader communities.

Our core business

Scandinavia

No.5
Market position

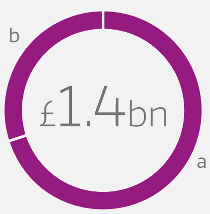


a. Personal 55%
b. Commercial 45%

2015 Net written premiums

Canada

No.5
Market position

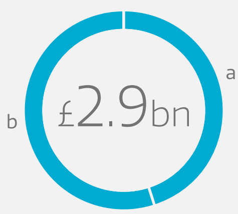


a. Personal 70%
b. Commercial 30%

2015 Net written premiums

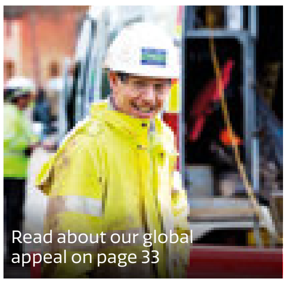
UK & Ireland

No.4
Market position

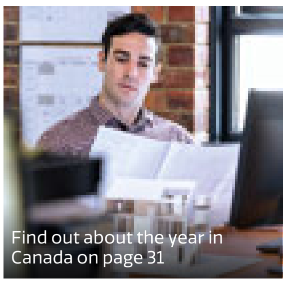


a. Personal 45%
b. Commercial 55%

2015 Net written premiums



Read about our global appeal on page 33



Find out about the year in Canada on page 31

Our ambition

- A leading international general insurer focused on the UK & Ireland, Canada and Scandinavia.
- Aiming to compete only where we can win. And to win where we compete.
- Strong operational delivery. Transparent and easy to understand.
- Enduring customer appeal.
- Well capitalised, achieving sustainable attractive returns.

Our customer franchise

- Market-leading positions.
- Recognised strong brands.
- Award-winning products.
- Excellent broker relationships.
- Attracting leading affinity partners.
- Strong customer satisfaction metrics.
- High and stable customer retention.

£6.8bn
Net written premiums in 2015

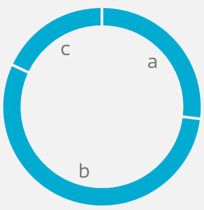
96.9%
Combined ratio for 2015

80%
Average customer retention in 2015

Product distribution and brands

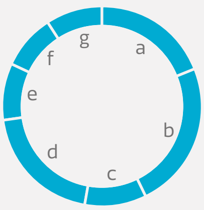
NWP by distribution channel (%)

a. Direct 27%
b. Broker 55%
c. Agent/affinity 18%



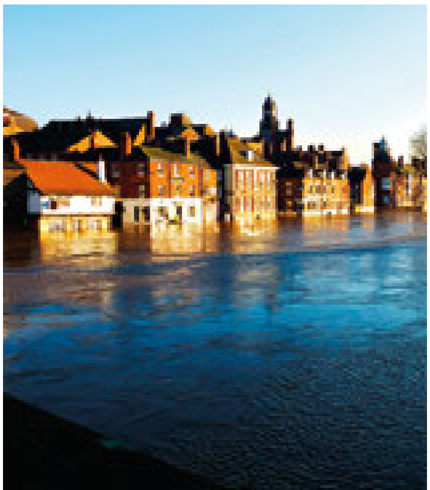
NWP by product (%)

a. Personal Motor 19%
b. Household 24%
c. Personal Other 10%
d. Com. Property 20%
e. Com. Motor 9%
f. Liability 9%
g. Marine & Other 9%



Our brands

MORE TH>N®
TRYGG HANSA
CODAN
RSA INSURANCE
123.ie
JOHNSON



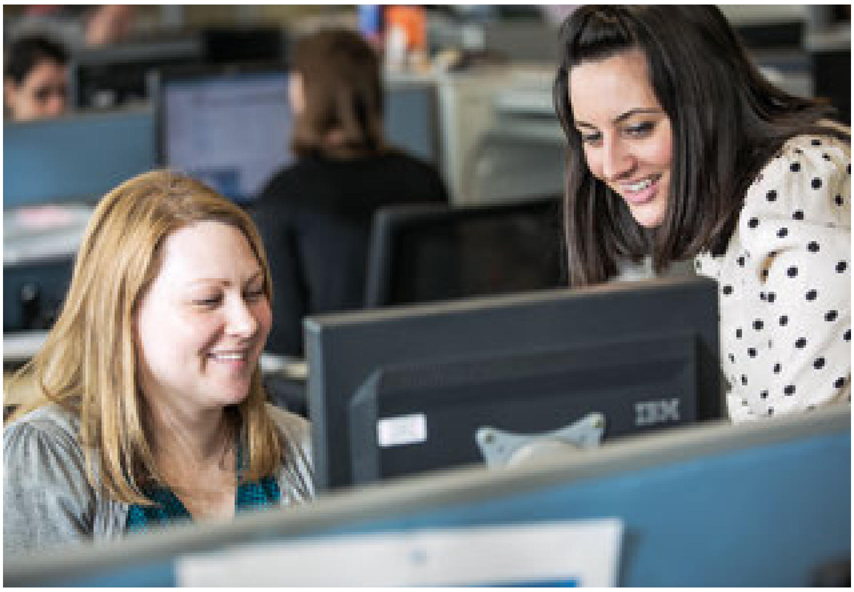
Read about how we respond in a crisis on page 29

Source: https://www.flickr.com/photos/blodgett-esq/23578287101

Chairman's statement

Martin Scicluna
Chairman

Welcome to our 2015 Annual Report. During the year we have continued to make excellent progress on our transformation journey.



We have delivered substantial improvements to our financial results, marking a turning point on our path to significantly improved business performance. This further increases our ambition and gives us greater confidence in our ability to deliver our stated financial and operational targets.

The strategy that we laid out in early 2014 is clear and simple. We wanted to achieve three things: a more focused business; improved capital strength; and sharply improved performance levels. We have now materially completed the re-focusing of our geographic footprint, of which the most significant achievement during 2015 was the agreed sale of our businesses in Latin America. Importantly, the focus of our management team is now solely on our core businesses in the UK & Ireland, Scandinavia, and Canada.

2015 was a significant year for the industry in terms of capital regulation as it finalised preparations for Solvency II – Europe's new insurance capital regime – which came into force on 1 January 2016. I am delighted to report that in December we were successful in gaining regulatory approval to use our own 'internal model' for calculating our capital requirements under Solvency II.

This is an important and significant achievement for the Company, and the Board and I are extremely thankful to those of our employees who worked tirelessly to deliver it. Our capital position is now healthy on all measures that we monitor.

In terms of performance improvement, I am pleased to report that our 2015 results are significantly ahead of last year. Premiums have stabilised with Core Group premiums of £5.7bn, flat year-on-year at constant exchange. Underwriting profits have improved significantly to £220m (2014: £41m) with a combined ratio of 96.9% (2014: 99.5%). Operating profit of £523m was up 43%, with profit-after-tax up 221% to £244m. Alongside this we have continued to focus on serving our customers well and enhancing the experience they have with RSA. We are proposing a final dividend for 2015 of 7.0p which would bring total dividends for the year to 10.5p (2014: 2.0p).

However, our ambition does not end there. We must get better. Whilst our 2015 performance represents significant progress from 2013 and 2014, we target deeper performance improvements over the next few years to take our business towards best-in-class performance. We must do this against the backdrop of continued challenging global economic and financial market conditions. Your Board and RSA's management team are committed to the actions needed to achieve this ambition. You can find more detail on our strategy and performance improvement ambition from page 12.

In Stephen Hester, our Company has a leader with a wealth of experience in engineering performance improvement across many sectors, and he is progressing well in building a high performance culture at RSA. During 2015 he has further strengthened his team with the arrival of Stephen Lewis, who started in January as CEO of our UK & Ireland business, and Scott Egan, who joined as our new Group CFO and member of the Board in October. I would like to thank Stephen and his management team, together with the Board, for their contributions in 2015.

RSA has seen significant change over the past two years and will continue to see further changes in the coming years. Throughout this our employees have reacted with commitment, maturity and sheer hard work, and on behalf of the Board I would like to thank them for this. The Board is responsible for leading RSA's governance agenda, and on pages 46 to 54 of this report you can find details of how the performance of the Board is evaluated and how it remained effective during the year.

Your Board is confident that RSA has a bright future as a successful and high performing company. Zurich's unsolicited approach to RSA last summer was further evidence that our Company has a collection of strong and attractive franchises. I would encourage you to use this Annual Report to find out more about the progress we are making. Finally, I would like to thank all of our shareholders for their continued support, and I look forward to seeing many of you at our AGM in May.

Martin Scicluna
Chairman
24 February 2016

RSA insights

Our strategic response to market dynamics.

Economic

Our strategy is highly influenced by economic context, which directly impacts both the insurance and financial markets, in which we operate.

Modest growth

What: We operate in markets that are characterised by modest economic growth following the global financial crisis.

Impact: This translates into a slow-down in emergence of new insurable risks and a competitive pricing environment, making profitable growth more challenging.

Response: We are focusing in areas where we have strong customer franchises and on building a balanced business across select distribution channels and customer segments, where we can maintain competitive advantage. We are working hard to operate more efficiently to achieve more from our business activities.

Low interest rates

What: In response to low economic growth, interest rates have been cut to record lows to encourage spending and investment in the economy.

Impact: For investors, lower rates mean an increased focus on sustainable and growing yields on equity investments. For the company, it means less investment income, a significant element of RSA's revenues.

Response: We are simplifying our business and we are focusing on operational excellence in underwriting to maintain and increase profitability in our chosen markets.

Social

As an insurer we must anticipate and adapt our products and services to reflect social trends. As a business we must also be conscious of and meet society's expectations of us.

Population growth and urban living

What: Today, 50% of the world's population live in cities. In our core markets, urbanisation is above 80%. The UN predicts that population growth and urbanisation will add a further 2.5bn to the world's population by 2050.

Impact: The increased demand on infrastructure, such as road networks, housing and natural resources will lead to greater risks to safety and security.

Response: RSA continues to proactively educate on the risks presented by urban living, for example through road safety campaigns launched across the Group. We also innovate, creating products that reflect new ways of living, such as telematics, our data-driven car insurance product.

Inequality, unemployment and financial exclusion

What: Inequality based on age, gender, ethnicity or background remains a significant social issue in the workplace and more broadly.

Impact: According to research by the OECD, inequality harms economic growth. Education is a key factor and a lack of investment in education a major contributor to inequality and financial exclusion.

Response: At RSA we believe in equal opportunities and value diversity. During 2015 22% (2) of our Board members were female (7 male) and 27% (231) of the Group's Senior Managers were female (615 male). We seek greater female representation at a senior level but base all hiring and promotion decisions on merit. Females represented 53% (9,147) of employees overall (male 8,143).

We also support our communities. Employability workshops with local schools deliver education, inclusion and accessibility and our partnership with the School for Social Entrepreneurs promotes financial participation.

Trust in business

What: Public trust in businesses remains low since the financial crisis. Elderman's trust barometer shows financial services are among the least trusted.

Impact: Trust is crucial to success. Our customers trust us to be there when things go wrong and shareholders trust us to deliver against our stated targets.

Response: We don't take trust for granted. We earn it, by placing customers at the heart of our business, constantly improving our products and services to meet their needs, and by providing open and honest communication with shareholders.

Natural environment

Our business relies on energy and resources provided by the natural environment. It's our duty to ensure that we operate in a way that preserves the sustainability of our business, our communities and the natural environment.

Climate change, extreme weather and resource scarcity

What: Climate change poses risks to both people and the natural environment. According to PwC's megatrends report, by 2030, the world will need 50% more energy and 35% more food than it does today. This will increase pressure on finite natural resources.

Impact: Climate change is already having an impact on our environment, The frequency of catastrophic weather events is on the rise, and related insured-losses have increased fourfold over the past 30 years. With growing pressure on resources, people are having to do more with less.

Response: Responding to major events and protecting our customers when they need us most is what we do. As extreme weather events have become more frequent we have expanded our resources and capabilities to manage them. We constantly monitor weather patterns and predictions to ensure we are prepared when the worst happens, and our claims teams have developed Event Plans to ensure the business is ready to respond when our customers need us. To read more about our response in action during the winter flooding in the UK and Scandinavia see page 29.

As well as responding to specific events, RSA is also committed to doing its bit to reduce carbon emissions, targeting a 12% reduction by 2018. Also, RSA is a leading insurer of renewable energy, having been involved in coverage of 90% of operational off-shore wind farms.

Customer

Good business simply starts with our customers, and we strive to keep customers at the heart of what we do.

Digital and technology

What: Digital technology is re-configuring the way that customers interact with insurers and the way that insurers understand their customers.

Impact: Digitisation has empowered customers to make more informed insurance purchase decisions. In the UK, according to Swiss Re Sigma, over 35% of motor insurance policies are purchased online. In other markets, search and pre-sales activity is increasingly performed online by the customer who will complete via broker, telephony or other sales channels.

Technology has also re-wired customer expectations of service levels. Customers now expect a more bespoke approach to products and services and more direct engagement from insurers.

Response: RSA is harnessing the power of digital innovation where we can best improve the customer experience: Through this we are delivering e-enabled distribution processes, increased operational efficiency in policy and claims administration and enhanced data analytics and pricing capability.

If you would like to read more about how we are responding to social and environmental trends then please access our Corporate Responsibility report via the corporate website: rsagroup.com/corporate-responsibility

Business model

Our business model provides the framework for us to win for each of our stakeholders.

OUR DIFFERENTIATORS

Best-in-class ambition
Our values and culture support a high-performing and inclusive RSA. The collective drive of everyone at RSA raises the Group's ambition and potential to improve.

Brand quality
With over 300 years of experience we have developed trusted and recognisable brands in our markets, supporting our strong customer franchises.

Insights
We understand that our business operates in a broader market context. By adapting to our environment we ensure we maintain a robust business model, relevant to our customers and market place.

Balance of scale and focus
Our unique mix of scale and focus across three core regions enables us to operate in market-leading positions and benefit from diversification in capital and returns.

OUR RESOURCES

Financial
£5bn of capital is employed within RSA to support operating activities and generate shareholder returns.

Intellectual
Technical expertise is crucial to gaining competitive advantage in insurance. Our intellectual capital is stored in the underwriting expertise of our people that has built over our history and is enhanced through our technical academies.

Relationships and partnerships
Relationships across our value chain are a key resource for RSA. We rely on relationships with brokers and partner organisations to distribute c.75% of our business and relationships with our supply chain enable us to provide an efficient claims service.

People
RSA is a people-centred business, with c.14,000 employees across our core business ensuring that operations run smoothly.

Natural
We have three core regions in our business and operate across c.200 offices.

Technology
RSA is harnessing the power of technology through e-enabled distribution, increased operational efficiency in policy and claims administration and enhanced data and pricing analytics.

Notes:
1. Payments to charities, fundraising and value of volunteering. Direct payments to charities £1,282,336.
2. RSA has insured 89.8% of global operational offshore wind farms (by capacity) at some point in the project's lifetime.

OUR SHORT-TERM PRIORITIES AND LONG-TERM STRATEGY

Read more on pages 12-21

FOCUSED
A leading general insurer, focused on the UK & Ireland, Canada and Scandinavia

STRONGER
Operating with capital strength

BETTER
Improving business performance and the capacity to sustain it

RISK MANAGEMENT pages 36-39

GOVERNANCE pages 40-96

Efficient product distribution via select channels

Understanding each risk and pricing effectively

Global expertise and geographic diversification

Prudent investments that protect policyholders and capital

Serving customers well and proactively managing claims

HOW WE CREATE VALUE

OUR SUSTAINABILITY PRIORITIES

See more on our corporate website
rsagroup.com/corporate-responsibility

RESPONSIBLE BUSINESS
First and foremost we act responsibly in everything that we do

SAFE SECURE WORLD
Developing products, and programmes that give our customers confidence to lead their lives

THRIVING COMMUNITIES
Giving back to our communities through education, employability, enterprise and entrepreneurship

SUSTAINABLE FUTURE
Mitigating the risks posed by climate change through sustainable business practices

OUR IMPACT

Financial value	Social value	Environmental value
£6.8bn Net written premiums of the Group	£1.6m Value of community contributions[1]	20k tonnes CO_2e Carbon credits supporting environmental projects globally
£523m Operating profits generated	7,158 Volunteer hours in our local communities	90% RSA involvement in coverage of offshore wind production[2]
10.5p Total dividend per share for the year	10 Number of countries in which we ran road safety campaigns	79% RSA's waste recycling rate, versus 60% benchmark rate

Our impact and value creation in 2015.

Group Chief Executive's statement

Stephen Hester
Group Chief Executive

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

Strategy and Focus

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

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

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

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

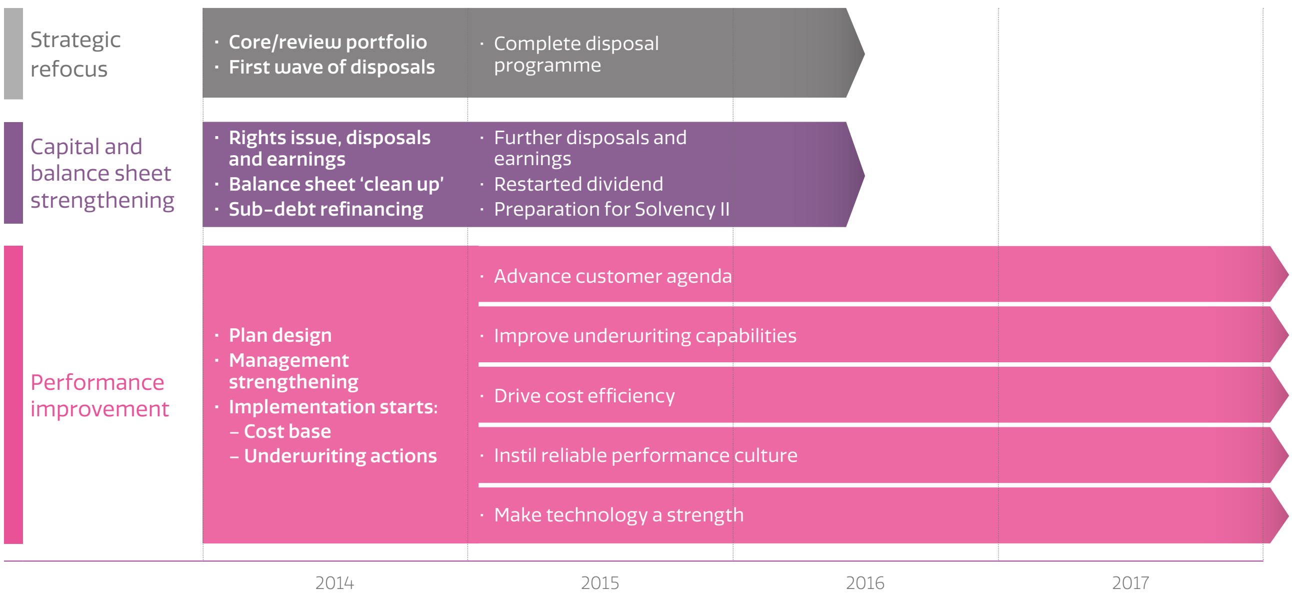
Industry Conditions

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

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

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

Pathway to becoming a better RSA 2014–17



Group Chief Executive's statement – continued

2015 Actions

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

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

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

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

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

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

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

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

Financial Results

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

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

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

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

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

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

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

Looking Forward

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

Thanks

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

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

Stephen Hester
Group Chief Executive
24 February 2016

Our 2015 Strategic Report, on pages 2-39, has been reviewed and approved by the Board of Directors on 24 February 2016.

Notes:
1. On a like-for-like basis.
2. Net of Group aggregate reinsurance cover 2015 earned premium of £46m (2014: nil).
3. Pro forma for aggregate reinsurance 2015 net recovery of £28m (£74m recovery net of £46m earned premium cost) shown separately in Group Re.

Our strategic priorities

Demonstrating how we're:

Focused

By the end of 2015, our Group's strategic refocus was nearly complete. After agreeing the sales of our Latin American and Russian businesses, we can now concentrate on improving performance in our three core regions.

£0.5bn
Total disposal gains to date

£1.2bn
Total proceeds to date

19
Countries or business units disposed

£403m
Proceeds from Latin America

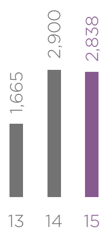
Strategic refocus: Latin America
Following careful consideration by the Board the decision was taken in 2015 to sell RSA's Latin American operations.

It was determined that the Group would benefit from the greater capital and operational flexibility offered by a sale, which enables management to focus attention on the three largest markets of UK & Ireland, Scandinavia and Canada.

The sale was agreed in September for total proceeds of £403m, and is expected to complete in stages during 2016.

Stronger

Customers and shareholders rely on RSA to operate with financial strength. Following the financial overhaul in 2014, our capital position has remained strong throughout 2015. Additional strategic disposals and improving operational profits have helped to stabilise capital and return the business to paying a regular dividend to shareholders.



£2.8bn
TNAV 2013–15

10.5p (2014: 2.0p)
Total dividend

'A' Stable
Credit Rating S&P

Solvency II: 'Three pillars'

Solvency II
A key priority for 2015 was completing preparations for Solvency II: Solvency II is a fundamental review of the capital adequacy regime for the European insurance industry. It has established a revised set of EU-wide capital requirements and risk management standards that came into force on 1 January 2016.

For further information see risk section on pages 36–39

Better

Our business made excellent progress in 2015. We further strengthened our customer franchises and invested in our future. We look forward to 2016 and beyond with increased ambition and prospects for further improvement.

Better value for customers

Better for our customers means providing consistent support and excellent service. We are focusing on being proactive and digitally enabled and providing tailored products that meet evolving customer requirements.

Find out more on page 14–15

Better value for employees

For employees we are simplifying processes and upgrading tools to make it easier to get things done. We are maintaining our focus on developing people across our businesses and we are committed to rewarding and recognising people appropriately for the work they do.

Find out more on page 16–17

Better value for society and the environment

We have four key priorities as part of our Corporate Responsibility programme: to be a responsible business; to help to create a safe world; to contribute to thriving communities; and to help secure a sustainable future.

Find out more on page 18–19

Better value for shareholders

Our strategy is designed to maximise value for shareholders. We have simplified the business. We are also investing in the future and streamlining the cost base to build the foundations for attractive shareholder returns.

Find out more on page 20–21

Value for customers

Better for our customers means providing consistent support and excellent service.

We are focusing on being proactive and digitally enabled and providing tailored products that meet evolving customer requirements.

Great customer service is consistently making RSA a partner of choice and a market-leading home insurer

During 2015 we proudly announced an exclusive, five-year contract with Nationwide, the UK's largest building society, to underwrite their home insurance portfolio. Throughout the process RSA's customer obsession and commitment to affinity partnerships proved to be the differentiating factors. We are pleased that this significant win makes RSA a market leader in UK home insurance, a firm endorsement of our customer proposition.

RSA has a strong track-record as a trusted affinity partner to leading retail brands, including John Lewis' Home Insurance, which was the focus of the heart-warming 'Tiny Dancer' ad campaign during the year.

The call centre, which we operate on behalf of John Lewis, was also recognised for outstanding customer service in 2015 when it was ranked number one in the Which? call centre customer satisfaction survey. Particularly valued were the staff's knowledge, politeness and helpfulness. This same centre was also featured on the BBC's Watchdog programme as a rare positive example of excellent customer service after a claim was settled in phenomenal time:

"Wow! I could not believe that anyone could be that efficient… One hour and forty three minutes from initial call to final settlement. I will be staying with John Lewis for some time."

John Lewis home insurance customer
(insurance provided by RSA)

We can't say that all claims are handled that fast but it demonstrates our commitment to providing the best possible service for all our customers, whether coming to us direct, from brokers or through our affinity partners.

Rapid digitisation – boosting customer experience

In Canada we are improving customer and broker experience by investing in digital technology. During 2015 we developed an app within our Johnson business, making it easier for customers to manage elements of their policies online, via their laptop, desktop or smartphone. The app, which launched in January 2016, went from design to implementation within 16 weeks and received fantastic customer feedback.

"This will be the first place I turn to make changes to my policies."

Retired teacher
Johnson customer and app tester

The rapid-digitisation programme will continue to build momentum during 2016. This will include using sophisticated analytics to improve our customer offering, enhancing our customer support capabilities and upgrading digital marketing capabilities for our Johnson affinity partners to improve customer insight.

Telematics – using technology to develop innovative insurance products

RSA is proud to be one of the UK's leading insurers for young and inexperienced drivers. Back in early 2012 we didn't write insurance for young drivers in the UK. However, we believed that, by combining motor insurance with monitoring devices in cars – sometimes called 'black box' insurance or 'Telematics' – there was an opportunity for us to offer great innovative products to young drivers and to be commercially successful. With the success of our own MORE TH>N SM>RT WHEELS telematics product, we now insure around 30,000 young drivers.

We're also active in telematics across our other regions, targeting a broader customer base. During 2015, we were the first to market with a mobile app-based proposition in our Johnson business in Canada called AvenU and in Norway, our Codan business completed an exciting mobile app pilot during the year, rewarding drivers that demonstrated good driving. In both Canada and Norway, we're taking advantage of the increasing capability that mobile technology provides and transferring the insights we have developed from the UK market.

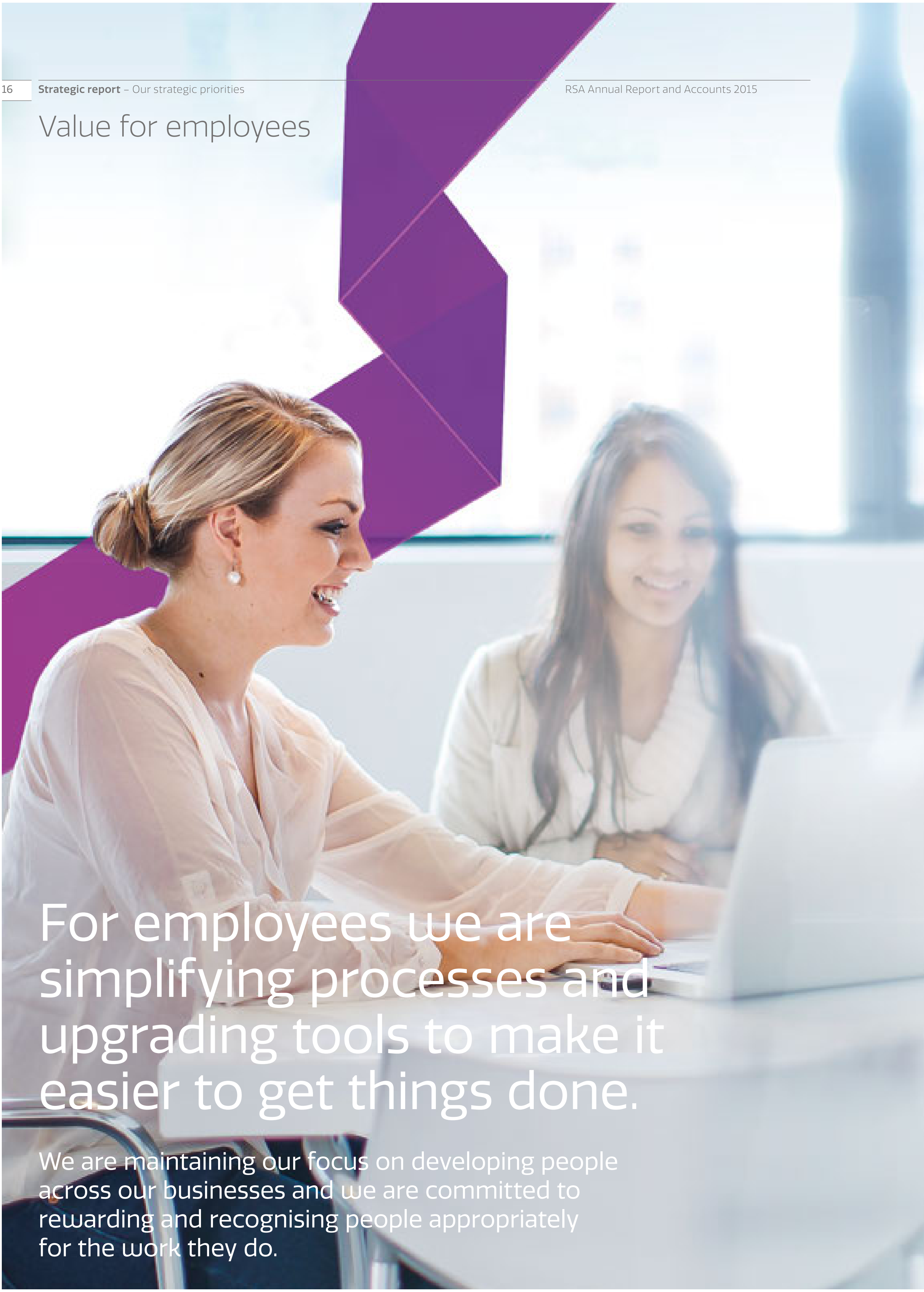
"As well as making commercial sense for RSA, what's really great is that we're helping young drivers to be safer on the roads, and hopefully instilling great driving habits for life."

Kenny Leitch
Global Telematics Director

Our Telematics products reward drivers for driving safely, providing easy to understand driver feedback scores via a web-based dashboard or mobile app, which can lead to discounts on their insurance premium.

For more information visit:
www.rsagroup.com

Value for employees



For employees we are simplifying processes and upgrading tools to make it easier to get things done.

We are maintaining our focus on developing people across our businesses and we are committed to rewarding and recognising people appropriately for the work they do.

Talent at RSA

RSA is committed to developing talent across the organisation. Every member of staff is encouraged to identify and explore learning and development opportunities with their leaders. In addition, RSA runs a number of development programmes for high-performing colleagues at all levels of the organisation:

Fastrack

Fastrack is the starting point for focused career development and planning. The programme includes elements of the mini-MBA and covers business fundamentals as well as deepening self-awareness.

"Having joined RSA on the Global Graduate Scheme, career development has been encouraged from the start. The Fastrack Scheme has been a great example of this and has enabled me to develop negotiation and influencing skills, enhance my network internally and help deliver change to the School for Social Entrepreneurs charity."

Nick Brown (UK)
Portfolio Lead – Construction, Engineering and Renewable Energy

Senior Talent Acceleration (STA)

STA is designed for high potential leaders with the capability to step up to more senior leadership roles.

"The STA programme provided valuable insight into what is required to lead with impact at a senior level and has armed me with the knowledge required to meet this challenge. The programme illustrated the importance of adapting my strategic thinking and approach to innovation, in the face of evolving competitive threats and increased organisational complexity, to continue to add value to our organisation."

Kellie Haslam (Canada)
Director, SME – Central Region

Executive Development Programme (EDP)

The EDP programme focuses on building the commercial acumen and strategic thinking of senior people regarded as having the potential to be amongst the top leadership of the organisation.

"The programme provided me with the opportunity to step away from my role and spend time developing my style, leadership and strategic thinking with a group of talented people. We were encouraged to challenge the way we view our business, challenge each other and of course, to build a strong network of contacts across the company. I believe the programme has helped me to develop greater perspective and succeed."

Gavin Wilkinson (Group head office)
Director of Capital, FP&A and Performance Management

Upgrading technology

During 2015 RSA embedded its largest-ever global technology programme. The 'Big Upgrade' enabled colleagues to work faster and more efficiently, while providing them with greater flexibility.

We've introduced social media solutions such as Yammer and SharePoint to drive collaboration between colleagues on a global scale and enable the business to operate more efficiently. Yammer in particular has seen adoption rates of well over 50%, and has contributed to a reduction in emails. It has also been used to improve interaction with Senior Leadership through 'Town Hall' events where colleagues can participate online and ask questions directly to Management teams via Yammer.

The Big Upgrade has seen us bring c.17,000 employees globally under one virtual roof via the BT One Cloud network. It has also seen three UK teams move into one place in the Walkie-Talkie building at 20 Fenchurch Street.

For more information visit:
www.rsagroup.com

Value for society and the environment

We have four key priorities as part of our Corporate Responsibility programme…

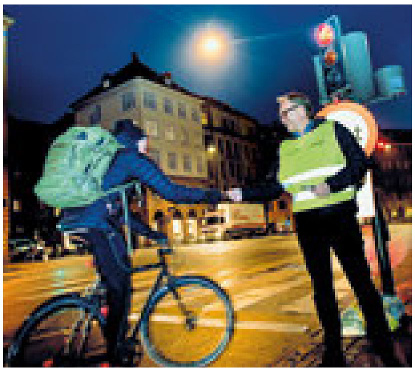
…To be a responsible business; to help to create a safe world; to contribute to thriving communities; and to help secure a sustainable future.

Safe, Secure World – Promoting road safety across our regions

This year, we focused on making young people more visible on our roads and helping young drivers be safer drivers.

As in previous years volunteers from Codan in Denmark handed out thousands of high visibility vests to commuters. Also in 2015, following research in Denmark that showed young people would wear reflective clothes if they were 'cool', Codan and the Child Accident Prevention Foundation teamed up with designer, Soulland, to create a reflective collection for young people.

In the UK we launched a film warning young people of the devastating consequences of driving when not in control. MORE TH>N also released the 'Safe In Sound' campaign to identify the safest song to drive to, helping raise awareness about the impact of music on our driving styles.



Thriving Communities – Supporting the growth of social enterprise in the UK

Our award winning partnership with the School for Social Entrepreneurs (SSE) delivers both community and commercial benefits. It aligns with our strategy to support the SME sector and provides opportunities for our people to share and develop their skills by supporting social entrepreneurs to succeed.

Nick Brown, Fastrack candidate and Michelle Benson, Development Director of the School for Social Entrepreneurs.

SSE supports individuals to establish businesses with a social purpose that address inequalities and social exclusion in our local communities. In Canada and the UK we are supporting students' development by sharing our business skills and knowledge. We provide senior mentors from the business, 'introduction to risk' workshops and half-day workshops helping social entrepreneurs tackle their business issues.

In 2015 we supported SSE and their fellows though our Fastrack leadership development programme. Small groups of our future leaders were tasked with helping entrepreneurs on projects that addressed strategic challenges they were facing.

"By supporting social entrepreneurs, we are having a real impact in the communities where we operate."

Mark Edgar
Human Resources (Canada)

Sustainable Future – 'Insuring' a low carbon future

We play a role in tackling climate change by helping our customers adapt to changing environmental risks and opportunities and by reducing the emissions from our own operations.

Renewable energy has an important part to play in the transition to a low carbon future. We have been insuring renewable energy projects since the 1970s and are now one of the leading insurers of renewable energy globally, having been involved in the insurance of 90% of off-shore wind energy. We provide insurance across the full lifecycle, working with developers from the start to provide effective risk management advice to reduce energy costs.

"We continue to be at the forefront of renewable energy innovation."

Brendan Reed
Global Portfolio Manager, Wind Energy (UK)

We have set ourselves an ambitious new carbon reduction target to reduce our Group carbon footprint by 12% per full time employee (FTE) by 2018.

We have delivered a reduction in our emissions per FTE over time, as a result of improved operational efficiency, buying sustainable alternatives where possible and empowering employees to work more sustainably.

Acting responsibly

Responsible business is at the core of what we do. We engage openly with customers, employees and suppliers remaining transparent in how we manage our operations and deliver our products and services, helping us to build and sustain trust.

"Being a responsible business is about providing insurance for our customers, and financial return to our shareholders without negatively damaging the environments we operate in. Operating in this way is good for our reputation, good for the planet and good for the bottom line – it's just good business sense."

Darren McKenzie
UK and Western Europe COO

For more information visit:
www.rsagroup.com/corporate-responsibility

Value for shareholders

Our strategy is designed to maximise value for shareholders.

We have simplified the business. We are also investing in the future and streamlining the cost base to build the foundations for attractive shareholder returns.

Investing in your business

Our ambition for RSA is to create a business capable of supporting best-in-class performance levels in each of our key regions.

We are deploying transformation programmes in each region and at the Group head office, aimed at improving customer service, increasing process efficiency and optimising costs.

"In a world where investment returns are low and markets resilient to price increases, we are investing in cost reduction and improvements to customer experience to secure growth and profitability."

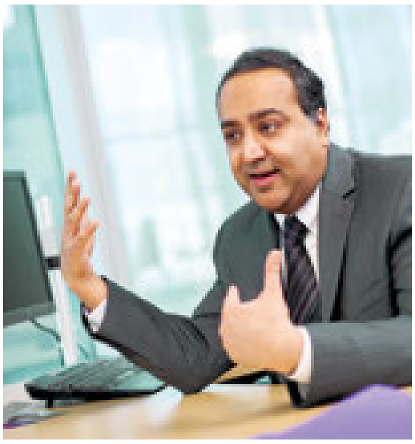
Paul Whittaker
Group Chief Operating Officer

Case Study: Canadian operational excellence

The Canadian transformation effort is focused on consolidating our office footprint, implementing 'lean' end-to-end processes and rapid deployment of customer-centric digital technology.

We've been doing business in Canada for over 300 years and during that time we have grown into a trusted market leader. However, as we grew, both organically and through acquisition, we developed an inefficient office footprint across 75 separate locations. During 2015 we made significant progress consolidating this down to just 35, including two regional hubs, focused on operations and customer care. With this structure we can bring employees together to share best-practice and increase efficiency whilst also making significant savings on property costs.

We are also implementing 'lean' management principles to drive staff engagement, customer service and process efficiency. Since adopting lean techniques in our policy servicing teams call-handling times have reduced by 26% while also improving service for customers and brokers.



"Our transformation journey has proved that we can improve efficiency and effectiveness at the same time as enhancing our customer experience."

Sid Chopra
Canada Chief Operating Officer

Case Study: Scandinavian country based organisation

The Scandinavian transformation has two stages. The first is designed to provide the region with the right foundations for success, whilst the second focuses on optimising and future-proofing the business model.

During 2015 we successfully completed stage one of the transformation, which involved restructuring the businesses into country-based organisations, resetting the strategy and streamlining the operating model.

Previously Scandinavia was managed with separate Personal and Commercial product divisions which each spanned the region. The change to country-based organisation better recognises the different market and customer dynamics in Denmark, Sweden and Norway, enabling each country to tailor its approach to local demands.

The change has increased local management's ownership and accountability leading to increased operational agility. For example, in Sweden the change enabled the business to identify an opportunity to consolidate the small business call centre into one for Personal Lines, which has led to increased sales and improved customer satisfaction scores as well as cost savings.

Towards the end of 2015 the Scandinavian businesses moved in to the second stage of the transformation, which will continue in earnest during 2016. This stage has several key areas of focus: digitisation and customer journey; operational efficiency and automation; underwriting and claims excellence and infrastructure and IT improvement. These areas are designed to future-proof the business model and enable us to pursue our ambition of best-in-class.

"We achieved a lot in 2015; we started with high ambitions, which we raised significantly and still we over-delivered."

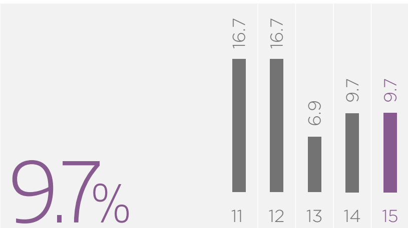
Sara Lemke
Head of Strategy/PMO lead (Scandinavia)

For more information visit:
www.rsagroup.com

Key performance indicators

We consider the following nine key performance indicators important in measuring the delivery of our strategic priorities.

Underlying return on tangible equity ●

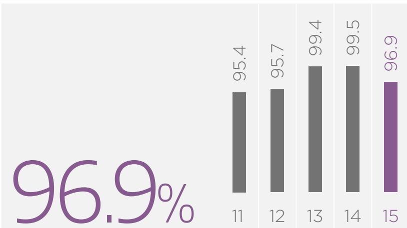


Definition
Operating profit attributable to ordinary shareholders less interest costs and underlying tax, expressed in relation to opening tangible shareholders' funds i.e. excluding goodwill and intangible assets.

Commentary
A key measure of shareholder value and one that informs overall valuation in the insurance sector.

Outlook
Targeting 12-15% in the medium-term. Currently expecting to be in the upper-half of this range in 2017.

Combined operating ratio[1] ●

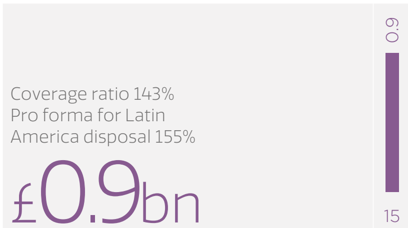


Definition
A measure of underwriting performance – the ratio of underwriting costs (claims, commissions and expenses) expressed in relation to earned premiums.

Commentary
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 uncompetitive pricing or compromising reserves.

Outlook
Initially targeting a sustainable COR in the mid-90s, improving thereafter.

Capital surplus[2] ●



Definition
Eligible capital above the Solvency Capital Requirement (SCR) under Solvency II. The coverage ratio represents total eligible capital as a proportion of the SCR.

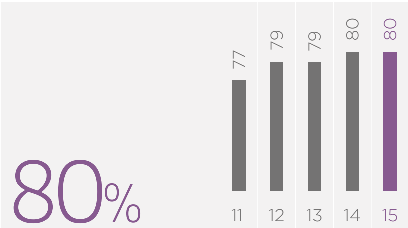
Commentary
The Solvency II SCR is a measure of the capital adequacy of insurance companies. Our SCR is calculated on our risk profile using the Group's internal capital model.

Outlook
We target a Solvency II coverage ratio in the range of 130% – 160%.

● This icon indicates those KPIs directly linked to executive remuneration. To read more about executive variable remuneration, including the set of financial and non-financial performance measures on which it is based, please turn to page 68.

Notes:
1. Combined ratios prior to 2014 do not reflect expense reallocations made during 2015.
2. Capital surplus under Solvency II introduced in 2015.
3. Core group in 2013 includes Latin America.

Customer retention

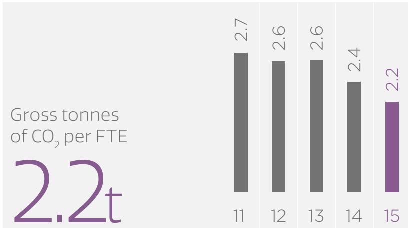


Definition
We use direct measures of satisfaction, such as NPS and indirect measures, including retention.

Commentary
Strong customer satisfaction translates to improved underwriting results. By ensuring customers are at the heart of everything we do we can optimise business performance.

Outlook
Target a growing level of customer satisfaction and maintain retention around 80%.

Carbon emissions per FTE

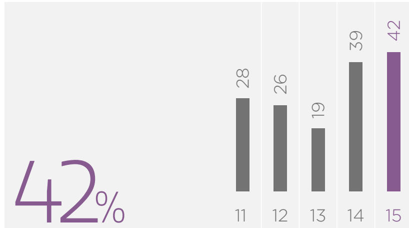


Definition
Gross tonnes of carbon dioxide equivalent per full time equivalent (FTE).

Commentary
We endeavour to reduce our emissions as far as possible by operating efficiently, procuring sustainable alternatives and promoting sustainable business practices. In the UK we have offset unavoidable operational emissions by purchasing certified carbon credits in projects in Honduras, Africa and Vietnam.

Outlook
We aim to reduce our emissions by 12% per FTE by 2018 (2015 baseline).

TNAV:NWP ●



Definition
The ratio of TNAV to NWP.

Commentary
This metric can be used to assess companies across the sector for relative capital strength, when judged in the context of product and geographical diversification. It is used as a high-level guide along other capital metrics used in the Group.

Outlook
We expect TNAV:Premium to be greater than or equal to 35%.

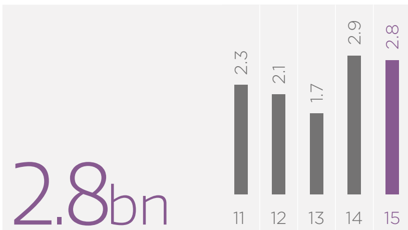
Controllable expenses ●

Definition
Operating expenses incurred by the Group in undertaking business activities

Commentary
Reduction of controllable expenses is a key element of the Group'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 turn-around and ongoing performance focus

Outlook
We target >£350m reduction in gross controllable expenses by 2018 and improving expense ratios in the medium-term, in line with our ambition of best-in-class performance.

Tangible net asset value ●

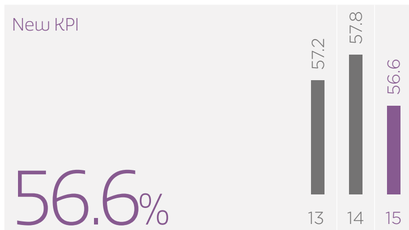


Definition
Total shareholders' funds, excluding goodwill, intangibles, and preference share capital. TNAV represents the underlying net asset value of the business.

Commentary
Growing TNAV generally indicates improving capital metrics, it also represents the underlying asset value of the business, though is sensitive to external market movements.

Outlook
We expect TNAV to increase through retained earnings and completion of remaining disposals.

Core Group attritional loss ratio[3] ●



Definition
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.

Commentary
Attritional loss ratios are a key lever in the Group's turnaround of financial performance. Improvements in the business mix together with investments in digitally-enabled underwriting and claims excellence are targeted at reducing the attritional loss ratio.

Outlook
We target improving attritional loss ratios in the medium-term in line with our ambition of best-in-class performance.

Financial review

Scott Egan
Group Chief Financial Officer

I am delighted to be presenting my first financial review at RSA. These are a strong set of results and the business now has real momentum; both are testament to the hard work put in across the Group over the past two years.

Premiums
Group net written premiums were down 3% on 2014, however Core Group premiums rose 1% on an underlying and constant exchange basis to £5.7bn.

Underwriting result (£m)[1]

Regional headlines (at constant exchange) include growth of 4% in Scandinavia, due to improving rate and retention across the book; Canadian premiums down 3%, reflecting the underwriting actions we have been taking to improve profitability as well as competitive market conditions; growth of 2% in the UK, driven by growth in our target Commercial portfolios offset by reduced Personal premiums, reflecting continued discipline in a competitive market and the ongoing impact of business exits; and premiums in Ireland were down 4% reflecting the continued impact of our remediation work.

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

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

The current year profit was £129m (2014: £73m). This reflected a core business current year attritional loss ratio of 56.6% which showed a 1.9 point improvement from 2014 on an underlying basis[2] with good improvements across all core regions.

Weather, large and prior year
Total weather costs for 2015 were £218m representing a weather loss ratio of 3.1% (2014: £253m or 3.2%; five year average: 3.2%). Included within this is a £76m net cost to the Group relating to the adverse weather in the UK, Ireland and Scandinavia in November and December. The gross cost of these storms was £174m, and after recoveries from the Group catastrophe treaty was

Our 2015 results show strong progress from a year ago and set the path for substantial further performance improvements.

Financial results – management basis

£m unless otherwise stated	Scandinavia	Canada	UK	Ireland	Group Re	Core Group	Non-core	Group FY15	Group FY14[1]
Net written premiums	1,606	1,360	2,606	261	(111)	5,722	1,103	6,825	7,465
Net earned premiums	1,566	1,387	2,734	264	(24)	5,927	1,085	7,012	7,874
Underwriting result	94	116	12	(35)	50	237	(17)	220	41
of which current year	127	35	(34)	(29)	37	136	(7)	129	73
of which prior year	(33)	81	46	(6)	13	101	(10)	91	(32)
Underwriting result pro forma			**40**		**22**				
Investment result	69	66	135	9	–	279	43	322	343
Central costs								(19)	(19)
Operating result								523	365
Non-operating items								(200)	(90)
Profit/(loss) before tax								323	275
Tax								(79)	(199)
Profit/(loss) after tax								244	76
COR (%)	94.0	91.7	99.5	113.4	–	96.0	–	96.9	99.5
COR pro forma (%)			98.5						
Tangible net asset value								2,838	2,900

Note:
Pro forma for aggregate reinsurance 2015 net recovery of £28m (£74m recovery net of £46m earned premium cost) shown separately in Group Re.

£150m (two events at a net retention of £75m each). In addition, the Group booked recoveries of £74m from the Group aggregate reinsurance cover, bringing the overall net cost to the Group down to £76m.

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

Prior year profit of £91m provided a 1.4 point benefit to the combined ratio overall and reflected positive prior year development from Canada and the UK, partly offset by reserve strengthening in Scandinavia relating to legacy long-tail Swedish Personal Accident products; and prior year loss of £6m in Ireland (2014: £45m loss).

Our future guidance is for prior year profit to be around 1% of premiums, but there remains the potential for volatility given our commitment to transparent reserve margins, held stable at 5% of booked claims reserves.

Underwriting operating expenses

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

Commissions

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

Investment result

The investment result was £322m (2014: £343m) with investment income of £403m (2014: £439m).

Investment income was down 8% on prior year, primarily reflecting the continued impact of the low bond yield environment.

Based on current forward bond yields and foreign exchange rates, together with the expected timing of disposal completions in 2016, it is estimated that investment income will be in the order of £330m for 2016 and around £315m in 2017 and 2018. Discount unwind of c.£55m is expected for 2016, falling to around £50m thereafter, as a result of the disposal of Latin American operations.

Total controllable costs[3]

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

Notes:
1. 2014 comparatives have been restated for expense allocation changes made between the underwriting result and investment/central expenses. The 2013 underwriting result has also been adjusted to reflect this change.
2. Attributes the impact of moving the Group aggregate reinsurance cover (taken out in 2015) earned premiums to weather/large and to adjust for 2014 year end discount rate change impact on 2015 claims in Scandinavia.
3. Total controllable costs include underwriting operating expenses, claims expenses, investment expenses, central expenses and Solvency II costs.

Financial review – continued

Solvency II sensitivities[1]

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

Note:
1. Sensitivities shown pro-forma for pension de-risking

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

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

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

Non-operating items

Tangible net gains of £204m (2014: £476m) comprise £184m of disposal gains (2014: £342m) including Hong Kong and Singapore £103m, China £28m, Italy £29m and India £21m; and £20m of investment gains mainly comprising realised equity gains and unrealised gains on property assets.

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

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

Non-recurring charges of £212m (2014: £306m) include reorganisation costs of £183m (2014: £110m) in respect of redundancy (£59m) and restructuring (£124m). Restructuring costs in 2015 related to amounts incurred across the Group for activities such as process re-engineering, office footprint consolidation, reducing spans of control, and renegotiation of supplier contracts. Solvency II implementation costs were £26m in 2015 (2014: £25m). In 2016 we expect a significantly reduced Solvency II cost, falling to zero thereafter.

Tax

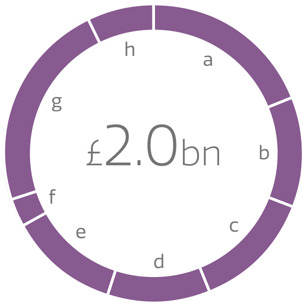
The Group has reported a tax charge of £79m for the year, giving an effective tax rate (ETR) of 24.5%. This largely comprises tax on overseas profits, particularly in Canada, Latin America and Scandinavia; a reduction in the UK deferred tax asset valuation due to the lower UK corporation tax rate of 18%; and the upward revaluation of UK deferred tax assets based on current assessments of probable future taxable profits in the UK.

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

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

Solvency II SCR[1] by risk driver

a. Underwriting 19%
b. Catastrophe 12%
c. Reserving 13%
d. Legacy[2] 11%
e. Market and credit 12%
f. Currency 3%
g. Pension 23%
h. Operational 7%



Notes:
1. SCR allocation based on undiversified capital requirement.
2. Legacy includes asbestos, disease and abuse.

Tangible net assets

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

Capital

The Group now reports its capital position under Solvency II, a new EU-wide insurance regulatory regime. Further information on Solvency II and our response can be found on page 38.

At 31 December 2015 we reported an estimated Solvency II capital surplus of £0.9bn which gives coverage of 143% over the solvency capital requirement (SCR). The completion of the Latin American disposals during 2016 is expected to add around 12 points to this coverage ratio.

RSA uses a fully consolidated Internal Model tailored to the Group's risk profile for which regulatory approval was received in December 2015. The SCR represents the Value-at-Risk of basic own funds subject to a confidence level of 99.5 % over a one-year period and covers existing business and all new business expected to be written over the next 12 months.

Note:
1. Total controllable costs include underwriting expenses, claims expenses, investment expenses, central expenses and Solvency II costs.

The Group has not utilised any transitional measures, except for the grandfathering of existing debt arrangements.

We maintain a measured approach to capital management, targeting a single 'A' capital rating. RSA is a diversified, multi-channel, multi-product general insurer and is not exposed to significant volatility from the business mix.

However, the pension scheme provides a degree of volatility under Solvency II. During 2016, as Solvency II beds in across the industry, we will assess target coverage ratios. But based on current knowledge, we consider a target operating range of 130%-160% to be appropriate for the Group's risk profile.

The level of diversification within our Solvency II model approximately ranges between 35%-45%.

Rating agencies

S&P and Moody's provide insurance financial strength ratings for the Group and its principal subsidiaries. During 2015 the Group's S&P rating was re-affirmed at A 'stable outlook'. The Group is rated A2 by Moody's with outlook upgraded to 'stable' from 'negative' during 2015.

Reserving

We believe that the culture, methodologies and governance around the Group's reserving process drive a prudent reserving policy with booked reserves significantly above actuarial best estimate. Our assessment of the margin in reserves for the Group (the difference between our actuarial indication and the booked reserves in the financial statements) is unchanged at 5% of booked claims reserves.

In terms of accident year, there has been significant positive development across the 2010-13 accident years. This has come from most major lines in Scandinavia, UK Commercial Property, UK Personal lines and Canada. 2005 and prior includes the impact of strengthening for Abuse and Deafness claims in the UK and legacy Swedish Personal Accident strengthening.

Pensions

Funding basis

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

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

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

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

Accounting (IAS 19) basis

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

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

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

Dividend

We are pleased, in the light of our continued progress, to propose a final dividend of 7.0p per ordinary share.

Together with the interim dividend of 3.5p, this brings the total dividend for the year to 10.5p, representing 47% pay out of headline and 38% of underlying EPS. Our medium-term policy of between 40-50% ordinary dividend payouts remains, with additional payouts where justified. Potential for additional payouts should follow the completion of restructuring and the unwind of unrealised bond gains.

Outlook

The Group expects to make further good progress in 2016 against its Action Plan and the year has started well in that regard. Core business NWP is targeted to show modest growth vs 2015. Attritional loss ratios are expected to show further improvement as are controllable expenses. Volatile items in weather/ large losses remain unpredictable though bounded by reinsurance protection similar to 2015. If volatile items stay per plan, attractive further improvement in underwriting profit is expected.

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

An advance in 2016 operating profit is our goal with underwriting improvements more than offsetting reduction in investment income and disposal impacts from Latin America.

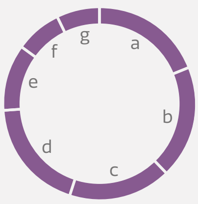
2016 should see the last major year of restructuring charges associated with capability improvement and our increased cost savings targets. The totality of management actions across 2014-16 is expected to produce further strong performance gains in 2017/18 consistent with the Group's ambition and financial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

Scott Egan
Group Chief Financial Officer
24 February 2016

Scandinavia

Patrick Bergander
CEO Scandinavia

a. Personal Motor 19%
b. Household 19%
c. Personal Other 17%
d. Com. Property 19%
e. Com. Motor 11%
f. Liability 8%
g. Marine & Other 7%



Types of business

£1.6bn
Net written premiums

94.0%
Combined ratio

OUR BRANDS IN SCANDINAVIA

TRYGG HANSA CODAN

Our operations in Scandinavia

In Scandinavia we operate in Sweden as Trygg-Hansa and in Denmark and Norway as Codan. We are the fourth largest insurer in Sweden, the third largest in Denmark and the seventh largest in Norway, whilst we are the fifth largest overall across the region.

Importantly, RSA is the only international insurer operating with scale in Scandinavia.

Our business is split evenly between Personal and Commercial lines and is principally distributed direct to consumer, via strong agency relationships, with a growing bancassurance channel.

We have key strengths in our Swedish Motor and Personal Accident products and in our Danish Commercial business.

Scandinavian market context

The Scandinavian economy remains stable overall but with mixed experience across the region: While GDP growth in Sweden remains strong and Denmark experiences a fragile recovery, Norway's GDP growth is suffering from declining oil prices.

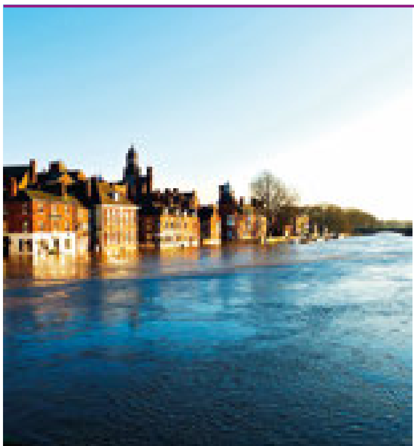
However, insurance markets remain broadly stable and profitable across the region with incumbents generally maintaining competitive position against market challengers.

Financial performance

Premiums

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

Underlying performance remains encouraging with record current year profits in Sweden and strong progress on cost reduction.



Source: https://www.flickr.com/photos/blodgett-esq/23578287101

Responding in a crisis

When the worst happens customers rely on us to be there to help pick up the pieces. In 2015 major wind storms and floods struck Europe, leading to thousands of claims in the UK and across Scandinavia. Fortunately, RSA has dedicated Event Teams ready to respond, which meant Trygg-Hansa in Sweden maintained call availability for customers at 98%, well ahead of industry benchmarks.

Event Teams constantly monitor weather patterns, predictions and flood levels to ensure we're prepared.

When the storms arrived in Sweden the team knew it would be a major event and met quickly to prepare the response.

A dedicated flood-line was opened, with additional staff helping to cope with call volumes. All customers suffering from large losses were contacted by specialists to assess damages within two days and our suppliers were also contacted to ensure that they were ready to support repairs.

Proactive and agile response in a crisis is crucial to serving our customers well and something we constantly improve.

Personal lines grew 4%, driven by strong balanced growth in Sweden through a combination of rate increases and good retention. Denmark Personal premiums were broadly flat although showed positive momentum in our affinity offering.

Our Commercial business grew 3% overall with 4% growth in Denmark and 5% growth in Norway. Swedish commercial was marginally up 1%.

Operating result

The underwriting result was £94m profit (2014: £169m) with a strong current year underlying performance, offset by some one-off legacy reserve strengthening. Current year profits were £127m overall, including a record result in Sweden of £165m, while Denmark profitability was impacted by a series of Marine large losses.

Total operating profit, after including the investment result of £69m (2014: £72m), was £163m (2014: £241m).

Performance improvement

The current year attritional loss ratio was 64.5%, and better than 2014 at 64.8%. Weather losses of 1.0% compared to 1.6% in 2014, while large losses of 6.3% compared to 4.7% in 2014.

Overall, the prior year effect on the loss ratio was adverse at 2.0% (2014: 1.5% positive). The final combined ratio was 94.0% (2014: 90.4%)

Progress on controllable expenses was pleasing given the focus by the business: Down 8% year-on-year (comprising 9% cost reduction, partly offset by 1% inflation). FTE was down 5% in 2015 and 9% since the start of 2014.

Our strategy

Our focused strategy has three core elements. The first is upgrading the business by fixing the basics, the second is creating and fostering a customer culture by 'living our expectations' and the third is to develop our business and bring out the best in each country. Significant improvements have been made during 2015, especially in fixing the basics; this has included introducing the country-based organisation discussed on page 21. During 2016 and beyond we will focus on future-proofing RSA Scandinavia by driving a digitisation agenda, strengthening claims and underwriting functions, increasing process efficiency and securing technology uplifts

Scandinavia financial summary

	2015 net written premiums		Underwriting result		COR
	£m	% growth[1]	2015 (£m)	2014 (£m)	2015 (%)
Personal	883	4	108	153	87.7
Commercial	723	3	(14)	16	102.1
Total	1,606	4	94	169	94.0

	£m	% growth[1]	2015 (£m)	2014 (£m)
Sweden	874	4	101	130
Denmark	585	3	(11)	39
Norway	147	2	4	–
Total	1,606	4	94	169

Notes:
1. At constant exchange.

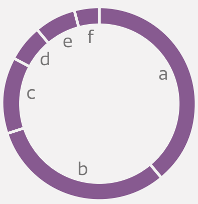
Outlook

We continue to expect the Scandinavian P&C markets to grow in line with local GDP growth. Our focus remains on improving the underlying performance of the business, in particular attritional loss ratios and cost improvements in Denmark and Sweden. We target combined ratios converging with those of key competitors over the medium-term.

Canada

Rowan Saunders
President and CEO, RSA Canada

a. Personal Motor 39%
b. Household 31%
c. Com. Property 13%
d. Com. Motor 6%
e. Liability 7%
f. Marine & Other 4%



Types of business

£1.4bn
Net written premiums

91.7%
Combined ratio

OUR BRANDS IN CANADA

JOHNSON WA

Our operations in Canada

In Canada we are the fifth-largest insurer, having established our market position through a combination of organic and acquisitive growth. We operate across all provinces and provide a broad multi-product and multi-channel offering to both personal and commercial customers.

Our portfolio is balanced at 70% Personal and 30% Commercial. We have leading market positions in affinity distribution via our Johnson brand and leading positions in Travel and Marine underwriting.

Canada market context

The Canadian market remains challenging but navigable with low single-digit economic growth translating into tough insurance market conditions and continuing consolidation trends. Legislative intervention in the Ontario Auto market will continue to see prices decline in this segment (although with corresponding reductions in claims costs), while prices are expected to increase in Personal Household and Commercial due to the low interest environment and recent elevated loss trends, particularly in 2013. In Canada we continue to prioritise underwriting profitability over top-line growth.

Financial performance

Premiums

Net written premiums in Canada were down 3% on a constant exchange rate basis to £1,360m (2014: £1,510m as reported) with 2% rate increase offset by 5% volume reduction. Personal

Canada had its strongest ever underwriting result in 2015. In 2016 we expect to see continued underlying improvements.

A foundation year for RSA Canada

One which focused on ensuring we have the tools, people and practices in place to set us up for future success.

We welcomed new leaders across the business and made progress in the way we operate, such as reducing the number of locations across the country, paving the way for more flexible and digital service options for our customers in the future.

We consolidated functions, such as Personal Insurance and Commercial Insurance underwriting, from regional offices to our operating hub in Sheridan, we strengthened our organic growth potential, taking steps in 2015 to enhance sales capabilities, which have shown immediate benefits.

Next year we will continue to focus on improving our pricing sophistication, rolling out lean management practices. and working to implement critical IT platforms, such as our new claims system and rating engine, to increase our efficiencies and service to customers.

premiums were down 3%, driven by reduction in Motor, partially offset by growth in Household.

Commercial, premiums were down 5% as a result of the rating and portfolio action we have been taking, particularly on poorer performing blocks of business.

Operating result

Underwriting profit for the year was £116m (2014: £21m) which is our strongest ever performance in Canada. Current year profits of £35m, up £52m on 2014, were supported by prior year profits of £81m. The combined ratio was 91.7% (2014: 98.6%).

Taken together, volatile items in weather and large losses represented 7.0% (2014: 8.6%), slightly better than long term averages and prior year.

After including an investment result of £66m (2014: £78m), the operating result was £182m (2014: £99m).

Performance improvement

The current year attritional loss ratio showed a strong improvement of 2.5 points from the prior year to 60.3% as the benefits of our underwriting and portfolio actions begin to build. The prior year effect on the loss ratio was a benefit of 5.8% with prior year profits arising from the Personal and Commercial Property, Personal Auto and General Liability books.

Controllable expenses are flat year-on-year, although the actions we have been taking in 2015 set the path to achieving attractive cost savings in 2016.

Our strategy

In Canada we are well-balanced by province, customer, channel and product. We offer a broad and diversified offering to customers from personal through to corporate and specialty risk.

As part of the Group-wide transformation we are focused on improving performance in each key channel. Major activities include, rebalancing portfolios to leverage competitive advantage and explore market opportunities, improving customer journeys and proposition through process-optimisation and digital-enablement, and investing in technology to increase claims efficiency and pricing sophistication.

Canada financial summary

	2015 net written premiums		Underwriting result		COR
	£m	% growth[1]	2015 (£m)	2014 (£m)	2015 (%)
Personal	950	(3)	104	13	89.2
Commercial	410	(5)	12	8	97.2
Total	1,360	(3)	116	21	91.7

Notes:
1. At constant exchange.

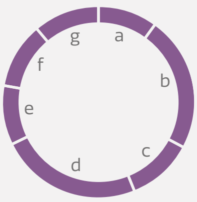
Outlook

In Canada we are beginning to deliver better underlying performance, which we expect to continue, subject to volatile items. Our focus is on operational improvement, particularly; underwriting and claims improvements; process simplification; and modernisation of technology and infrastructure. n 2016 we expect premiums to stabilise, current year profitability to continue improving and costs to continue to fall.

UK & Ireland

Stephen Lewis
CEO, UK and Western Europe

a. Personal Motor 10%
b. Household 23%
c. Personal Other 11%
d. Com. Property 24%
e. Com. Motor 10%
f. Liability 11%
g. Marine & Other 11%



Types of business

£2.6bn
UK net written premiums

98.5%[1]
UK combined ratio

OUR BRANDS IN UK & IRELAND

MORE TH>N® RSA
123.ie

Our operations in UK & Ireland
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 in 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.

We are a leading player in Ireland with particular strengths in Household insurance and in direct sales through our 123.ie business.

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.

The UK continued to deliver against its strategic priorities during the year, bringing greater strategic focus on core performance improvement.

A focused insurer with Global appeal

Whilst RSA now has a focused geographic footprint it remains committed to supporting Global clients via our Global Specialty Lines business based in London but writing business globally. One such client, acquired during the year, is Severn Trent, the 2nd largest water utility company in the UK and with properties around the world, including in the U.S.

During the pitch process RSA's broker relationships, deep sector-knowledge, market-leading risk management tools and claims proposition proved to be the differentiating factors.

A month into the policy that claims proposition was tested, when a major flood occurred at Queen Elizabeth Hospital in Birmingham. RSA's claims team responded quickly and Severn Trent's nominated loss adjusters were on site to assess damages the same day, as were a dedicated clean-up team to help get the Hospital back to operations.

The RSA claims team remained involved and committed throughout, working in partnership with Severn Trent to meet and exceed expectations.

Financial performance

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 2015 represents a marquee endorsement of our customer franchise and will make 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).

On a pro forma[1] basis, 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 pro-forma 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.

UK financial summary

	2015 net written premiums		Underwriting result		COR
	£m	% growth[2]	2015 (£m)	2014 (£m)	2015 (%)
Personal	1,133	(4)	47	45	95.9
Commercial	1,473	7	(35)	(41)	102.3
Total	2,606	2	12	4	99.5
Total pro forma[1]			40		98.5

Notes:
1. Pro forma for aggregate reinsurance 2015 net recovery of £28m (£74m recovery net of £46m earned premium cost) shown separately in Group Re.
2. At constant exchange.

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 off-shore resources and development of a new operating model.

Outlook

The competitive landscape will continue to be challenging. However, the ambitious strategy we have put in place will improve our ability to compete and challenge for best-in-class in the UK market.

Once fully implemented, our transformation programme will result in greater underwriting and pricing capability, a lower cost base, and improved customer outcomes.

UK & Ireland – continued

Financial Performance – Ireland

Premiums

Net written premiums of £261m were down 4% on 2014 on a constant exchange rate basis, as we continue to remediate the portfolio. A reduction in the Personal portfolio drove the decline, offset by growth in Commercial

Underwriting losses of £35m are significantly reduced from prior year levels (2014: £108m loss) as remediation continues to make strong progress. Within the underwriting result volatile items from weather and large losses were broadly in line with five-year averages.

Operating result

Significant improvement was made in the current year attritional loss ratio, falling from 80.3% in 2014 to 74.2% in 2015, with strong momentum heading into 2016 as action taken in the second half of 2015 earns through to the underwriting result.

Performance improvement

The performance improvement plan in Ireland is progressing with total controllable expenses down 5% year-on-year.

Outlook

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

Ireland financial summary

	2015 net written premiums		Underwriting result		COR
	£m	% growth[1]	**2015 (£m)**	2014 (£m)	**2015 (%)**
Personal	**161**	(8)	**(22)**	(58)	**113.8**
Commercial	**100**	4	**(13)**	(50)	**112.8**
Total	**261**	(4)	**(35)**	(108)	**113.4**

Note:
1. At constant exchange.

Discontinued and Non-core operations

With the agreed sale of Latin America during 2015, RSA has now largely completed the strategic refocus of the Group.

Group Disposal programme

In 2014 we commenced a major disposal programme with the intention of focusing RSA on its strongest businesses and stabilising the Group's capital position.

At the end of 2015 that disposal programme is largely complete, with completion of the sale of our Latin American operations (expected during the first half of 2016) the last major piece.

Across the entire disposal programme, we have completed the sales of businesses in the Baltics, Poland, Canadian broker (Noraxis), Thailand, Hong Kong, Singapore, China, India, Italy, UK Engineering Inspection and Russia.

Total proceeds to date have been c.£1.2bn and have significantly strengthened the capital position, delivering c£0.5bn of disposal gains.

Aside from discontinued operations in Latin America, the Group has further non-core businesses in the Middle East and UK Legacy.

UK Legacy

Our UK Legacy portfolio comprises exposure to asbestos and other long-term liabilities arising from Employers' and Public Liability policies written over the past 50 years.

The portfolio is part of our non-core operations, all of which will not necessarily be disposed.

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.

Discontinued and Non-Core operations

	Net written premiums		Underwriting result	
£m	**FY15**	FY14	**FY15**	FY14
Latin America[1]	**691**	690	**(6)**	(11)
Middle East[2]	**181**	147	**8**	4
UK Legacy[2]	**2**	–	**(39)**	(48)
Other[1,3]	**229**	537	**20**	25
Total Discontinued and Non-Core	**1,103**	1,374	**(17)**	(30)

Notes:
1. Discontinued.
2. Non-Core.
3. Includes Baltics, Poland, Noraxis, Hong Kong, Singapore, Thailand, China, India, Italy, UK Engineering and Russia.

Risk management

Our risk strategy supports our ambition as a focused general insurer. By leveraging expertise in risk selection we aim to protect customers and maximise risk-adjusted returns for shareholders.

Our risk management approach

Our risk strategy supports the execution of the wider business strategy. Risk appetite and tolerances establish the principles through which we operate, enabling us to retain only risks residing within our core areas of expertise. We use a risk and control framework to ensure that risks are appropriately managed, mitigated or avoided in-line with our risk appetite.

The Group's risk appetite sets the overarching approach to risk, as well as more granular tolerances within our insurance portfolios. This supports our goals of providing customers with products that protect them from risk and uncertainty, with those risks collectively managed to maximise risk-adjusted returns to our shareholders.

Our risk appetite continues to evolve in line with changing risk, regulatory and economic environments, with a recent focus on preparations for the Solvency II regime, which launched on 1 January 2016.

The Board retains ultimate responsibility for the risk appetite and for maintaining a robust risk management system via the Board Risk Committee, supported by the Chief Risk Officer.

How RSA embeds a culture of risk management throughout the business

RSA supports a healthy approach to risk management by integrating risk management principles throughout the business and reinforcing its role as a business enabler. Risk management principles are embedded within performance management for all employees across the Group regardless of function, who all share a joint responsibility to effectively manage business risk. We have also introduced a cultural health index to help Business Leaders spot early signs of cultural risk within the business.

At RSA we ensure risk management is fully integrated throughout the Group using a 'three lines of defence' model.

The first line of defence represents the business as a whole, operating within a robust control environment, designed to be effective in managing risks independent of the second and third lines. This first line is a key element and includes control testing performed by objective business experts.

The second line includes the risk management and compliance functions and has responsibility for monitoring and assuring first line activities.

The third line includes the independent Audit function, including the Group Audit Committee and Internal Audit. This line conducts periodic reviews of the first and second lines, providing a further review of the Group's risk and control environment.

Proactive response – Putting the customer first

Whilst we design our policies and processes to avoid security breaches, with the evolving cyber risk landscape it is important that we remain alert and prepared to respond if incidents do occur.

During 2015, a data storage device went missing from an access-controlled data server room, but our proactive response ensured affected parties were quickly notified with no customers suffering a financial loss.

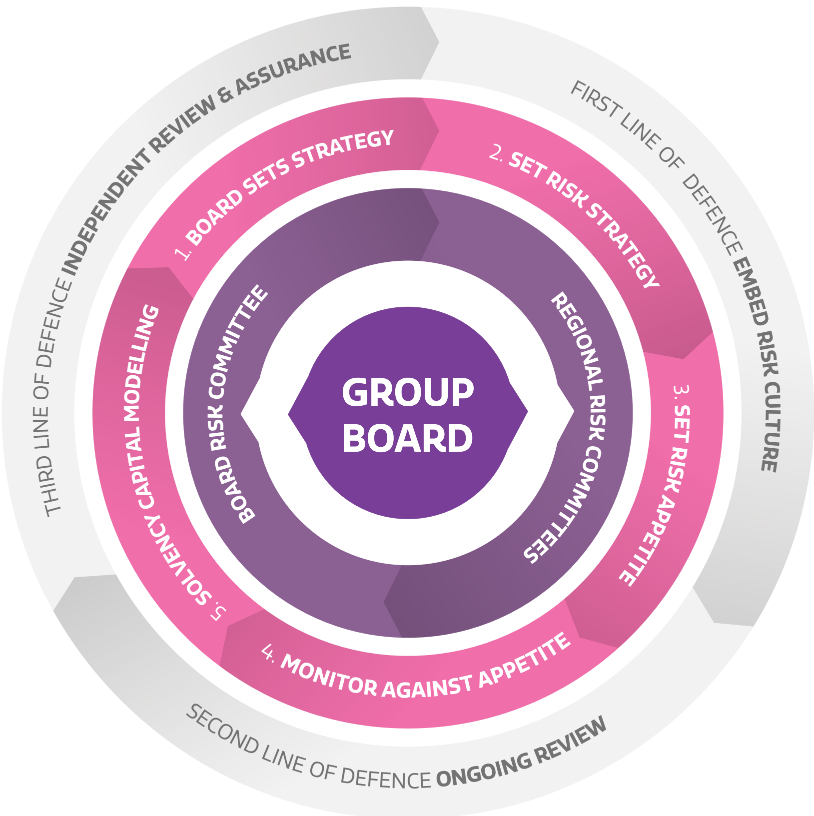
In reacting to this event we rapidly engaged a multi-disciplined team of experts, including the Regional Executive Team, business partners and compliance and communications professionals, as well as all relevant regulatory bodies, to ensure that the situation was dealt with efficiently and effectively.

Whilst we continue to enhance our control framework to avoid incidents such as this it is reassuring to know that we have effective response processes in place if events do occur and that customers suffered no financial loss as a result of this incident.

Understanding the risk management framework
The risk management framework is integral to our system of governance and incorporates both the risk management system and the internal control system, discussed further on page 46.

Governance structure:
The Board is ultimately responsible for ensuring that RSA operates an effective system of risk management, which is monitored via the Board Risk Committee, (further detail on pages 57–58) in turn supported by regional risk and control committees attended by senior leaders and risk management professionals in each of our core regions.

Risk management framework



- Group Board
- Governance structure
- Framework activities
- Three lines of defence

Framework activities:

1. Board sets strategy
The risk management framework operates within the context of the business strategy, set by the Board and incorporated in to the Group and regional operational plans

2. Set risk strategy
The risk strategy reflects the business strategy of developing a focused, stronger and better general insurer and defines the over-arching risk principles to support business goals

3. Set risk appetite
Risk appetite statements and tolerances enable the business to convert the strategic principles into well-defined and well-articulated risk limits. Detailed risk policies then set out the required processes and controls that the business functions are required to follow to deliver the operational plan within these limits.

4. Monitor against risk appetite
Risks are monitored and controlled by the business in line with risk policies, with oversight provided by the second and third lines of defence. Risks identified outside of appetite are raised at regional risk and control committees and action plans agreed. Further escalation of risks to local Boards, Executive management and the Group Board will follow, as required.

5. Solvency capital modelling
The overall assessment of the Group's risk profile is used to inform the Internal Solvency Capital Model, which calculates our Solvency Capital Requirement (SCR), as part of the Groups Own Risk Solvency Assessment (ORSA). The Internal Solvency Capital Model is run on a regular basis throughout the year with outputs sense-checked to ensure that they provide a robust and reliable basis on which to make key business decisions. Outputs from the model are reported to the Board and where relevant amendments are made to fine-tune the Group's operational plans.

Risk management – continued

Key risks and mitigants

Key risk and exposures	SII SCR %	Key mitigants and controls	Commentary
Catastrophe Risk This is the risk presented by large natural disasters. The largest catastrophe risks that we are exposed to are Northern European windstorms and Canadian and Chilean earthquakes.	12%	· Reinsurance is used to mitigate the net impact of catastrophe risks to RSA and our programme is designed to cover at least 1 in 200 year events · Reinsurance counterparty credit risk exposures are reviewed regularly to ensure they remain within appetite	· The winter windstorms, Desmond, Eva and Frank represented significant catastrophes in the year but were well covered by our reinsurance programme · The disposal of our Latin American operations will remove our exposure to Chilean earthquakes post completion
Reserving Risk Represents the risk that the Group's estimates of future claims will be insufficient. The risk is largest for longer-tailed lines of business such as the UK Legacy portfolio, including asbestos and elements of our Personal Accident products in Sweden	Reserving (ex-Legacy[1]) 13% Legacy[1] 11%	· Reserves are set by the Group Reserving Committee, attendees at which include the Group Chief Actuary, the CRO, CFO and CEO · Additionally the Group has implemented a comprehensive reserve assurance programme to provide independent verification of >80% of gross reserves by value	· Reserve estimates involve an inherent level of uncertainty · The Group expects overall positive run-off of reserves at around one percent of Net Earned Premium, subject to volatility in any given year
Underwriting and Claims Risk This is the risk that underwritten business is less profitable than planned due to insufficient pricing or claims case reserving. Key exposures arise from larger portfolios operating in competitive markets, where claim trends are slow to emerge, such as UK commercial or Marine	19%	· Underwriting and claims activities are governed by well-defined risk appetite statements, which are monitored quarterly via regional portfolio reviews · Claims case reserves are prudently set in line with policy requirements · Extensive control validation activities performed with additional assurance by the second line	· As part of the Group's Focused, Stronger, Better strategy stricter underwriting requirements have been applied to a number of underwriting portfolios aimed at increasingly profitability
Market, Credit and Currency Risk The risks to our Insurance Investments Fund presented by movements in macro-economic variables, such as widening credit spreads, declining Bond yields or currency fluctuations	Market and Credit 12% Currency 3%	· Assets in the Insurance Investment Fund are well-matched with insurance liabilities to hedge volatility · Market Risk Policy and associated Control Framework ensure Group operates within risk appetite	· RSA takes a relatively conservative approach to the investment portfolio, favouring a high quality fixed-income dominated portfolio to protect capital for both policyholders and shareholders
Pension Risk These are risks associated with our Defined Benefit Pension Scheme – also market related. The largest exposures are to equity prices and credit spreads, however, this is partly offset by movements in the Insurance Investment Fund	23%	· Funding Assets well matched to liabilities in the pension programme, including use of swap arrangements	· During 2015 RSA has completed a triennial valuation with the pension trustees · Part of the settlement involved a de-risking of the pension fund assets, reducing the volatility in our capital requirement · RSA continues to explore options to further de-risk the pension fund
Operational Risk These risks relate to customer and/or reputational damage arising from operational failures, such as IT system failure	7%	· Comprehensive policies for IT, financial crime, regulatory compliance etc · Operational change, such as Group transformation programme monitored by additional governance and assurance activities	· The Group transformation programme has made positive progress during the year · A particularly cautious approach is taken to all IT change, including sunsetting of legacy systems
Total	**100%**		

Note:
1. Legacy includes asbestos, disease and abuse.

Quantifying risks

The table on the left details the proportion each risk type contributes to our total Solvency II Capital Requirement (SCR) (please read Solvency II and solvency capital requirement for more information on the new regime). Consistent with our strategy of focusing on risks within our core area of expertise, our SCR is primarily comprised of insurance related risks. These include higher than expected underwriting losses, large retained catastrophe losses, such as flooding or earthquake, and deterioration in our stock of reserves for future claims.

Our investment strategy is intentionally conservative relative to the industry to minimise market risks to both customers and shareholders. However, we still look for opportunities to capture additional return from less liquid investment-grade assets, where the cashflow profile can be matched with that of our liabilities, this is especially relevant for our longer tail liabilities. For more information on our market risks please refer to the financial statements and supporting notes on page 116.

Another key element of our SCR is risk relating to our defined benefit corporate pension scheme, which is closed to new members. While the scheme is well funded (95% following latest triennial review) and in an accounting surplus, under the rules of Solvency II capital is held for a 1 in 200 year adverse event, which increases the level of capital required against the scheme. For more information on the pension scheme, see note 38 of the financial statements.

Solvency II and Solvency Capital Requirement (SCR)

Solvency II is a new EU-wide insurance regulatory regime relating principally to how insurers manage capital to mitigate the risk of insolvency. Originally adopted by the European Parliament and Council in 2009, the Solvency II Directive became effective on 1 January 2016.

One of the key aims of Solvency II is to introduce a harmonised prudential framework for insurers promoting transparency, comparability and competitiveness amongst European insurers.

The Directive has three pillars that have impacted how RSA manages risk and how it reports to regulators, policyholders and shareholders:

Pillar I relates to the quantitative requirements and introduces a risk-based methodology to calculating the Group's Solvency Capital Requirement (SCR). Insurers are required to calculate the level of capital required based on their unique risk profile. For RSA this is calculated using our own Internal Model that was approved by the regulator in December 2015.

Pillar II incorporates qualitative governance requirements, including the way the risk management function operates within the business and how key systems and controls are documented and reviewed.

Pillar III relates to enhanced and standardised disclosure requirements, including increased transparency of the risk strategy and risk appetite of the business.

RSA has been preparing for the introduction of the Solvency II regime since it was announced in 2009 to ensure we were ready for the change and able to respond to its requirements.

In this report you can see some of the ways it has impacted the business. For example, the way we have presented the Group's Key risks and Mitigants has been updated to demonstrate how our risk profile informs and aligns to our capital requirements (SCR). We have also updated our Key Performance Indicators on pages 22-23 to reflect the importance of the Solvency II position to the effective management of our business.

In the coming years Solvency II will continue to develop and inform the way the Group manages risk and capital. In 2017 the Group will, for the first time, report its Solvency and Financial Condition Reports (SFCR), which will provide a standardised disclosure of performance, risk management and capital position of insurers.

Future and emerging risks

In addition to those risks that inform our capital requirements the Group constantly considers the broader risk landscape, including new and emerging risks and how they may impact the business, our customers and shareholders. One such area, that we have been focusing on recently is the threat posed by cyber attacks. During 2015 we performed a deep-dive assessment of the impact a cyber-attack would have on the UK power distribution network and shared the results with the PRA. The exercise involved interviews with various industry specialists both internally and externally and led to an assessment of the impact for the UK power network and RSA as a company. The assessment included:

- Identifying sources of both primary (such as damage) and secondary (such as business interruption) losses which could arise from an incident
- A detailed review of policies and assessment of RSA's potential exposure
- Assessment of the mitigating actions the Group has in place, including reinsurance covers.

As well as broadening our appreciation of the risk landscape and potential threat of emerging risks, this and other deep-dive assessments are presented to the Board to help inform and refine the Group's risk strategy and risk appetite.

Outlook for 2016

During 2016 the risk team will continue to work with the business to streamline control processes and increase efficiency. They will also focus on monitoring market risks (including the impact of inflation shocks) and IT risks and controls. The external environment and ongoing IT transformation has made this a priority focus for 2016.

Chairman's governance letter

Martin Scicluna
Chairman

Leadership

We are pleased to welcome Scott Egan who joined the Board as an Executive Director and Group Chief Financial Officer on 1 October 2015, replacing Richard Houghton. Scott has substantial experience in senior finance roles and at Board level in a number of companies in the insurance industry and is a welcome addition to the Board.

Whilst this means that we currently only have 22% female representation on the Board, we are actively recruiting two additional Non-Executive Directors, at least one of whom we would prefer to be female. We remain committed to achieving Lord Davies recommendation on female Board representation, although all appointments are made on merit. These new appointments are part of our Board succession planning and address a need identified by the Board in its 2014 evaluation, and subsequent discussions, to add directors whose skills complement and strengthen the Board.

There have also been some changes to the Executive Committee during the year with the promotion of Ralph Daals as Group Chief Auditor, following Caroline Ramsay's retirement and the departure of Vanessa Evans, the Group Human Resources Director. Paul Whittaker, Group Chief Operating Officer, has taken on responsibility for HR, given his previous experience in this role. Derek Walsh, the Group General Counsel and Company Secretary is due to leave the Group on 29 February 2016 after five and a half years, and will be succeeded by Charlotte Heiss who currently heads the Group Legal Team. The Board was pleased to be able to appoint internal candidates to these roles, in line with internal succession plans.

Effectiveness

The Board has monitored progress with the actions it agreed from the 2014 self evaluation and is satisfied with the progress made. The Board and Committees' effectiveness was evaluated internally again this year, with the results discussed by the Group Nomination and Governance Committee in late 2015. Key areas of focus identified for 2016 include the recruitment of two additional Non-

The Group's systems of internal control have been strengthened during the year which, together with the remediation of the Group being almost complete, will allow the Board to focus on long-term strategy during 2016.

Executive Directors; spending greater time engaging with the business; re-focusing on the Group's long-term strategy to drive the business forward; and to increase focus on our customers, people, brand and culture. Further information on the evaluation can be found on pages 51 to 52.

The Board has had an extremely busy year with seven additional meetings in response to the unsolicited approach from Zurich Insurance Group Ltd (Zurich). All directors made themselves available at short notice and robust discussions were held with good interaction between the Board, management and advisers to ensure the Board made the best decisions possible for the benefit of shareholders, customers and employees.

Accountability

The Board Risk Committee and Group Audit Committee have monitored management's implementation of the global programme to enhance the effectiveness of the Group's internal control systems to ensure that this has been embedded, that the intended improvements have been achieved and that the ongoing changes are sustainable. The Board believes that the Group's internal control systems are stronger as a result of this work.

The Company has complied with the UK Corporate Governance Code throughout the year as detailed throughout the Directors' and Corporate Governance Report.

Engagement

Non-Executive Directors are actively encouraged to engage with stakeholders including shareholders, customers, employees and regulators, and we also look forward to answering shareholder queries at the Annual General Meeting (AGM) on 6 May 2016. During the year, over 360 meetings were held with institutional investors to discuss areas such as the Group's future ambitions, Solvency II implementation, and capital.

The Zurich approach was naturally an unsettling time for employees, and the Board and executive management showed strong leadership during this time. The efforts made by all employees to ensure continuity of service for our customers during this period is greatly appreciated.

The Board visited the Group's office in Copenhagen in October where we held a Board meeting and met with the Danish regulator and local employees to deepen our understanding of our Scandinavian businesses. Individually, Non-Executive Directors' also attended local board and committee meetings or made site visits across the Group.

Board Committees

The Board cannot cover all areas in detail and focuses on strategy, performance and approval of material transactions. It therefore delegates authority and oversight to its Committees in certain areas. During the year, a key focus for the Board Risk Committee has been the implementation of Solvency II and the submission of the Group's 'internal model' for calculating our capital requirements under Solvency II to the Prudential Regulatory Authority.

The Group Audit Committee reviewed each financial results announcement and the Annual Report and Accounts prior to Board approval as well as considering areas from the new 'viability statement' to the Group's anti-bribery, anti-money laundering and whistleblowing processes.

The Group Nomination and Governance Committee played a crucial role in Scott's recruitment. It carried out an annual effectiveness review of the current Board and continues to work on the recruitment of new Non-Executive Directors.

The Group Investment Committee has continued to oversee the Group's investment policy and strategy and performance against these. It has also commenced overseeing the disposition and performance of the investment portfolios of the Group's defined benefit pension schemes.

The Group Remuneration Committee agreed a remuneration package for Scott, in line with our current remuneration policy, tested performance conditions on outstanding awards under executive share schemes, and reviewed incentive principles for 2016.

Conclusion

The Group's systems of internal control have been strengthened during the year which, together with the remediation of the Group being almost complete, will allow the Board to focus on long-term strategy during 2016. I would like to thank the Board and our employees for their contribution and commitment throughout 2015 and to date in 2016 for the progress achieved.

Martin A. Scicluna
Chairman
24 February 2016

Board of Directors

Martin Scicluna

Role: Chairman
Appointment date: January 2013
Nationality: British

Martin has considerable Board experience and knowledge and understanding of the financial services sector. Previous roles include Non-Executive Director and Chairman of the Audit Committee at Lloyds Banking Group plc, 34 years at Deloitte LLP, 26 years of which as Partner, Chairman of Deloitte LLP from 1995 to 2007, Director, Deloitte Touche Tohmatsu from 1999 to 2007 and a member of the Financial Services Trade and Investment Board from 2013 to 2015.

External appointments: Chairman of Great Portland Estates plc and Senior Independent Director and Chairman of the Audit Committee of Worldpay Group plc.

B I N

Stephen Hester

Role: Group Chief Executive
Appointment date: February 2014
Nationality: British

Stephen was previously Chief Executive Officer of The Royal Bank of Scotland Group plc, 2008-13, where he led the largest ever corporate restructuring and recovery programme.

Prior to that he held positions as Chief Executive, British Land plc from 2004 to 2008, Chief Operating Officer, Abbey National plc and a number of senior roles at Credit Suisse First Boston in London and New York. Stephen has over 30 years' experience in financial services and FTSE100 companies with expertise in transforming the performance of businesses.

External appointments: Member of the Board of the Association of British Insurers.

I

Scott Egan

Role: Group Chief Financial Officer
Appointment date: October 2015
Nationality: British

Before RSA, Scott was Interim Chief Executive Officer at Towergate Insurance having previously held the post of Chief Financial Officer. Scott also held the post of Chief Financial Officer at Brit Insurance, after four years at Zurich Financial Services, as Chief Financial Officer UK, and latterly as Group Financial Controller. He has also held various senior finance roles at Norwich Union Insurance (now Aviva). Scott is a qualified accountant (ACMA) and has an MBA from Cranfield University.

I

Alastair Barbour

Role: Independent Non-Executive Director
Appointment date: October 2011
Nationality: British

Alastair retired from KPMG in March 2011. In the last 20 years of his 36 year career with the firm, in the UK and overseas, he led their financial services team in Scotland with a primary focus on insurance and investment management. Alastair has extensive experience in advising on accounting and financial reporting, corporate governance and management issues in the financial sector and is a Fellow of the Institute of Chartered Accountants in England and Wales.

External appointments: Non-Executive Director of Phoenix Group Holdings, Standard Life European Private Equity Trust plc, Liontrust Asset Management plc, CATCo Reinsurance Opportunities Fund Limited, The Bank of N.T. Butterfield & Son Limited (a company listed in Bermuda).

A B I N

Kath Cates

Role: Independent Non-Executive Director
Appointment date: September 2013
Nationality: British

Kath has over 20 years' experience in global financial services. She was previously Chief Operating Officer, Wholesale Banking for Standard Chartered Bank and spent 22 years at UBS. Kath has gained a deep knowledge of control, governance and risk management, working in emerging markets and across different sectors and cultures.

External appointments: Non-Executive Director of Brewin Dolphin Holdings plc.

A B R

Enrico Cucchiani

Role: Independent Non-Executive Director
Appointment date: December 2014
Nationality: Italian

Enrico has over 35 years' global executive and non-executive experience across financial services including banking and insurance and a number of blue chip brands. He spent over 15 years at Allianz in a variety of international roles, including Head of Global P&C and Head of most of Europe, Latin America and Africa.

External appointments: Partner of Think Global Investments LLP and Director and Executive Committee Member of Bocconi University.

B R

Hugh Mitchell

Role: Independent Non-Executive Director
Appointment date: September 2012
Nationality: British

Until December 2015, Hugh was Chief Human Resources and Corporate Officer of Royal Dutch Shell plc and a member of its Executive Committee. He was a Director of Shell International Ltd, Shell Aircraft Ltd and the Shell Foundation.

Hugh has previously held advisory roles at The Centre for Advanced Human Resources at Cornell University Advisory Board, IMD Business School Advisory Board, Honorary Vice-President for the CIPD and Advisory Board Member of the National College for School Leadership.

External appointments: Fellow of the National Academy of Human Resources (USA), Director of Edinburgh Business School.

B N R

Joseph Streppel

Role: Independent Non-Executive Director
Appointment date: October 2011
Nationality: Dutch

Joseph has a comprehensive understanding of the insurance market globally, extensive financial services expertise and a good knowledge of international and emerging markets. Previous roles include Chief Financial Officer of Aegon until 2009. Chairman of the Monitoring Committee of the Dutch Corporate Governance Code, Advisor to the Tilburg Centre of Finance and Chairman of KPN.

External appointments: Vice-Chairman of Van Lanschot, a Dutch private banking and asset management firm, Director of Arq Foundation, Chairman of Duisenberg School of Finance, Chairman of the Advisory Board of the Royal Dutch Society of Actuaries and Vice-Counsel (Raad) Enterprise Chamber of the High Court of Amsterdam.

A I R

Johanna Waterous CBE

Role: Senior Independent Non-Executive Director
Appointment date: May 2008
Nationality: Canadian

Johanna's previous roles include Chairman of Tate Enterprises and over 20 years with McKinsey & Company, positions including Co-leader of the Global Marketing and Sales Practice and Leader of their UK Consumer Practice and the European Retail Practice, Director of Shoppers Drug Mart Corporation (a company listed on the Toronto Stock Exchange), and a non-executive director of WM Morrison Supermarkets plc. Johanna brings deep expertise on consumer behaviour, sales and marketing across multiple sectors.

External appointments: Non-Executive Director and Senior Independent Director of Rexam PLC, Director of RBG Kew Enterprises Limited, and Chairman of Sandpiper CI.

A N R

COMMITTEE MEMBER KEY

A Group Audit Committee
B Board Risk Committee
I Group Investment Committee
N Group Nomination and Governance Committee
R Group Remuneration Committee

○ Chair of Committee
● Member of Committee

Executive Committee

The Executive Committee comprises the two Executive Directors whose biographies are on page 42 and the following senior management:

Patrick Bergander

Role: CEO Scandinavia

Patrick Bergander joined the RSA Group's Executive Committee in June 2014 following his appointment as CEO of RSA Scandinavia. Previously CFO for Scandinavia, Patrick has been with the Group since 2011. Patrick has held senior finance roles at Electrolux and If Skadeförsäkring.

David Coughlan

Role: Group Underwriting Director

David joined RSA in March 2008 as Group Motor Portfolio Director and in February 2010 became Underwriting and Claims Director, Emerging Markets. David was appointed to the position of Group Underwriting Director in July 2013. Prior to his time with RSA Group, David was at Zurich Financial Services where he was Head of Personal Lines underwriting and Chief Pricing Actuary for the Zurich Group. Previously, he worked for a number of insurance companies in the UK & Ireland including Norwich Union, as Head of Pricing for Norwich Union Direct; Guardian; and New Ireland Assurance. David has 24 years of insurance experience in underwriting, pricing and actuarial related matters and is a Fellow of the Institute of Actuaries.

Ralph Daals

Role: Group Chief Auditor

Ralph was appointed Group Chief Auditor in June 2015 with responsibility for leading the Group Internal Audit function. Previously, he held the post of Chief Auditor for the UK and Western Europe. Before joining RSA in 2014, Ralph headed up Deloitte UK's Internal Audit services to the insurance industry. Prior to that he held senior audit positions at Aviva. Through advisory roles at Arthur Andersen and Deloitte, Ralph has extensive experience in providing internal audit, risk management and governance services to leading financial institutions. Ralph holds a Masters in Finance from London Business School.

Stephen Lewis

Role: CEO, UK and Western Europe

Steve became CEO for UK and Western Europe in January 2015, joining from Zurich where he was CEO, UK General Insurance and Shared Services for five years. During his 25 year career at Zurich, Steve held a number of operational and financial roles in the UK and overseas including Head of Group Operations, Planning and Performance Management (2007-09), Chief Financial Officer and Head of Operations, Global Corporate European businesses (2006-07). Steve is a Fellow of the Chartered Association of Certified Accountants, having qualified in 1990.

William McDonnell

Role: Group Chief Risk Officer

William was appointed Group Chief Risk Officer in December 2014. Since joining RSA in 2006, William has also held the roles of Group Risk Director, Group Financial Controller and Head of Corporate Finance. He is a chartered accountant with extensive risk management and finance experience with a number of blue-chip financial institutions including HSBC Investment Bank, Aviva, the Financial Services Authority and seven years at Deloitte.

Darren Price

Role: Group Chief Information Officer

Darren was appointed Group Chief Information Officer in June 2013 and joined the Executive Committee in May 2014. Having joined RSA in 2007 as Chief Information Officer for the Group's Baltic operations, he went on to lead IT and Operations in RSA's Central and Eastern Europe region and, subsequently, its Emerging Markets business. Prior to RSA, Darren held roles at Compaq, Unilever, GE Commercial Finance and GE Capital Solutions.

Rowan Saunders

Role: President and CEO, RSA Canada

Rowan is Chief Executive Officer of the Group's Canadian business. Since joining the Group in 1987, he has held progressive leadership positions in the areas of underwriting, marketing, sales and finance. He is a member of the Board of Directors of the Insurance Bureau of Canada (IBC) and was the IBC's past Chair. Rowan is currently a Non-Executive Director at Equitable Group Inc., a publicly traded company on the Toronto Stock Exchange.

Derek Walsh

Role: Group General Counsel and Company Secretary and Global Broker Relationship Director

Derek joined the Group in July 2010 and has over 20 years' experience in the insurance industry.

He is responsible for the Global Legal, Company Secretarial and Compliance teams and since 2014 took an additional executive responsibility of Global Broker Relationship Director. From 2002 he served as Group General Counsel at Benfield Group Limited, where he was also responsible for the global legal, company secretarial and compliance teams. Prior to that, Derek held positions in law firms Pinsent Curtis (now Pinsent Masons), McKenna & Co (now CMS Cameron McKenna) and Norton Rose.

Paul Whittaker

Role: Group Chief Operating Officer

Paul joined the Group in 2003 as HR Director and was Chief Executive of Emerging Markets from 2006-14. He was appointed Group Chief Operating Officer in May 2014 and in this capacity is responsible for the business disposal programme, business transformation and the Underwriting, Claims and Reinsurance functions and IT. He has also recently taken on responsibility for Human Resources. Paul has over 25 years' senior management experience in the financial services sector, including three years at AXA and 10 years at GE Capital.

System of Governance

The UK Corporate Governance Code (the Code) sets out standards and expectations on corporate governance matters for UK companies.

The Financial Reporting Council are responsible for the publication and periodic review of the Code. The latest version of the Code, published in 2014 can be found at www.frc.org.uk

The Group operates within a System of Governance designed to ensure the safety and soundness of the Group through having a well-managed business with effective decision-making, robust procedures and strong internal reporting. It also ensures that the Group complies with all relevant legislation and regulation in each jurisdiction in which it operates. This includes ensuring compliance with the Code and this Annual Report and Accounts is available on the Group's website at www.rsagroup.com/financial-reporting. The Group Nomination and Governance Committee monitors compliance with the Code and further information on how Code compliance is overseen can be found in that Committee's report on pages 55 to 56. This report describes the Group's System of Governance.

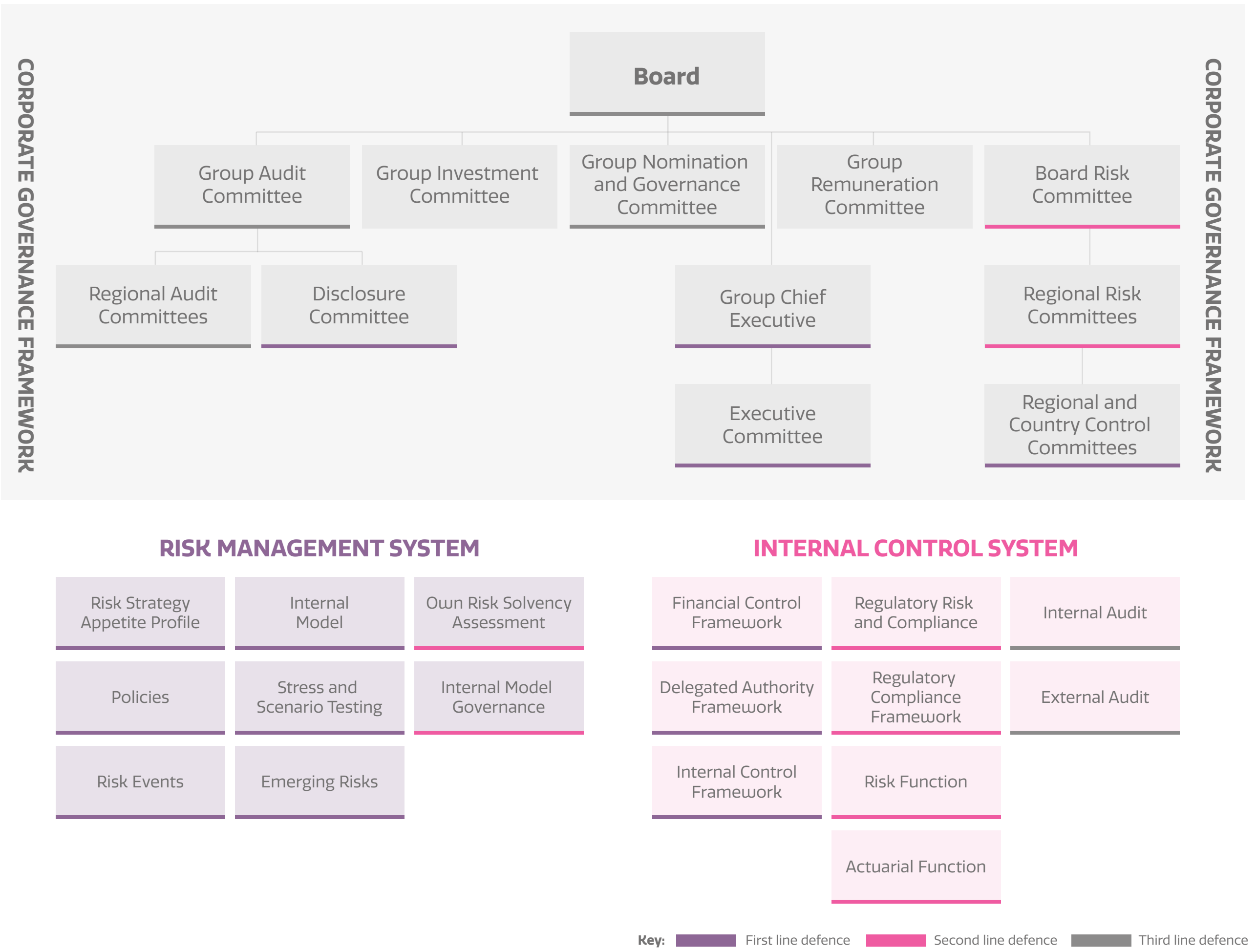
Our System of Governance comprises the following elements:

Element	What it does	Where to find more information
Corporate Governance Framework	Sets out how the business is managed, the role of the Board and its Committees, and the management structure.	Directors' and Corporate Governance Report on pages 40 to 96.
Risk Management System	Governs how we identify, measure, manage, monitor and report risk. This system follows a three lines of defence model.	Risk Management in the Strategic Report on pages 36 to 39. Risk Management System and the Risk Function in the Board Risk Committee Report on pages 57 to 58. Regulatory Risk and Compliance Function, Group Internal Audit Function and External Auditor in the Group Audit Committee Report on pages 61 to 65.
Internal Control System	Sets out controls that sit behind the Corporate Governance Framework and the Risk Management System, the Group's day-to-day procedures.	Group Audit Committee Report on pages 61 to 65.

Following a Group-wide review of governance and internal control systems in 2014, an enhanced Internal Control System was adopted globally to ensure consistency of oversight and reporting; and robust objectivity and independence.

The diagram below shows the elements of our System of Governance and how it is operated and overseen through the three lines of defence model.

Corporate Governance Framework – Structure of Board and Committees



System of Governance – continued

Corporate Governance Framework

The Corporate Governance Framework supports the realisation of the Group's business strategy, supports its long-term success and safeguards compliance with applicable laws and regulations. It sets out clear responsibilities for how the Group is directed and managed, to ensure that both directors and employees act under a chain of authority and powers that link back to the shareholders as ultimate owners of the Group.

Role of the Board

The primary responsibility of the Board is to provide effective leadership to ensure that it promotes the success of the Company for the benefit of its members as a whole. The Board, supported by its Committees, provides entrepreneurial leadership within a framework of prudent and effective controls. The Board is accountable to stakeholders for the creation and delivery of strong sustainable performance and the creation of long-term shareholder value.

The directors may exercise all the powers of the Company subject to the Articles of Association, relevant law and any directions that may be given by the Company at general meetings by shareholder resolution. The directors may delegate any of their powers or discretion to Committees.

The Board sets annual objectives for the business in line with the current Group strategy and monitors achievement against these objectives through regular reports. These include updates from the Group Chief Executive and the Group Chief Financial Officer on all material business matters. There is a rolling agenda of items for consideration by the Board that is continually refreshed in line with the needs of the business.

There is a schedule of matters reserved for the Board that can only be amended by the Board itself. This is reviewed annually. For a summary of the schedule of matters reserved for the Board and roles of the Chairman, Group Chief Executive, Senior Independent Director and Non-Executive Directors, visit the Company's website at www.rsagroup.com/corporate-governance.

Board Committees

The Board delegates certain duties to its Committees so that matters receive detailed consideration. Terms of reference for each Committee set out the authority delegated from the Board, and these have been reviewed and approved by the Board during the year.

The composition of each Committee is recommended by the Group Nomination and Governance Committee to the Board for approval. This is reviewed on an annual basis or more frequently if appropriate. When reviewing Committee membership, consideration is given to each individual's expertise and experience.

Further details on the role and responsibilities of each Committee can be found in each Committee report and the full terms of reference are available at www.rsagroup.com/termsofreference.

Directors

The names of the directors together with their biographical and Committee membership details are set out on pages 42 and 43. In addition, Richard Houghton served as Director until his resignation as an Executive Director on 7 May 2015 and as Group Chief Financial Officer on 10 July 2015. Scott Egan was appointed with effect from 1 October 2015 as Executive Director and Group Chief Financial Officer.

The Company's Articles of Association authorise the Board to manage the business of the Company and give the directors power to appoint and replace directors as required until the next AGM. Non-Executive Directors are initially appointed for a three year term with an expectation that they will continue for at least a further three years. Directors are nominated by the Group Nomination and Governance Committee and are subsequently approved by the Board for election or re-election annually at the Company's AGM for approval by shareholders.

Details of the directors' service contracts and terms of appointment, together with their interests in the Company's shares, are shown in the Directors' Remuneration Report on pages 66 to 90.

The role of Chairman and Group Chief Executive are separate and clearly differentiated through role statements approved by the Board. No one individual has unfettered powers of decision making.

Further information on the individuals fulfilling these roles can be found in their biographies on pages 42 to 43.

Delegated Authority Framework

The Delegated Authority Framework specifies how executive authority is delegated from the Board to the Group Chief Executive and on to other executives in the Group. It forms part of the Internal Control System and links to the Corporate Governance Framework. Senior executives across the Group receive an executive licence setting out their specific limits of authority for entering into financial, underwriting, claims and other business commitments. Each executive is responsible for ensuring a similar process of delegation is in place within his or her area of responsibility.

This Framework enables the business to:

- Ensure that all employees execute their responsibilities within a clearly defined set of limits and subject to specified terms and conditions appropriate to their role, competence, experience and technical capability so as to mitigate the risk of the Group being exposed/committed to material financial, operational, legal, reputational and/or regulatory risk and/or loss
- Ensure that the risks associated with managing and delegating authorities are mitigated through the use of appropriate preventative and detective controls and remain within the Risk Appetite
- Ensure compliance with relevant regulatory and statutory requirements
- Provide clarity to the business on who can make what type and level of decisions, enabling swift escalation to the appropriate executive.

Effectiveness

Key Activities of the Board in 2015

During the year, the Board has considered a wide range of items in the discharge of its duties. The key items of business considered include reviewing the Group's strategy; approving the Group's Solvency II Internal Model application to the Prudential Regulatory Authority (PRA); monitoring the Group's System of Governance; considering the possible offer from Zurich, and approving the agreement to sell the Group's businesses in Latin America. More information about each of these areas is below.

The Board received regional strategy presentations throughout the year and held a discussion focused on macro digital trends, changing customer demands and how the Group could meet these demands by further digitising processes, optimising the customer experience and increasing the sophistication of pricing.

Solvency II came into force on 1 January 2016 and the Group's Internal Model which calculates its regulatory capital requirements was approved by the PRA in December 2015. During the year, the Board received regular updates on the progress of the Group's Internal Model development and application to the PRA for its approval from management and the Board Risk Committee.

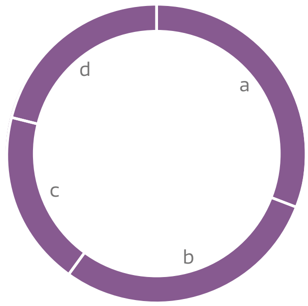
Whilst oversight of the Group's System of Governance is mainly carried out by the Group Audit Committee and Board Risk Committee, the Board retains overall responsibility for ensuring that the Group operates within a sound governance framework. The Board has therefore received regular updates on the status of the Group's Internal Control system and actions taken following the 2014 project to enhance this system. Following an assessment by, and recommendation from, the Group Audit Committee in February 2016, the Board concluded that it was satisfied with the effectiveness of the Group's Risk Management and Internal Control systems.

The approach by Zurich to possibly acquire the Group was considered carefully by the Board over a number of meetings in 2015. The Board examined each course of action it could take and what would be in the best interests of shareholders, the Group's customers and employees. The Company's key shareholders were contacted to ensure that their views on the approach were taken into consideration. The Board concluded that it would have been willing to recommend the revised proposal received from Zurich to shareholders subject to certain terms and conditions.

During the year the Board considered and approved the sale of the Group's Latin American businesses to Suramericana S.A. and the sale is due to complete during 2016. The Board received regular updates on the sale process and negotiations with interested parties and agreed that the sale to Suramericana, at the price achieved, was in the best interests of shareholders and delivered against the Board's objective to focus on core markets.

Breakdown of topics discussed at Board meetings held during 2015

a. Strategy 31%
b. Financial 29%
c. Risk 19%
d. Governance 21%



Board attendance

The Board held nine scheduled meetings during the year and seven ad-hoc meetings. In addition, Non-Executive Directors met privately on three occasions during the year without Executive Directors or senior management being present.

	Scheduled Board Meetings Attended	Additional Board Meetings Attended[4]
Martin Scicluna*	9/9	7/7
Alastair Barbour	9/9	5/7
Kath Cates	9/9	7/7
Enrico Cucchiani	9/9	6/7
Scott Egan[1]	2/2	0/0
Stephen Hester	9/9	7/7
Richard Houghton[2]	4/4	0/0
Hugh Mitchell	9/9	6/7
Joseph Streppel[3]	8/9	6/7
Johanna Waterous	9/9	6/7

*Board Chairman

Notes:
1. Scott Egan was appointed as a director with effect from 1 October 2015.
2. Richard Houghton ceased to be a director with effect from 7 May 2015.
3. Joseph Streppel was unable to attend one scheduled meeting due to a family bereavement.
4. These meetings were scheduled at short notice in response to the possible offer from Zurich and other items of business and directors made every effort to attend.

Effectiveness of the Board

The Board considers that the information provided to the Board and its Committees is supplied in a timely manner and is of an appropriate quality to enable it to discharge its duties. The Board continually challenges management to ensure that the flow and quality of information to the Board is of a high standard. The Chairman sets the agenda for Board meetings, is responsible for the running of meetings and ensures sufficient time for discussion and constructive challenge.

When a director was not available to attend a meeting their views were canvassed by the Chairman prior to the relevant meeting where possible, and the Board informed of their opinions and observations. Formal minutes recording the decisions of all Board and Committee meetings are prepared and circulated to each director. If a director objects to a particular decision this is recorded in the minutes of the relevant meeting.

Effectiveness – continued

When considering matters such as the approval of financial statements and large operational contracts, the Board may delegate authority to a Committee to finalise and approve as required.

Commitment
The letters of appointment for the Chairman and each of the Non-Executive Directors set out their anticipated time commitment, being an average of two days per week for the Chairman and 28-32 days per year for Non-Executive Directors. Non-Executive Directors are required to allocate sufficient time to meet the expectations of the role, in attending Board and Committee meetings and the AGM. In addition, Non-Executive Directors may be required from time to time to attend meetings, training and briefings, and to spend time in the business.

Throughout 2015, directors have demonstrated flexibility and commitment in attending numerous Board and Committee meetings at short notice, and have made themselves available to meet with the Group's lead Regulators as required. This is especially evident in the number of additional meetings held due to the unsolicited approach from Zurich in July 2015.

Martin Scicluna is also Chairman of Great Portland Estates plc and Senior Independent Director and Audit Committee Chairman of Worldpay Group plc. The Board is satisfied that these commitments are not a constraint on the Chairman's time or his ability to carry out his duties.

Stephen Hester and Scott Egan are not currently directors of any listed companies but would be allowed to have one such appointment, subject to approval from the Group Nomination and Governance Committee.

Service agreements and letters of appointment, for both the Executive and Non-Executive Directors, are available for inspection at the Company's registered office and at the AGM.

Induction, training and development of directors
Upon appointment to the Board, directors undertake an induction programme, receiving a broad range of information about the Company that is tailored to their existing knowledge and experience. The induction programme includes: information on the operational performance and business of the Group, details of Board procedures, corporate governance and directors' responsibilities. In addition, each new director attends a series of meetings with senior management covering all aspects of the business including: Risk, Regulatory Risk and Compliance, Claims, Capital, Reserving, Underwriting, Internal Audit, IT and E-Business and HR. They are also invited to attend meetings of each of the Board Committees at least once during their induction.

The Group General Counsel and Company Secretary is responsible for assisting the Chairman in arranging the induction programme, training schedules and professional development of the directors and for bringing all governance matters to the attention of the Board.

The directors have access to the services and advice of the Group General Counsel and Company Secretary and may take independent professional advice at the expense of the Company in the furtherance of their duties.

Additionally, the Board receives briefings on matters that are material to the Group on the financial and operational performance of the business and briefings on legislative and regulatory changes and on corporate governance matters affecting the Group.

Directors of the Company have attended training sessions and seminars during the year to enhance their knowledge. Topics covered in 2015 include:

- Solvency II
- The Group's control environment, the three lines of defence and the importance of policies, procedures and behaviour
- Know Your Client, Sanctions, Politically Exposed Persons and Anti-Money Laundering
- Underwriting and Claims
- Audit Committees' key current and developing challenges and issues
- Financial Reporting Council update on regulations
- Financial reporting technical updates
- Corporate Governance
- Meetings with various function heads and regional business areas to enhance their technical knowledge and understanding of the business

Governance in Action
Non-Executive Director roles are not limited to Board attendance. Each of the Committee chairmen meet regularly with key members of management. For example, Alastair Barbour, Chairman of the Group Audit Committee, held regular discussions throughout the year with members of Group management, particularly from Finance, Risk, Regulatory Compliance, IT and Internal Audit along with members of the UK management teams. Alastair has also attended a number of subsidiary meetings including a UK risk and controls committee meeting; and board and audit committee meetings in the Canadian business. These meetings have deepened Alastair's understanding of the business, critical issues and challenges and what is being done to progress them.

Kath Cates, Board Risk Committee Chairman, attended a global risk leadership team forum during the year that covered the key risks, risk profile, risk appetite and actions being taken in each region at a more detailed level than would usually be reported to the Board Risk Committee. It also gave her a detailed view of the Risk function's plans for 2016 and an opportunity to discuss these areas in detail with internal experts, challenge the planning process and get to know the senior Risk leaders. The Risk function found Kath's presence was beneficial as it assisted the function in seeing matters from the perspective of a Non-Executive Director and helped promote openness and led to a frank discussion of issues.

Evaluation

To ensure the Board remains effective, an internal performance evaluation is carried out annually. At least once every three years, the evaluation process is carried out by an external party followed by two years of an internal evaluation process. During the year, the Chairman led an internal evaluation with support from the Company Secretary. The evaluation was carried out using an online questionnaire, involved all directors and regular attendees, and reflected on the key areas identified in the previous evaluation for focus during 2015. It considered the Board and Board Committee composition, performance, oversight, knowledge and understanding. An external performance evaluation will be carried out in 2016.

The results of the evaluation were presented to the Group Nomination and Governance Committee, which concluded that the Board and its Committees had operated effectively throughout 2015, with good relationships between directors and a high level of transparency and trust in the Boardroom, enabling quality debate and challenge. In particular, the Committee highlighted that the process during the possible takeover period from July to September 2015 was handled very well with swift, decisive actions taken whilst sufficient time was given to evaluating the options in a structured manner.

The Group Nomination and Governance Committee agreed the following actions to further improve the Board and Committees' effectiveness during the course of 2016 as follows:

- Continue the recruitment of two additional Non-Executive Directors
- Directors to spend greater time engaging with the business, both formally and informally through individual site visits and meetings with management
- To re-focus on trends shaping the Group's long-term strategy post turnaround
- More time to be spent on broader stakeholder views including customers and employees and developing the Group's brand and culture as the long-term strategy develops.

The Chairman has also reviewed the performance of each of the directors during the year and concluded that each director contributes effectively to the Board and that each Non-Executive Director devotes sufficient time to their role. The Group Nomination and Governance Committee considered the evaluation and concluded that each director be recommended to shareholders for election or re-election at the 2016 AGM.

The Senior Independent Director met independently with each of the Non-Executive Directors to evaluate the performance of the Chairman. The review concluded that the Chairman had led the Board in a highly effective way throughout the year.

Evaluation – continued

Throughout the year, the Board has regularly received reports to enable it to monitor the actions that arose from the evaluation carried out in 2014 and the following table highlights the progress made.

Recommendations from the 2014 evaluation and actions taken during 2015

Action Agreed	Status
Increased scrutiny of the near-term performance, including achievement of key milestones in line with the three-year strategic turnaround plan.	The Board received and reviewed regular updates from management and is satisfied with progress to date.
Refine the longer-term strategic vision of the Group.	Annual strategy meeting held in June 2015 with particular emphasis on digital trends and how each region plans to transform its business in the long-term.
Review of the Group's operational and commercial capabilities.	During the year CEOs from Canada, Scandinavia and the UK each presented their business reviews to the Board. These reviews included regional updates on operating landscape, performance relative to peers, market trends and the status of turnaround plans.
Board and Committee agendas to be reviewed to have greater focus on major issues in addition to 'Business as Usual'.	The Group Nomination and Governance Committee reviews the rolling agenda for the Board at least twice annually, ensuring that sufficient time is dedicated to current or emerging topics and is satisfied that there is sufficient focus on major issues.
Deeper review of succession planning, engagement and culture.	The Chairman and some of the Non-Executive Directors attended the Global Leaders Conference and Executive, Senior and FastTrack Executive Development programmes to engage with different levels of management and gain a deeper understanding of the business. Succession plans for the Board and Group Executive have been reviewed by the Group Nomination and Governance Committee and further information is disclosed in that Committee's report on pages 55 to 56.
Review the pace and evidence of cultural change, in line with the new control and risk frameworks.	The Board reviewed the results of an assessment developed during 2014 to identify early signs of cultural risk. The results of these assessments is also used by Internal Audit to support their audits of risk culture which are reported to the Group Audit Committee regularly.
The Board to spend more time in the business, with increased interaction with senior management, customers, brokers, key shareholders and regulators, to strengthen the Board's direct insights into the business and its capabilities.	The Board visited Copenhagen in October 2015 and met with the local board, employees and the Danish Regulator. In addition Non-Executive Directors have attended regional board and committee meetings in Canada and Scandinavia as well as attending meetings with regional senior management. For 2016 the Board are scheduled to spend time in the UK business and have scheduled a visit to the Canadian business. Technical updates for the Non-Executive Directors were conducted during the year, including on Solvency II, underwriting and claims. In 2016 this will be extended to include technical updates by major broker and distribution partners.
Additional informal meetings of the Chairman, Non-Executive and Executive Directors to discuss issues beyond the normal Board meeting agendas.	During the year three Non-Executive only meetings were held and a number of meetings have been scheduled for 2016. The Committee chairmen regularly meet with management outside of formal meetings and the Executive Directors are available to meet with the Non-Executive Directors whenever required.

Engagement

Employees
The performance and expertise of the Group's employees are key to the successful delivery of the Group's strategy.

For the second year running, employees shared their views on the Group via YOURSAY, the global employee opinion survey. Over 75,000 comments, ideas and suggestions were received and these results have been shared across the organisation. From these results teams create action plans to implement positive changes.

During 2015 there has been a cultural shift across the Group via the introduction of technology platforms Sharepoint, Lync and Yammer. This has led to improved global collaboration and knowledge sharing as well as giving all employees access to the senior leadership of the organisation. Global 'Town Hall' meetings are held using live streaming and Yammer to communicate the Group's full and half year results. To encourage employee involvement in the Company's performance a number of employee share plans are offered.

Performance and talent management processes are in place across the Group to ensure an ongoing focus on high performance and the development and acquisition of talent. The Group runs a number of talent programmes for senior and emerging talent and has continued to focus on retaining talent. The Group continues to place a key focus on the development of technical capability lead by the Technical Academy, an internal training academy which runs technical programmes, forums, conferences and a global graduate programme for employees in Underwriting, Claims and Actuarial.

The Group is committed to diversity and the promotion of equal opportunities. Following the launch in 2013 of a new diversity and inclusion programme, the Group has continued to invest in strengthening its pipeline of female employees in senior leadership positions. The Group is committed, wherever possible, to employing and developing people who are disabled, or become disabled during their career with the Group.

Further information is set out in the Strategic Report on pages 16 to 17 and is incorporated into this Report by reference.

Customer
For over 300 years the Group has been helping to protect customers all over the world from risk and uncertainty. To ensure the business remains relevant, we regularly seek customer feedback to help us improve our service and products. The primary measure used to do this is the universally recognised Net Promoter Score (NPS), which produces a customer satisfaction score based on a scale of 1 to 10. The NPS can be collected for various elements of a customer's interaction with the Group, such as when getting a quote or making a claim or a general impression of the business. In addition to NPS, we track a range of other metrics that differ by product and region including: retention, complaint levels, trust and product advocacy.

The business focuses on sustainably improving these metrics and specifically targets upper quartile NPS scores, by focusing on putting the customer first in everything that it does.

Regulators
The Board is responsible to the PRA and the Financial Conduct Authority (FCA) for complying with the Group's UK insurance regulatory obligations. The Board attaches great importance to its regulatory responsibilities and is committed to dealing with the regulators in an open, co-operative and transparent manner. The Board paid close attention to the expectations of the PRA and FCA with particular focus on Solvency II and the Internal Model application process. During the year the PRA and FCA conducted private meetings with several members of the Board and executive management and regular management information is provided to assist them with the supervision of the Group. In addition, the Group includes a number of regulated entities which foster positive regulatory relationships in support of the business. Accordingly, maintaining effective relationships with the Group's regulators across the world is integral to the success of the Group's strategy and its long-term value.

Rating agencies
The Group is rated on an interactive basis by Standard & Poor's and Moody's. The insurance financial strength ratings are currently A (stable outlook) and A2 (stable outlook) respectively. These ratings were affirmed following the 2015 half-year results and the positive progress on the strategic restructuring programme announced by the Company. In addition, both agencies spent one day with senior management discussing Group strategy, financial plans, capital and risk management.

Shareholders
The Group is committed to proactive and transparent interaction with shareholders and other market participants. During 2015, the Company held over 360 meetings with institutional investors, and met with 15 of the top 20 shareholders on at least one occasion. The key themes of these meetings centred on the future ambition and capability of the Group and capital foundation. The Group's share register includes institutional investors predominantly from the UK, Europe and North America with a range of investment styles. Further information is set out in the Shareholder Information section on page 179.

The Group remains committed to increasing levels of transparency and disclosure to investors to aid understanding of the Company's investment case. During 2015 the Group has conducted a thorough review of financial disclosures and has redrafted the Group Financial Statements and supporting notes to increase both clarity and usability. The views of other providers of capital are taken into account as appropriate.

Engagement – continued

Corporate responsibility

The Group's Corporate Responsibility Strategy 2013–2018 addresses the Group's most relevant environmental and social issues. The Corporate Responsibility approach is based on the Board's commitment to run the business in a way that all stakeholders can be proud of at the same time as making a positive impact on society and the environment. More detail can be found in the Strategic Report on pages 18 to 19 and on the Group's website at www.rsagroup.com/corporate-responsibility.

Public affairs

The Group contributes to public policy debates on issues relevant to the business, either individually or through industry bodies such as the Investment Association and the Confederation of British Industry. This can include issues such as fraud, motor insurance, asbestos, renewable energy and financial services regulation. The Group engages with policymakers to improve understanding of the role the insurance industry plays in society and the economy.

Employees apply the principles of openness, transparency, honesty and integrity to all of their activity with policymakers. The Company adheres to principles of best practice, declaring the interests which it represents and ensuring that, to the best of its knowledge, information provided is unbiased, complete, up to date and not misleading.

Each year the Company proposes a resolution authorising political expenditure up to £100,000 for each of donations to political parties and independent election candidates, donations to political organisations and incurring political expenditure. This resolution is proposed in the event that the funding of seminars, functions and charitable donations by the Group may be regarded as political in nature. During the year the Group has not made any donations to political parties or independent election candidates.

Group Nomination and Governance Committee report

Introduction

The Committee plays an important role in setting the tone from the top by ensuring that the Board comprises of individuals with a diverse yet relevant set of skills, knowledge and experience who will work well together to lead the Group. The Committee also monitors the Group's compliance with the Code to ensure that there are clear governance processes in place to aid effective, efficient and risk-aware decision-making.

During the year, the Committee considered candidates for the role of Group Chief Financial Officer, following Richard Houghton's resignation, and was pleased to recommend Scott Egan's appointment to the Board.

We announced at the 2015 AGM that the Board would benefit from two additional independent Non-Executive Directors with a proven track record in insurance, particularly in the Group's core markets and in transformation. A search is ongoing and any appointments will be announced in due course.

The Committee has also reviewed succession plans for Executive Committee members, noting that the simplification of the Group and spans of control could lead to greater gaps in succession planning. To address this, we are ensuring that tailored development plans are created for those individuals that we believe could join the Executive Committee in the future.

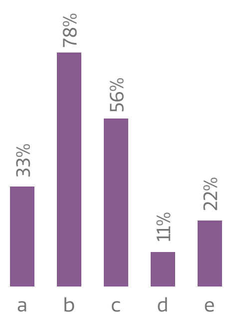
Role and responsibilities

The Committee is responsible for:

- Managing the process to identify Board candidates and advising and making recommendations to the Board on Board membership, Committee membership and related appointments
- Ensuring appropriate succession plans are in place for members of the Board and certain senior executive roles
- Monitoring the Group's compliance with the UK Corporate Governance Code
- Evaluating Board members' performance.

Skills and experience of the Board

a. Insurance Industry
b. Financial
c. Strategic Management
d. Sales/Marketing
e. Risk and Governance



The graph above shows the percentage of the Board with each of the skill categories listed.

Committee composition

I am supported on the Committee by Alastair Barbour, Hugh Mitchell and Johanna Waterous. Attendance at Committee meetings is shown in the table below. Derek Walsh, the Group General Counsel and Company Secretary regularly attends Committee meetings. In addition to the four scheduled meetings, two ad-hoc meetings were held during the year in relation to the ongoing recruitment of additional Non-Executive Directors.

	Meetings Attended
Martin Scicluna*	6/6
Alastair Barbour	6/6
Hugh Mitchell	6/6
Johanna Waterous	6/6

* Committee Chairman

Key activities during 2015

Board Composition

The Committee monitors the balance of skills, experience, independence and knowledge on the Board as well as gender diversity. The Board currently comprises 78% male and 22% female directors. We remain committed to Lord Davies target for female board composition however, all appointments are made on merit against the agreed selection criteria. On reviewing the diversity on the Board, the Committee agreed that there was no evidence during the year to suggest that a lack of gender diversity had compromised Board debate. However, as we announced at the 2015 AGM, we feel that the Board could benefit from two additional independent Non-Executive Directors. We are seeking individuals whose skills complement and strengthen the Board. Major shareholders have been engaged to understand their views on the skills required on the Board and The Zygos Partnership have been appointed to conduct the search. Zygos has no other connection with the Group. They are accredited by the Davies Review under the Enhanced Code of Conduct for Executive Search Firms as they have a strong track record in assisting boards to enhance their gender diversity. A search is ongoing and any appointments will be announced in due course.

Following Richard Houghton's resignation, the Committee instructed Korn Ferry to search for suitable candidates for the role of Group Chief Financial Officer. A role specification was agreed and both the longlist and shortlist of candidates included women. Shortlisted candidates were interviewed by me, the Group Chief Executive, Group Human Resources Director and Chairman of the Audit Committee. The Committee was pleased to recommend Scott Egan's appointment to the Board. Korn Ferry are regularly engaged by the Group to provide executive search services for roles across the Group but have no other connection with the Group. They follow the Code of Conduct for Executive Search Firms.

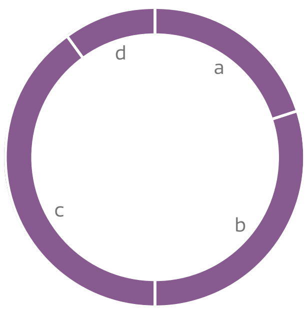
Group Nomination and Governance Committee report – continued

Hugh Mitchell and I concluded our first three-year terms of appointment during the year. The Committee considered each of our contributions to the Board and how our skills, knowledge and experience complemented those of the other directors. The Committee concluded that both Hugh and I continued to add value to the Board and that Hugh remained independent and therefore recommended that we both be re-appointed for a further three-year term commencing September 2015 and January 2016 respectively. Hugh absented himself during discussions on his appointment and Johanna Waterous chaired the Committee and Board in my absence during discussions on my re-appointment.

The Committee considers that each Non-Executive Director devotes sufficient time to discharging their duties and remains independent of mind and judgement, and therefore recommended each Non-Executive Director's re-election to the Board. The recommendation to re-elect Johanna Waterous was subject to particularly rigorous review as she has served on the Board for over six years. The Committee further recommended the Chairman and Executive Directors for election or re-election to the Board at the 2016 AGM. We have also considered new external appointments to ensure that they did not give rise to conflicts of interests and did not impact the director's time commitment to the Company. In each case the Committee was satisfied that external appointments could be authorised.

Breakdown of topics discussed at Committee meetings held during 2015

a. Governance 20%
b. Succession Planning 30%
c. Recruitment 40%
d. Other 10%

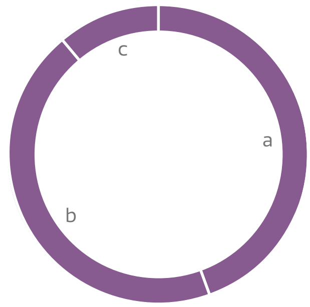


Succession Planning

In addition to succession planning for the Non-Executive Directors through the ongoing recruitment described above, the Committee reviews succession plans for Executive Committee members to ensure that there are candidates internally that could provide short-term cover or replace each Executive Committee member. The aim of the succession plans is to develop a pipeline of talented individuals in each region in which the Group operates. The succession plans were utilised during the year when Ralph Daals, an internal candidate, was appointed as the Group Chief Auditor, and more recently with Charlotte Heiss' forthcoming appointment as Chief Legal Officer and Company Secretary to succeed Derek Walsh.

Board Tenure as at 31 December 2015

a. 0 to 3 years 44.5%
b. 3 to 6 years 44.5%
c. 6 to 9 years 11.0%



Board and Committee Evaluation

During the year, the Committee has tracked progress against the actions agreed from the 2014 internal evaluation of the Board, Committees and directors. Further information on these can be found on page 52. For 2015, an internal evaluation was carried out using questionnaires. The results were reported to the Committee and discussed. It was agreed that the Board should spend more time engaging with the business, both formally through the Board and informally through individual site visits and meetings with management. It was also agreed that, the Board should re-focus on the Group's longer-term strategy as it is coming out of turnaround. Increased focus of the Board would be given to customer, people, brand and culture issues.

Compliance with the UK Corporate Governance Code

The Committee reviews the Group's compliance with the Code through an assessment carried out by the Company Secretary twice a year. Any non-compliance is discussed and it is agreed whether action is required to remedy the non-compliance, or if there are circumstances which justify the non-compliance. The Company has complied with the principles and provisions of the 2014 version of the Code throughout the year, or implemented the new requirements during the year.

Martin A. Scicluna
Chairman and Chairman of Group Nomination and Governance Committee
24 February 2016

Board Risk Committee

Introduction

I am pleased to present to shareholders the Board Risk Committee Report for 2015. The key function of the Committee is to advise the Board on risk management issues, oversee the risk management arrangements of the Group and recommend the Group framework of risk limits and risk appetite for Board approval. The Committee ensures that the material risks facing the Group have been identified and that appropriate arrangements are in place to manage and mitigate those risks effectively.

During the year, Solvency II implementation and the Internal Model Approval Process (IMAP) have been a key focus for the Committee. I am pleased to confirm that, following a detailed exercise, the Group's Internal Model was approved by the PRA in December 2015. The approval covered the Company and its principal subsidiaries.

The Committee has also considered the success of the Global Programme set up to enhance the effectiveness of the Internal Control System and activities carried out as part of the Own Risk and Solvency Assessment (ORSA), including close monitoring of the risks associated with the Group's turnaround and change programme.

Role and responsibilities

The Committee is responsible for:

- Reviewing the output from risk appetite assessments on a quarterly basis, including capital adequacy assessments, and where necessary approving actions to bring capital within appetite
- Reviewing the outputs and key assumptions from the Internal Model validation process as recommended by the Internal Model Governance Committee and, where satisfied, making recommendations to the Board
- Reviewing Solvency II compliance as recommended by the Solvency II Steering Committee, and making recommendations to the Board as the Committee may deem appropriate
- Considering and approving the Group framework of risk appetite and risk limits for recommendation to the Board
- Carrying out an annual review of the Group's System of Governance and recommending it to the Board for approval
- Working with the Group Remuneration Committee to ensure risk is properly considered in setting the remuneration policy for the Group
- Ensuring that the material risks facing the Group have been identified, including emerging and potential risks, and where appropriate, actions have been implemented to maintain risks within appetite
- On behalf of the Board, reviewing the Group ORSA approach and report, including the selection of appropriate stress and scenario tests and, if satisfied, recommend formal approval to the Board.

Committee composition

I am supported on the Committee by Alastair Barbour, Enrico Cucchiani, Hugh Mitchell and Martin Scicluna, and attendance at Committee meetings is shown below. The Group Chief Executive, Group Chief Risk Officer, Group Chief Financial Officer, Group Chief Auditor, Group Underwriting Director and the Group and UK Regulatory Compliance Director are regular attendees at Committee meetings by invitation with other members of management and external advisers also being periodically invited. In addition, private meetings are held ahead of each Committee meeting to discuss issues on which to concentrate with management and advisers. The Committee has held four private meetings without management being present as well as a private meeting with the Group Chief Risk Officer.

	Meetings Attended
Kath Cates*	5/5
Alastair Barbour	5/5
Enrico Cucchiani	5/5
Hugh Mitchell[1]	4/5
Martin Scicluna	5/5

*Committee Chairman

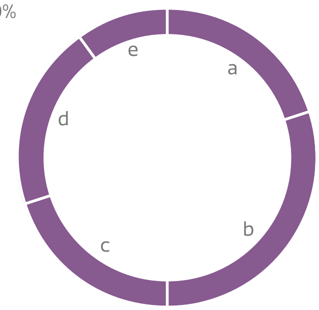
Note:
1. Hugh Mitchell was unable to attend one meeting due to a pre-existing commitment.

The Committee has been assisted in carrying out its duties by a Control and Governance Advisory Committee which meets quarterly, and is responsible for considering and approving all revised policies in addition to monitoring any gaps in compliance.

The Committee Chairman reports to the Board on the outcome of Committee meetings with the Board receiving the minutes of Committee meetings.

Breakdown of topics discussed at Committee meetings held during 2015

a. Risk and Compliance Updates 20%
b. Capital and Solvency II 30%
c. Specific Risk Deep Dives 20%
d. Regional Deep Dives 20%
e. Governance 10%



Board Risk Committee – continued

Key activities during 2015

Solvency II and IMAP

With Solvency II going live in January 2016, the new regime has been a key area of focus in 2015. In preparation the Committee have been receiving regular updates on the Group's progress towards implementation as well as initial outputs including the Solvency II Balance Sheet and solvency positions, updated policies and IMAP.

An ad-hoc meeting was held in April 2015 to approve the Internal Model application for recommendation to the Board and submission to the PRA.

Effectiveness of the enhanced Global Internal Control System

I am pleased to confirm that the Group has successfully embedded the first phase of the enhanced Global Internal Control System during the year and is making solid progress on phase two. The success of this programme was noted by the Committee and supported by external assurance, with ongoing sustainability ensured through the establishment of regional control committees and biannual integrated three lines of defence reporting to the Group Audit Committee.

The Control and Governance Advisory Committee has delegated authority from the Committee to approve all revised policies and continually monitors any gaps in compliance which it reports to the Committee for approval.

Risk Management System

The Risk Management System is designed to identify, measure, manage, monitor and report risk and is underpinned by the three lines of defence model. The Committee oversees the Group's Risk Management System to ensure it is robust and operating effectively throughout the year. The Risk function is part of the second line of defence and plays a key role in providing assurance to management and the Committee on the effectiveness of the Risk Management System as well as advising on emerging risks.

The overarching Risk Management Policy, approved annually by the Board on the Committee's recommendation, establishes a framework of standard risk management processes which are embedded throughout the Group. It also defines the dependencies and interactions with the Group's ORSA and the Group's approach to stress and scenario testing. There are further policies setting out risk assessment standards and risk appetite and detailed procedures which set minimum requirements, internal controls and details of controls testing. Senior Group executives own each policy and are responsible for ensuring they are embedded through regional, local and functional owners who are responsible for identifying and reporting any non-compliance through rigorous assessments. The results of these assessments are reviewed and challenged by local and Group risk teams, the responsible senior Group executives, regional risk committees and the Committee.

Further information on the Group's risk strategy and appetite can be found in the Risk Management section of the Strategic Report on pages 36 to 39.

Own Risk and Solvency Assessment (ORSA)

Throughout the year, the Committee considered a range of activities in order to assess the risks and solvency needs of the Group which constitutes the ORSA process. A summary of these activities and associated decisions taken during the ORSA assessment were reviewed by the Committee.

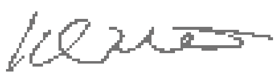
Business Risk review

The Group Chief Risk Officer provides a quarterly update to the Committee on the key risks and risk themes impacting the Group including an assessment of whether risks are within appetite and any actions deemed necessary to bring risks within appetite. This review is supplemented by subject matter expert assessments of the risks impacting the business including insurance risk, financial risk, operational risk and reinsurance risk and strategy. As an example with respect to insurance risk, the Committee discussed specific themes, such as catastrophe risk and pricing capabilities, whilst focussing on remediation progress on specific risk portfolios and considering the reinsurance options available, which in 2015 included the purchase of group volatility reinsurance cover. The monitoring of IT risk and controls will remain an area of key focus, particularly given the increasing level of external threat and the extensive level of transformational change being rolled out across the Group,

In addition, key emerging risks and trends were considered with a focus on geo-political tensions, dependence on critical infrastructure and increasing cyber threats. Alongside the core stress and scenario testing programme the potential impact of a coordinated cyber-attack on the power grid was also examined in detail. In June a 'deep dive' on financial risk was presented to the Committee, which provided further insight into the exposure and effectiveness of asset liability management and hedging for equity, interest rate, credit spread and inflation risk. Pension risk had also been a key focus during the year.

The Committee reviewed the Group's risk strategy and appetite where updates were made to the setting of capital appetite to maintain effectiveness during transition of the business to Solvency II.

Kath Cates
Non-Executive Director and
Chairman of the Board Risk Committee
24 February 2016



Group Investment Committee

Introduction

The Group Investment Committee is authorised by the Board to manage all aspects of investment policy and strategy for the Group and provide oversight of the operation of the Group's investment portfolios within established strategy and risk frameworks.

Role and responsibilities

The Committee is responsible for:

- Managing all aspects of investment policy and strategy for the Group.
- Providing oversight of the operation of the Group's investment portfolios within established strategy and risk frameworks.

Committee composition

I am supported on the Committee by Alastair Barbour, Martin Scicluna, Stephen Hester and Scott Egan who became a member on his appointment to the Board. Richard Houghton was a member of the Committee until he ceased to be Chief Financial Officer on 10 July 2015 and I would like to thank him for his participation. The Group Investments Director attends all meetings of the Committee to provide an update on the economic and market background and outlook affecting the Group, the investment activities carried out since the Committee last met and any portfolio actions which require the Committee's approval.

	Meetings Attended
Joseph Streppel*	2/2
Alastair Barbour	2/2
Stephen Hester	2/2
Richard Houghton[1]	1/1
Martin Scicluna	2/2
Scott Egan[2]	0/0

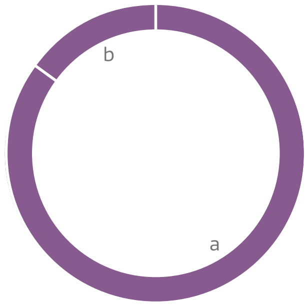
* Committee Chairman

Notes:
1. Richard Houghton ceased to be a member of the Committee with effect from 10 July 2015.
2. Scott Egan became a member of the Committee on 1 October 2015.

The Committee Chairman reports to the Board on the outcome of Committee meetings and the Board also receives the minutes of Committee meetings.

Breakdown of topics discussed at Committee meetings held during 2015

a. Investment Strategy 85%
b. Governance 15%



Key activities during 2015

Investment portfolio

The combination of sales of businesses and a further strengthening of sterling against the currencies used by the Group's subsidiary operations saw the total size of the Group's investment portfolios decline by £1,219m over 2015. Despite the relatively significant change in size, the core structure of the Group's investment portfolios remained broadly unchanged with the portfolios continuing to be heavily concentrated in fixed interest and cash assets with a limited exposure to equity and property.

The low interest rate environment has continued to dominate the behaviour of investment markets, with bond yields remaining close to record low levels. Low yields have placed a sustained downward pressure on the income of the Group as maturing bonds are reinvested at the prevailing low yield level. This economic and market backdrop continues to create a challenging environment for the investment portfolios of all insurance companies including the Group.

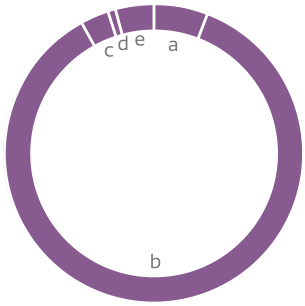
Against this background the Committee has continued to review strategy alternatives to enhance the return of the portfolios. In particular, the Group has continued to make measured allocations towards less liquid credit investments. These investments have been targeted to take advantage of the additional yield offered for illiquidity relative to traditional quoted bonds whilst maintaining a strong underlying credit quality and have included loans backed by property and trade receivables. In total the Group now has commitments to these assets approaching £1bn with around £700m of this invested at the year end. Investment in these assets has been subject to extensive due diligence with reporting to the Committee agreeing strategy limits and reviewing progress on implementation.

Group Investment Committee – continued

While the Group has taken measured steps to enhance returns, the core philosophy of maintaining a low risk and high quality investment structure remains in place. This is reflected both in the high allocation to bonds and cash and the very strong quality of the bond portfolio. In a year where there has been downward pressure on both yields and credit ratings the Group has maintained its very high quality credit rating structure.

Total assets as at 31 December 2015: £13.0bn

a. Cash 6%
b. Fixed Income 86%
c. Property Investment 3%
d. Equities 1%
e. Alternatives and other 4%



Details of the Group's investments are contained in note 10 on page 131.

Joseph Streppel
Non-Executive Director and
Chairman of the Group
Investment Committee
24 February 2016

Group Audit Committee Report

Introduction

I am pleased to present the Group Audit Committee Report for 2015, which sets out the Committee's responsibilities and its key activities during the year.

During the year the Committee has reviewed all scheduled results announcements; the 2014 Annual Report and Accounts; and management proposals to improve the clarity and conciseness of the financial statements in the 2015 Annual Report and Accounts.

The Committee has continued to monitor the effectiveness of the Group's Systems of Internal Control, particularly to ensure that the enhancements to risk policies and control processes made through a Group-wide project in 2014 have been implemented, embedded, and are operating effectively.

The Committee has considered the new Code requirement to publish a 'viability statement', including reviewing and approving management's proposals for the appropriate time period to be covered by the statement, the content of the statement and the information to be provided by management to the Committee and the Board to provide assurance for the statement made.

Ralph Daals' appointment as Group Chief Auditor was approved by the Committee during the year. This was an internal appointment based on the succession plan for senior executive roles.

During the year the Committee was internally evaluated as part of the wider review of the Board and its Committees, the outcome of which can be found on page 51.

Role and responsibilities

The purpose of the Committee is to:

- Coordinate and oversee the integrity of the financial reporting process
- Monitor compliance with relevant regulations, industry codes and legal requirements
- Oversee the effectiveness and objectivity of the internal and external auditors
- Monitor the effectiveness of the systems of internal controls
- Provide assurance to the Board on the effectiveness of the Group's financial and regulatory risk management arrangements.

The Committee has unrestricted access to management, information and external advisers as required in order to fulfil its duties, and is satisfied that it has received sufficient, reliable and timely information during 2015 in order to discharge those duties.

Committee composition, skills and experience

The Committee comprises four independent Non-Executive Directors and the Board is satisfied that the Committee has recent and relevant financial experience as required by the Code. The members bring diverse experience, knowledge and skills to the Committee, which enables the members collectively to act as an effective Committee. In particular, Joseph brings financial, governance and industry experience through his former role as CFO of Aegon and as Chairman of the Dutch Corporate Governance Monitoring Committee. Kath has in-depth knowledge of controls, governance and risk management through roles including Chief Operating Officer, Wholesale Banking at Standard Chartered. Johanna brings expertise in sales and marketing as well as her experience as a chairman and non-executive director. I bring audit experience and knowledge of financial reporting requirements through my former career at KPMG. In addition, Kath and I are members of the Board Risk Committee, ensuring that risk is taken into account in the Committee's decisions and that information flows appropriately between the two Committees.

The Committee held six scheduled meetings during the year and has held private meetings with the Group Chief Auditor, the Group & UK Regulatory Compliance Director and the external auditor without other members of management being present. The Committee members regularly met privately to discuss issues on which to concentrate with management and advisers in the meeting.

The Group Chief Executive, the Group Chief Financial Officer, the Group Chief Auditor, the Group & UK Regulatory Compliance Director, the Group Chief Risk Officer and representatives of the external auditor, KPMG, are regular attendees at Committee meetings. Other members of management and external advisers may attend at the invitation of the Committee. A management level Disclosure Committee regularly considers any matters that may require disclosure in financial results announcements and makes recommendations to the Committee.

Details of membership and attendance at Committee meetings are shown in the table below.

	Meetings Attended
Alastair Barbour*	6/6
Kath Cates	6/6
Joseph Streppel[1]	5/6
Johanna Waterous	6/6

* Committee Chairman

Notes:
1. Joseph Streppel was unable to attend one meeting due to a family bereavement.

Group Audit Committee Report – continued

The Committee Chairman reports to the Board on the outcome of Committee meetings and the Board also receives the minutes of Committee meetings.

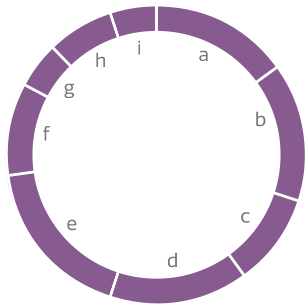
Key activities during the year

In addition to the significant issues in relation to the Annual Report and Accounts set out below, the Committee considered the following issues during the year:

- The results of an external review of the Group's reserving and claims processes, conducted by PricewaterhouseCoopers LLP, and monitored management's progress in implementing actions recommended in the review. The Group's approach to reserving margin levels was assessed and compared to peers through work carried out on the Committee's behalf by Towers Watson.
- The capital position and strength of reserves in the Group's Irish business was monitored particularly closely, including management's interaction with the Central Bank of Ireland which regulates insurance entities in Ireland;
- Monitored compliance with the Group's reserving policy by each business to ensure that the Group's reserve margin remained adequate and that the uncertainty considerations were appropriate;
- Reviewed the Group's interim Solvency II returns to the European Insurance and Occupational Pensions Authority;
- Monitored the proposals to implement the Senior Insurance Manager Regime in the UK;
- Monitored the Group's compliance with anti-money laundering requirements and anti-bribery and corruption laws, including the progress in implementing new screening software across the Group and approving new Anti-Money Laundering and Sanctions; and Fraud Policies;
- Monitored the sustainability of control improvements, including the number of risk acceptances in place and their cumulative impact on the Group's risk appetite, and the Group's risk and control culture;
- Reviewed management proposals to revise the presentation of the financial disclosures in the 2015 Annual Report and Accounts to make it clearer and more concise.
- The Committee considered whether it was appropriate to adopt the 'going concern' method of accounting for the 2015 Annual Report and Accounts and recommended to the Board that this was appropriate.
- The Committee considered the new 'viability statement' requirement in the Code and concluded that the statement should cover a period of three years which aligns to the Group's planning cycle.

Breakdown of topics discussed at Committee meetings held during 2015

a. Financial Reporting 15%
b. Financial results 15%
c. Reserving 10%
d. External Audit 15%
e. Governance, controls, compliance 18%
f. Internal Audit 10%
g. IT Matters 5%
h. Solvency II 7%
i. Other 5%



Financial reporting and significant financial issues

The Committee attaches considerable importance to the work, opinions and findings of the external auditor, KPMG who participate in all Committee meetings and who met with the Committee in private on two occasions during the year. The principle interactions with KPMG during the year were:

- Consideration of the strategy and plan for the audit of the financial statements including discussion and challenge in relation to materiality levels set; the scope of the proposed coverage by business unit; determination and approach to the audit of key areas of risk; understanding the oversight by the group audit team of subsidiary business unit audit teams and visits by the group team to business units
- At the half-year and year end, detailed discussion and consideration of their findings and opinions in relation to the key risk areas, judgements made, any changes to the plan and to materiality and discussion of the underlying reasons
- Consideration of their wider comments on governance, financial reporting processes and efficiencies and information systems and controls, with particular focus on general IT controls
- Consideration of their observations on controls and processes as reported to management and follow up with relevant management to be satisfied that the observations are being appropriately actioned.

The main matters and primary areas of judgement addressed and concluded on by the Committee were as follows:

Valuation of insurance liabilities

The Committee has ensured that management exercised appropriate judgement in estimating insurance contract liabilities including assessing the impact of claims trends and other influencing factors consistent with the prior year. This year the Committee again examined the appropriateness of discount rates on certain long-tail liabilities and assumptions on indexation particularly in light of falling bonds yields.

The Committee received and reviewed actuarial reserving reports which described the basis for judgement in valuing insurance liabilities. Particular areas of focus for the Committee were the reserving and reinsurance recoveries arising from the UK winter storms and large claims impacting the Group aggregate reinsurance cover and reserve strengthening for adverse development on prior year claims in connection with Swedish personal accident claims. The Committee satisfied itself that management reflected available and reliable information when setting the reserves and that an appropriate margin was maintained.

The Committee considered the results of an external review of the Group's reserving practices and governance in respect of setting and monitoring reserves together with reports from the Group-wide project undertaken to review and enhance control processes and concluded that the processes in place are appropriate.

The Committee received and considered detailed written and verbal reporting from KPMG setting out their observations and conclusions in respect of the recorded insurance contract liabilities based on their audit procedures as further described in their report on pages 99 to 102.

Valuation of deferred tax assets

The Committee reviewed the key assumptions and financial projections supporting the UK deferred tax asset. The Committee assessed the forecasts presented by management and in particular, the longer-term projections of profitability in light of the changes to business plans as a result of the strategic review, revisions to restructuring activities and other management actions in progress or contemplated. After discussion and challenge, the Committee concluded that management's proposed assessment as to the recoverable deferred tax was reasonable.

Employee benefits and retirement obligations

During 2015, the Committee received reports on the valuation of the pension schemes. As the pension schemes are sensitive to changes in key assumptions, management completed an assessment as to the appropriateness of the assumptions used, including where appropriate benchmark data, and reported their findings to the Committee. The Committee supported the conclusion that the assumptions used were appropriate and in line with other companies with similar schemes. In addition, any non-standard changes in assumptions and judgements are reviewed by the Committee: management reviewed the methodology used to assess the fair value of the longevity arrangements and recommended a change to the basis on which underlying cashflows are valued.

During 2015, the Committee also discussed with management the key conclusions reached as part of the triennial funding review. Areas of particular interest included the experience analysis carried out by the external scheme actuaries on the schemes membership and consistency with the demographic assumptions that were adopted by management for example with respect to longevity. The Committee was satisfied that the experience analysis supported the assumptions used by the Group.

IT Systems and controls

The Group's IT infrastructure, including retained legacy systems, is complex and financial reporting is dependent on the operational and financial IT systems operating correctly. This is a key area of focus for both Audit and Risk Committees and during the year they received updates from management on the progress to enhance IT general controls, the oversight of IT testing processes and improvements in documentation and standards together with regular reporting from Group Internal Audit on the results of their review and testing. With respect to financial reporting controls the Committee received detailed updates from KPMG on their assessment of general IT controls including information on areas where additional controls or substantive testing was required, the reasons behind them and the conclusions reached in support of the audit. After consideration and discussion with management and KPMG the Committee concluded that the financial results as prepared from the IT systems was appropriate and reliable.

At the request of the Board, the Committee considered whether the 2015 Annual Report and Accounts are fair, balanced and understandable, and whether the disclosures were appropriate. To ensure that new accounting standards were understood and appropriately reflected in the financial statements, the Committee received quarterly updates of all relevant accounting standards that could impact the financial statements. The Group has not made any significant changes to its accounting policies during 2015 and has complied with new IFRS's as required during the year. Taken as a whole, the Committee is satisfied that the 2015 Annual Report and Accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Financial Control Framework

The Financial Control Framework aims to deliver a consistent approach to finance-related controls across the Group that is fit for purpose for all regions, embedding a control culture that strengthens the Group's finance environment and ensures financial processes are managed effectively in order to mitigate the risk of financial misstatement. The process involves documenting and testing the operation of key financial controls, thereby providing an acceptable degree of assurance around the financial control environment. The effectiveness of the Framework is regularly assessed by an independent team and any deficiencies in controls identified and remediation plans agreed with the local management and their progress monitored. It also addresses deficiencies identified by the external auditor during the audit process and monitors progress to remediate these.

During the year the Committee received quarterly updates on the assessment and testing of controls including breaches and the action taken as a result. The Committee considered and discussed with management rectification of any deficiencies in controls and further action to be taken as appropriate.

Internal control

The Board has overall responsibility for the effectiveness of Internal Control Systems, with the implementation and maintenance being delegated to the Executive Directors and senior management.

The Committee reviews the performance of internal control systems quarterly, with an annual review undertaken by the Board. This system includes governance, financial controls, the risk management framework and processes to deliver

Group Audit Committee Report – continued

regulatory and compliance requirements. In addition the Board, through the Board Risk Committee, considers reports from risk specialists across the Group and reviews Group-level risk management information. The systems are designed to identify and mitigate, rather than eliminate, the potential risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material financial misstatement or loss.

In February 2016, the Committee and the Board reviewed the Systems of Internal Control in operation during 2015. The Board concluded that the System of Internal Control was appropriate and operated effectively during the year.

The Committee received regular reports from the Group Chief Auditor on the integrity of the control environment, and from the external auditor based on its audit work. The Committee discussed findings and recommendations arising from internal and external audit work, together with any control improvements recommended.

During 2015, the Committee received updates from the Group Chief Risk Officer on the assurance process improvements identified in 2014 and implemented during the year, including the progress in updating all Group-wide policies in line with the revised Internal Controls System.

Business managers across the Group complete a quarterly self-certification process which requires them to confirm the adequacy of controls and their compliance with Company policies, local laws, rules and regulations.

The reporting framework, including reports to the Committee from management on the Financial Control Framework; the external auditor; Group Internal Audit; and Group Regulatory Risk and Compliance, delivers information to enable the effectiveness of the Group's systems of internal control to be evaluated. The Board considers that an effective and appropriate ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place during 2015 and up to the date of approval of the Annual Report and Accounts. For more information about the Group's Risk Management Framework, see pages 36 to 39.

Whistleblowing

The Group's whistleblowing policy and its effectiveness were reviewed by the Committee which was satisfied that the revised policy implemented in 2014 remained appropriate and fit for purpose and that it was sufficiently embedded across the Group. The aim of the policy is to provide employees with a confidential forum to raise concerns in good faith where they either do not feel comfortable raising the matter with local management or are not satisfied with the local management response. Concerns can be raised by contacting local or Group senior management, including the Group Chief Auditor, or via an externally provided website and helpline. A summary of all whistleblowing incidents, underlying investigations and actions undertaken is provided to the Committee on an annual basis. Any incident considered material would be reported to the Committee immediately.

Regulatory risk and compliance

The purpose of the Regulatory Risk and Compliance function is to ensure that the Group meets all relevant regulatory requirements in each jurisdiction in which it operates. They are an influencer in ensuring a strong regulatory compliance culture and ensure mechanisms are in place to monitor the regulatory environment, identify, report and resolve issues to avoid or minimise business impact and surprises. The function is part of the Group's second line of defence which monitors and validates first line activities. The Group and UK Regulatory Compliance Director provides regular reports to the Committee.

The Group team leads and develops the relationship between the PRA, Group and businesses to achieve a mutually beneficial relationship. It also updates the FCA regarding relevant Group level strategic matters.

During the year, the Committee has monitored the Senior Insurance Manager Regime and how it is being implemented in the UK business and at Group level; overseen the functions' progress in developing and implementing a new Financial Crime Framework and implementation of new anti-money laundering screening software; and received updates on regulatory issues.

The function's annual Compliance Plan sets out the compliance work to be undertaken in the upcoming year to ensure compliance, maintain an open, constructive and cooperative relationships with the Group's regulators, ensures the Board and employees understand their regulatory responsibilities and provides assurance, advice and guidance to the Board and the business. The Committee approved the 2016 Compliance Plan in late 2015.

Group Internal Audit

Group Internal Audit's (GIA) primary role is to help the Board and management to protect the assets, reputation and sustainability of the Group. GIA does this by evaluating the effectiveness of the Group's risk management, control and governance processes.

GIA is an independent and objective function reporting to the Board. The Group Chief Auditor is a member of the Executive Committee and has a primary reporting line to the Chairman of the Group Audit Committee, with a secondary line to the Group's Chief Executive. Regional Chief Auditors report directly to the Group Chief Auditor, while recognising local regulation.

GIA's scope is unrestricted and includes first line of defence control validation and second line of defence assurance activities, as well as the risk and control culture of the Group.

GIA's planning process is risk based and takes into consideration the key strategic and emerging risks facing the Group. In 2015, GIA evolved its planning process from an annual to a six monthly rolling audit plan, allowing for a more frequent and dynamic risk assessment and the Committee requests additional audits during the year as required. GIA's 2016 plan was reviewed, challenged and approved by the Committee in December 2015.

Semi-annually, GIA provides a formal assessment of the effectiveness of the risk management, control and governance processes. Quarterly, GIA reports on the outcome of its work and management's progress in mitigating issues. Its report includes any thematic issues arising and root-causes identified.

The Committee is responsible for the approval of GIA's plans and budget, and reviews and confirms annually that GIA is staffed appropriately and operating effectively. The results of the latest assessment were reviewed by the Committee in December 2015 and it was satisfied that GIA remained independent, was operating effectively and that the risk to their independence and objectivity was low.

Compliance of audits with the professional standards is monitored within GIA through an independent quality assurance process, outsourced to Deloitte and operated on a continuous basis. The function is governed by an Internal Audit Charter which sets out the function's role, mandate and authority, and includes independence and objectivity criteria.

External auditor

Appointment, tenure, independence and objectivity

KPMG were appointed as the Group's external auditor in 2013 following a formal competitive tender process and have been reappointed at each subsequent AGM. The external auditor forms part of the third line of defence. The current audit partner is Stuart Crisp who has been the Group's audit engagement partner since KPMG's appointment. In line with Financial Reporting Council's standards, KPMG will rotate the audit engagement partner at least once every five years. There are no contractual obligations restricting the Company's choice of external auditor and there is no limitation of liability in the terms of the appointments of KPMG LLP as auditor to the Company.

The Committee has provided clear guidance to KPMG on the Committee's expectations of them as part of their role as auditor; that the Committee, not management, is their client; that they are expected to challenge appropriately; that they are expected to raise issues and concerns with the Committee as soon as is appropriate; and on material matters they are expected to indicate their agreement to the position taken by management, or to explain why they do not, and the implications. The Committee has met with the external auditor twice during the year without management present to ensure that the external auditor has an opportunity to raise any concerns they may have and to ensure they remain independent and objective.

It is the intention of the Committee that the Company will adhere to the Code requirement of tendering for the external auditor at least every 10 years. The Company also complies with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, which relates to the frequency and governance of tenders for the appointment of the external auditor and the setting of a policy on the provision of non-audit services.

Fees and non-audit services

The audit fee for the 2015 Annual Report and Accounts was discussed between the Committee and the external auditor and approved by the Committee on behalf of the Board. The fee for the statutory audit and audit-related services for 2015 was £5.1m (2014 £5.7m).

The Group operates a non-audit services policy to assist with maintaining the independence of the external auditor and its personnel. The policy only permits certain services considered to be audit related to be performed by the auditor. All permitted activity must be authorised in advance by the Committee Chairman and subsequently ratified by the Committee. In addition, the total value of non-audit fees incurred by the external auditor is capped at 25% of total audit fees for the relevant financial year. In exceptional circumstances the auditor will be considered for additional services where there is an overwhelming business rationale, but only with full Board approval. A summary of the policy is available on the Company's website at www.rsagroup.com/termsofreference.

Each quarter, the Committee receives and reviews a report on non-audit services, together with information on fees agreed and billed by the other major accounting firms. During the year KPMG provided non-audit services totalling £0.9m (2014 £1.6m) which is equal to 17% of the audit fee.

Effectiveness

The Company undertakes a thorough review of the effectiveness of the external auditor on an annual basis, usually on completion of the audit process. In the year under review, the process has been amended to incorporate the latest guidance issued by the Financial Reporting Council. The review has covered the mind-set and culture, skills and knowledge, quality control and judgement of the external auditor through an assessment of their perceived quality, effectiveness, objectivity and independence. It was conducted by both a questionnaire distributed to and completed by the Committee, senior management and members of the Group financial reporting team, sought opinions against set criteria and the performance of the external auditor against those criteria; and through Group Audit Committee meetings with the external auditor. The Committee challenged the auditor's planning, strategy, risk identification process and conclusions. On the basis of the review, the Committee is satisfied with the work of KPMG and that they are effective, objective and independent.

Accordingly the Committee has recommended to the Board that a resolution be put to the 2016 AGM for the reappointment of KPMG LLP as external auditor, and the Board has accepted this recommendation.

Alastair WS Barbour FCA
Non-Executive Director and Chairman of Group Audit Committee
24 February 2016

Directors' Remuneration Report

Committee Chairman's letter

Index to the report

Introduction

On behalf of the Group Remuneration Committee, I am pleased to introduce this report covering the year to 31 December 2015.

The Committee determines executive remuneration on the basis of a considered assessment of business performance, in line with the Remuneration Policy which was approved by shareholders at the AGM on 9 May 2014.

The Policy is summarised on pages 83 to 90 for information, and the full Policy Report is contained in the 2013 Directors' Remuneration Report, available on the Group's website at: www.rsagroup.com/financial-reporting.

Business performance review

The Group has delivered a strong set of results in 2015. The strategic refocus and capital strengthening are nearing successful completion, as outlined in the Chairman's Statement on pages 2 to 3.

The positive financial out-turn for the year is reflected in the key performance indicators, which are detailed on pages 22 to 23. The Group reported a pre-tax profit of £323m, Combined Operating Ratio was 96.9%, Net Written Premium was £6.8bn and Group underlying Return on Tangible Equity was 9.7%.

The capital indicators include IGD Surplus at £1.6bn, Solvency Capital Requirement coverage at 143% and the ratio of Tangible Net Asset Value to Net Written Premium (TNAV:NWP) at 42%.

Delivery of the business transformation programme is starting to yield clear benefits, despite challenging market conditions. Expense reduction has accelerated, attritional loss ratios have improved and process and systems optimisations have been driven forward. This has paved the way for further improvement in sustainable operating performance, as the Group progresses towards its medium-term goals.

Linking remuneration with performance in 2015

The Committee is focused on maintaining a close linkage between remuneration and the Company's underlying financial performance, shareholder value creation, and achievement of individual and business review performance targets. A review of material risk factors and controls was conducted for 2015, and as a result, no adjustments were considered necessary to incentive plan outcomes.

Based on the performance out-turn, I can advise that:

- The Group Chief Executive will receive a bonus for 2015 performance at 76.5% of the maximum, of which half is deferred into shares for three years, and
- The performance-based long-term incentive plan (LTIP) awards from the 2013–15 cycle will not vest (these were granted prior to the appointment of the current Executive Directors, and neither of them have awards in this cycle).

The conditional performance shares granted to the Group Chief Executive during 2015 are subject to stretching performance conditions. Awards which vest will do so after three years, after which a two-year retention period applies.

During the year, the Committee continued to monitor corporate governance best practice, and reviewed the Group's remuneration arrangements in conjunction with the risk alignment provisions of Solvency II. This follows the introduction of clawback provisions on cash bonuses awarded for 2015 performance, and performance shares granted from 2015, as detailed on page 75.

Details of how the Group has implemented its Remuneration Policy for directors in 2015 are set out on pages 71 to 78.

Aligning remuneration and strategy in 2016

The Directors' Remuneration Policy will continue unchanged for the year ahead. In the view of the Committee, it remains aligned to the long-term interests of the Company and its shareholders. We will review the Policy during 2016, and will submit it for shareholder approval at the 2017 AGM.

In 2016, the Policy will be implemented in the following ways, as detailed on pages 79 to 81:

- The Executive Directors' remuneration will continue to be based around delivery of the business strategy and the creation of sustained shareholder value within the Group's risk appetite, with incentive plans measuring performance against profit, shareholder returns, balance sheet strength, capital strength, expense goals and transformation actions.
- The Annual Bonus Plan for 2016 will include Group financial measures, business review goals and personal targets in the areas of Strategy, Financials, Customer, People and Risk. In line with our focus on deeper performance improvements at this stage of the business transformation, reduction in attritional loss ratio will additionally be targeted, and the Group's Solvency II coverage ratio will be included as a measure of capital strength to reflect the new Solvency II regime implemented from 1 January 2016. An assessment of current and future risk exposure will be conducted prior to making incentive awards.
- Stephen Hester's performance share grant in 2016 will be reduced from that in 2015 to the Group's usual level of award for the Chief Executive, which is 230% of salary at maximum vesting. Scott Egan's performance share grant in the 2016-18 cycle will be for 200% of salary at maximum vesting.
- The set of long-term incentive performance conditions for awards granted in the 2016-18 cycle have been reviewed to reflect the progress of the turnaround:
  - The three-year average Group underlying ROTE required for on-target vesting will be set higher up the 11-16% target range compared to the 2015-17 incentive cycle. It continues to incorporate an appropriate degree of stretch. The precise target will be disclosed retrospectively, as it is currently considered by the directors to be commercially sensitive.
  - Relative TSR will continue to be measured against an unweighted index of insurers as in the 2015-17 cycle, and the Business Review Scorecard will consist of a balanced set of long-term performance indicators covering capital, cumulative earnings, attritional loss ratio and controllable expense targets aligned to this stage of the business transformation.
- The Group Chief Executive's salary will rise by 2% in April 2016 having remained unchanged since his appointment two years ago – the level of increase is consistent with those for the Group's UK-based employees this year,
- The Chairman's fee will be maintained at its current level effective 1 January 2016. It will be reviewed on an annual basis going forwards.

Director changes

Scott Egan joined RSA on 1 October 2015 as Group Chief Financial Officer. His remuneration comprises a base salary of £525,000, and a bonus opportunity, benefits and pension provision in line with the Remuneration Policy. He is covered by a shareholding requirement of 150% of salary.

On leaving his previous employer, Mr Egan forfeited a number of cash-based awards. The Committee carefully reviewed the nature and value of these awards and, in line with the principles outlined in the Remuneration Policy, determined a compensatory package of cash and share awards should be made reflecting those forfeited. By compensating part of the forfeited awards in the form of shares, Mr Egan is given an early stake in RSA to help build his shareholding to the required level. The compensatory awards are subject to repayment terms in the event of resignation or termination for gross misconduct within two years of appointment, as set out on page 73.

Richard Houghton stepped down from the Board effective 7 May 2015 and left the Company on 10 July 2015. As referenced on page 77, his departure terms were detailed in last year's report.

Shareholder engagement

The Committee welcomes shareholder feedback on an ongoing basis. It has actively engaged with the Group's largest shareholders, and the Investment Association, Pension and Lifetime Savings Association and ISS, during the year, and will continue to do so. Feedback from this has been considered when determining the incentive plan performance measures for 2016.

The Committee believes its executive remuneration decisions fairly reflect performance, and the substantial progress delivered towards making the Company focused, stronger and better for the long term.

I hope you find this report informative, and the Board looks forward to your support for it at the AGM.

Hugh S Mitchell
Non-Executive Director and Chairman of Group Remuneration Committee
24 February 2016

Directors' Remuneration Report – continued

Remuneration snapshot

How is RSA implementing its approved Remuneration Policy for Executive Directors?

Policy summary	Opportunity and performance conditions	Implementation in 2015 (pages 71 to 78)	Implementation in 2016 (pages 79 to 81)
Base salary · Market competitive. · Reviewed annually.	· Other than exceptional circumstances such as a role change, salary increases will not exceed the level of increases applied to other RSA employees.	· No salary increases effective 1 April 2015.	· Group Chief Executive salary increase of 2% effective 1 April 2016. · Group CFO salary to be first reviewed in 2017.
Annual Bonus Plan · Financial and non-financial targets. · Fifty per cent of the bonus deferred into shares for three years. · Subject to RSA's Clawback Policy as detailed on page 75.	· 80% of salary on-target and 160% of salary for maximum performance. · Targets aligned to operational plan.	· 2015 performance measures: Group underlying ROTE and PBT, Group COR, Business Review and Personal Scorecards. · Group Chief Executive bonus at 76.5% of the maximum. · Clawback Policy extended to allow recovery of cash bonuses awarded for 2015 onwards.	· Business Review Scorecard to include Solvency II coverage ratio in place of IGD and ECA as a measure of capital strength; and additionally measure reduction in attritional loss ratio to support continued performance improvement.
Long-term Incentive Plan · Performance shares granted annually which vest subject to performance conditions measured over three years. · Two-year additional retention period on vested performance-based awards. · Subject to RSA's Clawback Policy as detailed on page 75.	· Up to 230% of salary at maximum. · For recruitment purposes, or in highly exceptional circumstances, such as for retention, an award may be made up to an additional 170% of salary.	*Awards granted (2015–17 cycle)* · Conditional grant for Group Chief Executive (300% of salary at maximum vesting, in view of his criticality to business turnaround). · Performance conditions: Relative TSR, Group underlying ROTE and Business Review Scorecard.	*Awards granted (2016–18 cycle)* · Group Chief Executive's conditional grant reduces to 230% of salary. CFO grant at 200%. · Group underlying ROTE on-target point set higher up the 11–16% range compared to 2015–17, to reflect progress of turnaround and to continue to incorporate an appropriate degree of stretch.

How was reward aligned to the business strategy in 2015?

Strategic priorities	Key performance indicators	Annual Bonus Plan 2015	Long-term incentive cycle 2015–17
Business Review: · Strategic focus, · Capital and balance sheet strength, · Performance improvement	Capital metrics: TNAV, TNAV:NWP, IGD, ECA Controllable expenses	*Business Review Scorecard:* Capital metrics including TNAV:NWP, Management actions including controllable expenses, disposals, risk items and strategic plan initiatives	*Business Review Scorecard:* Capital metrics, Controllable expenses, Growth in TNAV per share, Cumulative earnings
Profitability	Group underlying PBT, Group COR	Group underlying PBT, Group COR	
Shareholder Value	Group underlying ROTE	Group underlying ROTE	Group underlying ROTE (three-year average) Relative TSR

How have we linked performance and variable remuneration?

Annual Bonus Plan 2015

Performance measures	Actual performance	Weighting (% total bonus)	Stephen Hester award
Group underlying ROTE, PBT, COR	Performance targets, results and narrative on pages 72 to 73	40%	19.5%
Business Review Scorecard		30%	27%
Personal Scorecard		30%	30%
Total (% of maximum)		100%	76.5%

Long-term incentive cycle 2013–15

Performance measures	Actual performance	**Vesting (% of maximum)**
Relative TSR	Performance targets, results and narrative on page 74	0%
Group underlying ROE		0%

What remuneration did the Executive Directors receive in 2015? (details on page 71)

	Salary		Taxable benefits		Bonus		LTIP		Pension related benefits		Other remuneration		Total	
(£'000)	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Adrian Brown	–	143	–	15	–	–	–	–	–	24	–	1	–	183
Scott Egan[1]	**131**	–	**6**	–	–	–	–	–	**13**	–	**1,605**	–	**1,755**	–
Stephen Hester	**950**	864	**71**	57	**1,163**	939	–	–	**285**	258	–	–	**2,469**	2,118
Richard Houghton[1]	**174**	494	**7**	21	–	100	–	–	**23**	67	–	–	**204**	682
Total	**1,255**	1,501	**84**	93	**1,163**	1,039	–	–	**321**	349	**1,605**	1	**4,428**	2,983

Note:
1. 2015 salary figures reflect time served as directors during the year.

Annual Report on Remuneration

1. Introduction

This section of the Directors' Remuneration Report describes the way in which remuneration decisions have been made in the financial year ended 31 December 2015. There is a statement on how the Group intends to implement its Remuneration Policy in 2016 on pages 79 to 81. Any information contained in this section of the report that is subject to audit is highlighted.

2. Information about the Group Remuneration Committee

Purpose of the Committee

The Group Remuneration Committee (the Committee) is a formal committee of the Board, accountable to shareholders through its policies and actions. It updates shareholders via the publication of the Directors' Remuneration Report. At the AGM on 6 May 2016, this Annual Report on Remuneration on pages 69 to 82, together with the Committee Chairman's letter on pages 66 to 67, will be put to an advisory vote. The Remuneration Policy was approved by shareholders at the AGM on 9 May 2014, and was effective from this date. The Policy is not subject to a vote this year, but is detailed in the Appendix on pages 83 to 90 for ease of reference.

The Committee determines the remuneration and contractual terms for the Executive Directors and the Executive Committee (whose profiles are contained on pages 42 to 45). It also approves the fee and contractual terms of the Chairman (whose profile is on page 42).

The decisions the Committee makes are intended to promote the ongoing success of the Group, whilst upholding the interests of shareholders, regulators, customers and other stakeholders. Consequently, it pays close attention to the Group's risk management policies, ensuring that these are considered alongside other relevant information so that its actions are balanced, appropriate and support the Group's strategy.

To enable the Committee to fulfil its accountabilities to shareholders, it meets as often as is required and at least twice a year. It operates within an agreed set of terms of reference, which the Committee reviews annually. A copy of these terms can be viewed on the Group's website at: www.rsagroup.com/termsofreference or alternatively a paper copy can be requested in writing from the Group Company Secretary.

Committee members

The Committee comprises a number of independent Non-Executive Directors who are called upon to exercise judgement on the setting and management of executive remuneration.

The Committee's members in 2015 are detailed in the following table. The number of meetings each Director attended is shown as a proportion of the total number of meetings held during the year.

Committee member	Meetings attended
Hugh Mitchell*	5/5
Kath Cates	5/5
Enrico Cucchiani	5/5
Joseph Streppel	5/5
Johanna Waterous	5/5

Note:
* Chair of Committee

Committee attendees

The Chairman, Group Chief Executive and other senior executives attend Committee meetings by invitation to advise on Group strategy, risk, performance, HR and remuneration policies and practices. However, none of these executives have a right to attend and are not present if their own remuneration is being discussed. The table below notes the Committee attendees during 2015; additional input was provided by the Group Chief Risk Officer.

Committee attendee	Position
Martin Scicluna	Chairman
Derek Walsh	Group General Counsel and Company Secretary (Secretary to the Committee)
Stephen Hester	Group Chief Executive
Paul Whittaker	Group Chief Operating Officer
Vanessa Evans	Group Human Resources Director
Lorna Benton	Group Reward Director

Committee advisors

PricewaterhouseCoopers (PwC) was formally appointed by the Committee as its independent advisor in September 2012. It was selected following a market tender exercise. During 2015, PwC also provided wide-ranging advice and consultancy services across the Group globally on matters including business processes and transformation, IT, internal audit, corporate social responsibility, direct and indirect tax, and governance. PwC is a member of the Remuneration Consultants' Group and a signatory to its Code of Conduct. In addition, the Committee has satisfied itself that the advice it receives is objective and independent as the firm has confirmed there are no conflicts of interests arising between it, its advisors and RSA. The fee paid for services to the Committee in the year was £80,000 excluding VAT, based on a fixed fee for a defined scope of work.

Directors' Remuneration Report – continued

Committee meetings held in 2015

In 2015, the Committee met on five occasions and the table below summarises the matters it discussed.

Meeting	Regular items	Additional items
February	· Review of Executive Directors' personal goals for 2015 · Approval of 2015 incentive performance conditions · Review of directors' base salaries and approval to maintain current salaries from 1 April 2015 · Testing of the performance conditions underpinning the Annual Bonus Plan 2014 and the LTIP cycle 2012-14; approval of the level of directors' awards · Approval of the terms of the long-term incentive grant 2015 and directors' associated conditional share awards · Review of the Directors' Remuneration Report 2014	· Sharesave and Sharebuild participation update
May	· Review of the 2015 long-term incentive grant and an update on dilution levels · Approval for a supplementary grant of conditional long-term incentive awards in November 2015 for non-Board employees	· Shareholder engagement update · Corporate governance update
June	· None	· Appointment terms for Group Chief Financial Officer
September	· Review of incentive principles for 2016 · Review of Chairman's fee and approval to maintain current fee level · Approval to operate Sharesave and Sharebuild in 2015 · Approval of revised Remuneration Committee terms of reference	· Corporate governance and Solvency II update
December	· Update on the Annual Bonus Plan 2015 and long-term incentive cycles 2013, 2014 and 2015 · Review of 2016 incentive performance conditions · Review of the draft Directors' Remuneration Report 2015 · Update on the supplementary grant of conditional long-term incentive awards in November 2015 for non-Board employees · Review of outputs of Remuneration Committee Effectiveness Survey 2015 · Review of Committee meeting schedule for 2016	· Corporate governance update

Note:
1. Following its February meeting, the Committee additionally agreed the treatment of Richard Houghton's remuneration and terms related to his departure, as announced on 26 February 2015.

3. Total remuneration 2015: 'single figure' tables (audited)

The tables below set out the directors' total remuneration single figure for the financial year ended 31 December 2015. For comparative purposes, 2014 figures are also provided. The components of the Executive Directors' remuneration are detailed on pages 72 to 75. The fee structure applicable to Non-Executive Directors is detailed on page 81. Non-Executive Directors do not participate in any of the Group's incentive plans.

Executive Directors

	Salary		Taxable benefits[1]		Bonus[2]		LTIP		Pension related benefits[5]		Other remuneration[6]		Total	
(£'000)	**2015**	2014	**2015**	2014	**2015**	2014	**2015**[3]	2014[4]	**2015**	2014	**2015**	2014	**2015**	2014
Adrian Brown[7]	**–**	143	**–**	15	**–**	–	**–**	–	**–**	24	**–**	1	**–**	183
Scott Egan[8]	**131**	–	**6**	–	**–**	–	**–**	–	**13**	–	**1,605**	–	**1,755**	–
Stephen Hester[9]	**950**	864	**71**	57	**1,163**	939	**–**	–	**285**	258	**–**	–	**2,469**	2,118
Richard Houghton[10]	**174**	494	**7**	21	**–**	100	**–**	–	**23**	67	**–**	–	**204**	682
Total	**1,255**	1,501	**84**	93	**1,163**	1,039	**–**	–	**321**	349	**1,605**	1	**4,428**	2,983

Non-Executive Directors

	Fees		Taxable benefits[1]		Total	
(£'000)	**2015**	2014	**2015**	2014	**2015**	2014
Alastair Barbour	**95**	95	**21**	13	**116**	108
Kath Cates	**90**	83	**1**	–	**91**	83
Enrico Cucchiani[11]	**70**	6	**6**	–	**76**	6
Edward Lea[12]	**–**	39	**–**	3	**–**	42
Malcolm Le May[13]	**–**	29	**–**	–	**–**	29
Hugh Mitchell	**90**	88	**–**	–	**90**	88
Martin Scicluna[14]	**400**	400	**9**	2	**409**	402
Joseph Streppel	**83**	78	**3**	1	**86**	79
Johanna Waterous	**95**	88	**–**	2	**95**	90
Total	**923**	906	**40**	21	**963**	927

Notes:
1. Taxable benefits: This includes reimbursement in respect of travel and accommodation. Stephen Hester received a car allowance and the use of a car and driver service which totalled £46,024 (2014: £39,999), Scott Egan and Richard Houghton received car allowances, and each of the Executive Directors were provided with medical benefits and life cover. Alastair Barbour received benefits of £20,936 (2014: £12,941) for taxable travel where relief under HMRC rules is not available.
2. Bonus: This comprises awards in respect of performance measures relating solely to the financial year shown, in accordance with the plan described on pages 72 to 73. Half of the bonus shown is awarded in Deferred Bonus Shares which vest three years from the date of grant, and are subject to malus adjustment under the Group's Clawback Policy detailed on page 75.
3. LTIP 2015: Performance-based awards granted under the 2013-15 LTIP cycle will lapse in full on 3 April 2016.
4. LTIP 2014: Performance-based awards granted under the 2012-14 LTIP cycle lapsed in full on 11 May 2015. By exception, Richard Houghton's award, which was awarded following his appointment as a director effective 12 June 2012, lapsed in full on 15 June 2015.
5. Pension-related benefits: These benefits are detailed on page 72.
6. Other remuneration: The 2015 figure for Scott Egan includes compensatory cash and share-based awards made as part of his appointment to replace cash awards forfeited on leaving his previous employer. These awards, detailed on page 73, are subject to repayment terms in the event of resignation or termination for gross misconduct within two years of appointment. The 2014 figure for Adrian Brown represents gains made from RSA's HMRC-approved all-employee share plans.
7. Adrian Brown resigned from the Board effective 16 April 2014 and his employment ended effective 31 August 2014. The salary shown in the table for 2014 is the amount for the time he was a director, i.e. 1 January – 16 April 2014.
8. Scott Egan was appointed as a director effective 1 October 2015 on an annual salary of £525,000. The salary value shown in the table for 2015 is the pro-rated amount based on his appointment date.
9. Stephen Hester was appointed as a director effective 5 February 2014 on an annual salary of £950,000. The salary value shown in the table for 2014 is the pro-rated amount based on his appointment date.
10. Richard Houghton resigned from the Board effective 7 May 2015 and his employment ended effective 10 July 2015. The salary shown in the table is the pro-rated amount for the time he was a director, i.e. 1 January – 7 May 2015. Pay in lieu of notice is not included in this table, and is covered on page 77.
11. Enrico Cucchiani was appointed as a Non-Executive Director effective 1 December 2014.
12. Edward Lea resigned as a Non-Executive Director with effect from 8 May 2014.
13. Malcolm Le May resigned as a Non-Executive Director with effect from 8 May 2014.
14. Martin Scicluna was appointed to the role of Executive Chairman from 13 December 2013 to 4 February 2014. At his request, there was no increase in fee for this period. A £38,533 portion of the above 2014 fees relate to the period when he was Executive Chairman.

Directors' Remuneration Report – continued

4. Components of Executive Directors' remuneration

Base salary

The Committee reviewed the Executive Director salary levels during 2015, and did so referencing a range of information including market data from two benchmarking peer groups of listed international insurers and FTSE companies of a broadly comparable market capitalisation to RSA, excluding banks and heavy industries. It took into account the average reviews applied elsewhere in the Group, including those for employees subject to collective bargaining agreements, and UK inflation figures.

No changes were made as a result of this review, as shown below.

Director	Annual base salary effective 1 April 2015	% change
Stephen Hester	£950,000	0%

Notes:
1. Scott Egan was appointed as a director effective 1 October 2015 on an annual salary of £525,000, which will first be reviewed in 2017.
2. Richard Houghton's salary effective 1 April 2015 remained unchanged at £494,400.

Employment benefits

The Executive Directors received a range of employment benefits during 2015, including car, medical benefits and life cover, and the value of these is noted in the table on page 71.

Pension provision (audited)

The Executive Directors' pension benefits for the year were as follows:

- Scott Egan joined the RSA Pension Scheme following his appointment in October 2015, and is eligible to receive an employer pension contribution of 15% of base salary.
- Stephen Hester received a taxable cash allowance of 30% of base salary.
- Richard Houghton received a taxable cash allowance of 13.18% of base salary for the period he was employed during 2015.

The aggregate value paid by the Company into the RSA Pension Scheme (a defined contribution plan) for the Executive Directors in 2015 was £13,125 (2014: £11,124).

Annual Bonus Plan (audited)

For the 2015 financial year, the Executive Directors' Annual Bonus Plan consisted of financial and business targets aligned to the Group's operational plans. These included: Group underlying Return on Tangible Equity (ROTE), Group underlying Profit before Tax (PBT), Group Combined Operating Ratio (COR), a Business Review Scorecard and role-specific personal objectives. Overall, these targets required demanding business improvements from the prior year.

The maximum bonus opportunity was 160% of salary, of which half of any award is deferred into RSA shares for three years. Bonus awards are subject to malus and clawback provisions under the Group's Clawback Policy, as detailed on page 75.

In determining 2015 bonus awards under this Plan, the Committee considered how goals had been met, ensuring that performance also took account of key risk factors.

Financial performance (40% weighting – achieved 19.5%)

As shown in the following table, RSA's financial performance for each metric was around the level targeted, leading to an outcome under this element of 19.5% against a possible maximum of 40%.

Business Review performance (30% weighting – achieved 27%)

The Business Review Scorecard offered an opportunity of up to 30% of the overall award and is designed to capture progress against underlying improvements targeted by the turnaround plan, including restructuring actions. The Committee assessed performance taking into account capital, risk and disposal achievements together with the results of actions aimed at delivering the business turnaround targets.

Performance under the Business Review Scorecard was assessed to have been at or above that targeted across all of these areas. Outperformance was noted in much of the transformation. Divestments were planned and implemented well with execution risks managed, and the Group benefitting from the resulting focus. Capital ratios were above target and expense reduction exceeded Plan. Outcomes on the Solvency II internal model approval and UK pension scheme agreements were also positive. Current year underwriting profits increased to record levels and new reinsurance protection worked well.

The Committee was of the view that overall strong progress has been made, and as a result assessed an outcome of 27% out of a possible score of 30% in this category.

Personal element (30% weighting – achieved 30%)

This element focuses on personal performance versus the priorities set by the Board for the Group Chief Executive in 2015; namely driving strategic refocus and disposals, capital strength and risk control, stakeholder engagement, customer focus and Executive team development.

The Company as a whole met its underlying profitability targets for the year, as reflected in the financial element of the bonus, and performance was much improved on recent years. The Chief Executive's leadership was central to the level of outperformance seen in the business across the full agenda targeted. It included driving the evolution and implementation of the strategy and action plans, strengthening customer franchises with a range of product and service initiatives and internally building the performance culture. The unsolicited takeover approach by Zurich was also testing and the Group Chief Executive played an important role in its handling and keeping disruption from destabilising Company momentum.

Taking all of the above into account, and the personal leadership strengths required, the Committee determined that Stephen Hester would receive an award of 30% out of 30% for this element.

As a consequence, Mr Hester was awarded a bonus of 76.5% of the maximum available opportunity, being 122% of his annual base salary.

Overview of bonus outcome

The table below summarises the 2015 annual bonus outcome for Stephen Hester.

Bonus 2015 performance measures		Target	Actual	Weighting (% of maximum)	Stephen Hester award (% of maximum)
Group underlying ROTE		9.9%	9.7%	20%	9.3%
Group underlying PBT		£412m	£417m	10%	5.6%
Group COR		96.5%	96.9%	10%	4.6%
Business Review Scorecard	– *Capital metrics*:				
	IGD coverage ratio[1]	≥1.75 times	>2.1 times	30%	27%
	ECA coverage ratio[1]	≥1.15 times	>1.4 times		
	TNAV:NWP	≥35%	42%		
	S&P credit rating	A– stable	A stable		
	– *Group controllable expense ratio:*	25.6%	25.6%[2]		
	– *Group controllable expenses:*	£1,808m	£1,767m[2]		
	– *Portfolio actions and strategic plan initiatives:*	See narrative	See narrative		
Personal Scorecard			See narrative	30%	30%
Total (% of maximum)				100%	76.5%
Total (% of annual base salary)[3]					122.4%
Bonus receivable[4]					£1,162,800

Notes:
1. These measures are referenced in the capital disclosure on page 122 to 123.
2. Adjusted for timing of business disposals.
3. Stephen Hester's bonus has been determined by the Committee relative to his gross annual basic salary of £950,000.
4. Half of the bonus shown is awarded in Deferred Bonus Shares. The shares vest three years from the date of grant, and are subject to malus adjustment under the Group's Clawback Policy detailed on page 75.
5. The Committee is mindful of guidance published by investor representative bodies around enhancing transparency, and aligned to this, further information on the targets will be published in the 2016 report. This content provides information on the Group's planning process, and is therefore particularly commercially sensitive during the business transformation.

Group Chief Financial Officer compensatory award

On leaving his previous employer, Scott Egan forfeited a number of cash-based awards. The Committee carefully reviewed these awards and determined compensatory awards should be made in line with the principles outlined in the Remuneration Policy. The following awards, which consist of a combination of cash and shares, have been made and are included in the 'single figure' remuneration table for 2015 on page 71:

- Upon appointment, a cash payment of £1,104,647 was made to replace cash payments forfeited by Mr Egan or paid back by him to his previous employer upon resignation.
- Mr Egan also forfeited a cash bonus from his previous employer in respect of 2015, which has been replaced by a compensatory award payable in early 2016, in line with the payment schedule of the original forfeited award. The payment will be 50% in cash (£250,000) and 50% in restricted shares (valued at £250,000). In line with the Policy, the forfeited cash bonus was bought out partially with shares in order to give Mr Egan an early stake in RSA.

These awards are subject to repayment terms in the event of resignation or termination for gross misconduct within two years of appointment. Mr Egan must meet his RSA shareholding requirement of 150% of salary prior to the sale of any shares, excluding those sold to cover statutory deductions. Mr Egan will not receive an RSA Annual Bonus award in respect of the period worked in 2015.

Directors' Remuneration Report – continued

Long-term incentives – awards vesting from 2013–15 cycle (audited)

Conditional long-term incentive awards were made to Executive Directors in the 2013–15 cycle in the form of Performance Shares. Under the LTIP arrangements operated at that time, Executive Directors could also receive Matching Shares for each share deferred through the 2012 Annual Bonus Plan, via both compulsory and voluntary deferral.

Performance and Matching Shares will lapse in full in 2016, as the Relative TSR and Group underlying ROE conditions attached to these awards were not achieved. The Company's TSR was less than the unweighted index of comparators, and the three-year average Group underlying ROE over the performance period was 7.3% (compared to a 9–14% target range).[1]

The awards were granted prior to the appointment of the current Executive Directors, and neither of them have awards in this cycle.

Note:
1. The Relative TSR threshold target (25% vesting) is equal to the unweighted index of comparators which includes: ACE, Admiral, Allianz, Amlin, Aviva, Direct Line, Gjensidige Forsikring, Hiscox, Intact, Mapfre, QBE, Topdanmark, Tryg and Zurich. The maximum target (100% vesting) is to outperform the index by at least 7% per annum (22.5% compound over three years) or to exceed the TSR of the highest performing company in the index. Catlin had originally been included in the index, however it was delisted during the performance period and so the Committee determined to exclude it from the calculation. The Group underlying ROE threshold target (25% vesting) is 9% and maximum target (100% vesting) is 14%, measured as a three-year average over the performance period.

Long-term incentives – awards granted in 2015 (audited)

A conditional long-term incentive award was made to the Group Chief Executive on 7 April 2015 under the Performance Share Plan (PSP), which was approved by shareholders on 9 May 2014. These Performance Share awards will vest in 2018, subject to the satisfaction of the plan's performance conditions based on Group underlying ROTE, relative Total Shareholder Return and a Business Review Scorecard. The Scorecard measures a range of indicators on an underlying basis, and includes: growth in Tangible Net Asset Value per Share (TNAV), cumulative earnings, controllable expenses and a range of capital strength metrics including the ratio of Tangible Net Asset Value to Net Written Premium (TNAV:NWP).

The targets for the performance measures are shown in the following table. Achievement against the Business Review Scorecard will be evaluated using a performance framework whereby each metric will be reviewed against its target, and judgement in the round used to determine the level of vesting, taking into account underlying business performance indicators and any material risk items. The specific targets cannot be disclosed prospectively for commercial reasons, including price sensitivity. A performance narrative will be given to summarise the level of vesting on the Business Review Scorecard once the performance conditions have been tested.

LTIP performance measures 2015–17	Weighting	Threshold target: 25% vesting	Maximum target: 100% vesting
Relative TSR[1]	⅓	RSA's TSR is equal to the unweighted index of comparators	RSA's TSR outperforms the unweighted index of comparators by at least 7% per annum (22.5% compound over three years) or exceeds the TSR of the highest performing company in the index
Group underlying ROTE[2]	⅓	11%	16%
Business Review Scorecard	⅓	Commercially sensitive	Commercially sensitive

Notes:
1. Relative TSR index of comparators includes: ACE, Admiral, Allianz, Aviva, Direct Line, Gjensidige Forsikring, Hiscox, Intact, Mapfre, QBE, Topdanmark, Tryg and Zurich. A straight-line calculation is applied to determine the portion of awards that vest for performance between the threshold and maximum targets. Amlin and Catlin were also originally included in the index, however they have since been delisted and the Committee will ratify their exclusion from the TSR index at the end of the performance period.
2. Group underlying ROTE will be calculated on a three-year average basis. A straight-line calculation is applied to determine the portion of awards that vest for performance between threshold and on-target, and between on-target and maximum. The average required for on-target vesting (62.5% vesting) is less than the mid-point of the 11–16% range and is considered commercially sensitive because it is set in line with, and therefore signals, the Group's forward plan for the period. Disclosure will be provided retrospectively following the end of the performance period.

As disclosed in the last year's Directors' Remuneration Report, Stephen Hester's award in the 2015–17 cycle was for 300% of salary at maximum vesting, in view of his criticality to the turnaround. The awards granted are set out in the table below:

	Performance Shares[1, 2]		
Director	Basis of award	Number of shares[3]	Face value[4]
Stephen Hester	300% of salary	669,202	£2,850,000

Notes:
1. The performance measures are Group underlying ROTE, relative TSR and a Business Review Scorecard (⅓ weighting each).
2. The performance period is three years and ends on 31 December 2017.
3. If threshold performance is achieved, 25% of the number of shares shown will vest.
4. The face value of the award is calculated as the maximum number of shares that would vest if all performance measures and targets are met, multiplied by the mid-market closing price of an RSA ordinary share averaged over the five business days preceding the date of grant (7 April 2015), of £4.2588.

Clawback Policy

A Clawback Policy was introduced in 2013 regarding variable remuneration and is reviewed annually, as set out in the Remuneration Policy on pages 84 and 86.

In summary, for awards issued in 2014 onwards, the Committee may reduce or forfeit awards that have yet to be paid or vest in the case of shares, to delay the payment or vesting date or to amend another form of award or benefit which has yet to be received (malus adjustment).

For cash bonuses awarded for 2015 performance onwards, and long-term incentive awards granted from 2015 onwards, the Committee may also recover sums already paid to Executive Committee members if it considers it appropriate to do so (clawback). This can be applied during a two-year period after receipt (in the case of cash bonuses) or vesting (in the case of long-term incentives).

The circumstances in which malus and clawback may apply are outlined in the table below:

Malus adjustment	Clawback
· Material financial misstatement of results for any financial year or the material financial loss/under-performance of a business unit that could have been reasonably risk-managed	· Material financial loss of a business unit as a result of circumstances that should reasonably have been risk-managed by the individual
· Error or material misstatement leading to an overpayment	· Material error or financial misstatement of results which has resulted in an overpayment
· Employee misconduct, including regulatory or other breaches	· Gross or serious employee misconduct.
· Legitimate concerns regarding an employee's conduct, capability or performance	
· Actions leading to reputational damage	
· Deterioration in the financial health of the Company leading to severe financial constraint	
· Any other situation as the Committee may reasonably determine.	

Directors' Remuneration Report – continued

5. Directors' shareholding (audited)

Executive Directors' shareholding

RSA believes it is in shareholders' interests for its executives to hold shares in the Company. Under the guidelines applicable during 2015, executives are expected to retain vested shares arising from the Company's share plans, and so build up a minimum shareholding over a five-year period and maintain it thereafter. No shares are to be sold until the holding level is reached, except where required to cover statutory deductions. Unvested share awards and those otherwise subject to forfeiture are excluded when calculating an executive's current shareholding level.

The table below shows the Executive Directors' shareholding and their unvested scheme interests in the Company's incentive plans. Stephen Hester joined RSA in February 2014 and continues to build up his shareholding to the target level shown below within the allotted five-year period. Scott Egan joined RSA in October 2015 and will be granted share awards in 2016 as detailed on page 73 and page 81, and start to build his shareholding to the target level shown below.

	Shares owned outright[1]		Unvested scheme interests held at 31 December 2015		Required shareholding level			
Director	Shares held at 1 January 2015	Shares held at 31 December 2015	Share awards subject to performance conditions[2]	Share awards not subject to performance conditions[3]	Shares counting towards shareholding at 31 December 2015[4]	Valuation[5]	Shareholding level to be reached (% of salary)	Shareholding level at 31 December 2015 (% of salary)[6]
Scott Egan[7]	–	–	–	–	–	£0	150%	0%
Stephen Hester	21,500	21,500	1,254,633	110,247	21,500	£91,698	300%	10%
Richard Houghton[8]	49,419	49,419	612,849	37,402	58,861	£251,513	150%	51%

Notes:
1. Interests of directors in ordinary shares of £1.00 each of the Company, including those of connected persons. As at 23 February 2016, the interests in ordinary shares of Stephen Hester and Scott Egan have not changed since 31 December 2015.
2. Includes Performance and Matching Shares held under the legacy Long-term Incentive Plan 2006, and Performance Shares held under the Performance Share Plan 2014, detailed on page 77.
3. Includes Voluntarily Invested Deferred Shares and Compulsory Deferred Shares held under the legacy Long-term Incentive Plan 2006, and Deferred Bonus Shares held under the Performance Share Plan 2014, detailed on page 77.
4. Includes shares owned outright, and additionally in the case of Richard Houghton, his beneficial interest as at 7 May 2015 in 9,442 Voluntarily Invested Deferred Shares held under the legacy Long-term Incentive Plan 2006.
5. The valuation is against the mid-market closing price of an RSA ordinary share as at 31 December 2015 of £4.265 per share.
6. The gross annual base salary as at 31 December 2015.
7. Scott Egan was appointed as a director effective 1 October 2015. The table shows shares held at the date of his appointment and not 1 January 2015.
8. Richard Houghton resigned from the Board effective 7 May 2015. Shares and scheme interests held are shown as at that date, and not 31 December 2015. The shareholding valuation is based on his gross annual base salary and the mid-market closing price of an RSA ordinary share at 7 May 2015 of £4.273.
9. The directors had no share options that vested and remained unexercised, or were exercised in the year.
10. Full details of all directors' shareholdings and options to subscribe for shares are recorded in the Group's Register of Directors' Interests which is open to inspection by shareholders at the AGM and at the Company's registered office during standard business hours.

Non-Executive Directors' shareholding

Director[1]	Shares held at 1 January 2015	Shares held at 31 December 2015[2]
Alastair Barbour	12,039	12,039
Kath Cates	4,124	4,124
Enrico Cucchiani	–	–
Hugh Mitchell	8,552	8,552
Martin Scicluna	14,303	14,303
Joseph Streppel	4,125	4,125
Johanna Waterous	12,419	12,419

Notes:
1. Interests of directors in ordinary shares of £1.00 each of the Company, including those of connected persons.
2. As at 23 February 2016, the interests in ordinary shares of the current Non-Executive Directors have not changed since 31 December 2015.

Scheme interests held

Details of Executive Directors' existing awards in the Company's share plans for the financial year are set out in the following tables.

Performance Share Plan 2014 (PSP)

The directors' interests in the new long-term incentive plan, the PSP, were as follows:

	Share awards held at 1 January 2015	Share awards granted during the year[1]	Share awards vested during the year	Share awards lapsed during the year	Share awards held at 31 December 2015[2]
Stephen Hester					
Performance Shares[3]	585,431	669,202	–	–	1,254,633
Deferred Bonus Shares[4]	–	110,247	–	–	110,247
Richard Houghton					
Performance Shares[3]	233,581	–	–	–	233,581
Deferred Bonus Shares[4]	–	11,740	–	–	11,740

Notes:
1. The Company granted conditional awards over ordinary shares under the PSP at nil cost. The market price of ordinary shares on 7 April 2015, the date on which PSP interests were granted during the year, was £4.2588.
2. Richard Houghton's scheme interests are shown as at 7 May 2015 (the effective date of his resignation from the Board) and not 31 December 2015. A maximum of 88,761 of the 233,581 Performance Shares shown above can vest, as time-proration was subsequently applied to these awards based on the date his employment ended, in accordance with the Remuneration Policy and his good leaver status agreed by the Committee. Further prorating will apply if the performance conditions attached to these awards are not met in full.
3. Performance Shares granted in 2014 and 2015 have performance conditions of Group underlying ROTE, relative TSR and Business Review Scorecard (⅓ weighting each).
4. Deferred Bonus Shares vest three years from the date of grant, and are subject to malus adjustment under the Group's Clawback Policy as detailed on page 75.
5. The date by which performance conditions for PSP awards granted in 2014 must be met is 31 December 2016 (except the relative TSR condition, the performance period for which began four weeks prior to the grant date and will end on 31 March 2017). The date by which performance conditions for PSP awards granted in 2015 must be met is 31 December 2017.
6. No other directors of the Company held long-term incentive scheme interests in the PSP during the year.

Long-term Incentive Plan 2006 (LTIP)

The directors' interests in the LTIP were as follows:

	Share awards held at 1 January 2015	Share awards granted during the year[1]	Share awards vested during the year	Share awards lapsed during the year	Share awards held at 7 May 2015[2]
Richard Houghton					
Voluntarily Invested Deferred Shares[3]	9,442	–	–	–	9,442
Compulsory Deferred Shares[4]	16,220	–	–	–	16,220
Voluntarily Invested Deferred Matching Shares[5]	44,166	–	–	–	44,166
Compulsory Deferred Matching Shares[6]	32,440	–	–	–	32,440
Performance Shares[6]	302,662	–	–	–	302,662

Notes:
1. No long-term incentive plan interests were granted under the LTIP during 2015.
2. Richard Houghton's scheme interests are shown as at 7 May 2015 (the effective date of his resignation from the Board) and not 31 December 2015. None of the Performance or Matching Shares shown above will vest (Performance Shares granted in 2012 lapsed on 15 June 2015 as their performance conditions were not met. Time-proration was applied to performance-linked awards granted in 2013 based on his employment end date, and the outstanding awards will lapse in 2016 as their performance conditions were not met, as noted on page 74). Compulsory Deferred Shares will vest in line with the normal vesting timetable, in accordance with his good leaver status.
3. Voluntarily Invested Deferred Shares were purchased on behalf of each participant using part of the net annual bonus paid to them and are held in trust for three years. They are not at risk of forfeiture and may be withdrawn from the Trust at any time but any associated Matching Shares lapse if this occurs.
4. Compulsory Deferred Shares have a service condition of three years from date of grant.
5. Voluntarily Invested Deferred Matching Shares granted in 2012 and 2013 have a performance condition of Group underlying ROE (100% weighting).
6. Compulsory Deferred Matching Shares and Performance Shares granted in 2012 and 2013 have performance conditions of Group underlying ROE (70% weighting) and relative TSR (30% weighting).
7. The date by which performance conditions for LTIP awards were to be met is as follows: 2012 awards by 31 December 2014 and 2013 awards by 31 December 2015.
8. No other directors of the Company held long-term incentive scheme interests in the LTIP Plan during 2015.

6. Payments to directors for loss of office (audited)

There were no payments to directors for loss of office in 2015, other than those already disclosed on page 93 of last year's report in respect of Richard Houghton. These included: Mr Houghton's contractual salary and benefits (which he continued to receive after stepping down from the Board on 7 May 2015 until his employment ended effective 10 July 2015), and pay in lieu of notice (at £48,319 per month covering salary and benefits, which he received from the date his employment ended to 31 December 2015, and he continued to receive until 25 February 2016). In accordance with the Remuneration Policy and as disclosed last year, good leaver status was agreed by the Committee. Time pro-ration has been applied to his performance-linked share awards based on his employment end date. Unvested share awards will vest in line with the normal vesting timetable, with further pro-rating being applied to performance-linked awards if their performance conditions are not met in full.

7. Payments to former directors (audited)

No payments were made to former directors in 2015, other than those disclosed in the Payments to directors for loss of office section.

Directors' Remuneration Report – continued

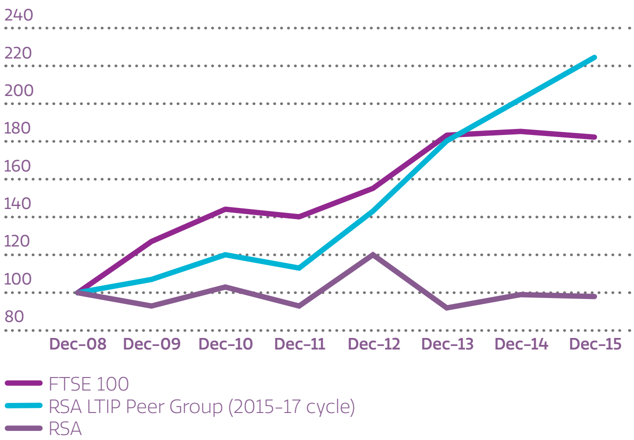
8. Historical TSR performance and executive remuneration

The graph shows the TSR of the Group with reference to the FTSE 100 Index and the relative TSR peer group used as an LTIP performance measure for the 2015–17 cycle, the constituents of which are noted on page 74.

The FTSE 100 Index is included as it comprises the 100 most highly capitalised companies in the UK market, of which RSA was a member in 2015.

RSA's TSR performance relative to the indices is shown over the seven years from 31 December 2008 to 31 December 2015. The graph reflects the change in value of ordinary shares in a company over time, as represented by a hypothetical £100 holding in the shares. Any distribution of dividends is included. Data was provided by Datastream.

Value of hypothetical £100 holding



The table below shows the total remuneration for the incumbents appointed as the most senior Executive Director over the past seven years. The percentages show the proportion of bonuses and LTIPs that were received. Bonuses include both cash and deferred shares components.

Director		Single figure of total remuneration (£'000)	Annual bonus award rates (% of maximum)	LTIP vesting rates (% of maximum)
2015	Stephen Hester[1]	2,469	77%	n/a
2014	Stephen Hester[1 2]	2,118	68%	n/a
	Martin Scicluna[3]	39	n/a	n/a
2013	Martin Scicluna[3]	21	n/a	n/a
	Simon Lee[4]	1,011	0%	0%
2012	Simon Lee	2,164	50%	34%
2011	Simon Lee[5]	311	59%	34%
	Andy Haste[6]	2,488	58%	31%
2010	Andy Haste	4,024	73%	66%
2009	Andy Haste	4,451	89%	100%

Notes:
1. Stephen Hester did not have any long-term incentive awards in the 2013–15 and 2012–14 cycles.
2. Stephen Hester was appointed Group Chief Executive effective 5 February 2014. The single figure of total remuneration for 2014 above is pro-rated for his time in the position.
3. Martin Scicluna was appointed Executive Chairman effective 13 December 2013, until 4 February 2014. The single figures of total remuneration for 2013 and 2014 above are pro-rated for his time in the position.
4. Simon Lee resigned as Group Chief Executive and his employment ended on 12 December 2013. He did not receive a bonus in respect of the 2013 financial year, and his awards in the 2011–13 LTIP cycle lapsed on that date.
5. Simon Lee became Group Chief Executive effective 1 November 2011. The single figure of total remuneration above is pro-rated for his time in the position.
6. Andy Haste resigned as Group Chief Executive effective 31 October 2011 and his employment ended 31 December 2011. The single figure of total remuneration above is pro-rated for his time in the position.

9. Percentage change in remuneration

The table below sets out the percentage change in salary, benefits and bonus for the individual undertaking the most senior Executive Director role in the Company compared with UK employees on average between 2014 and 2015. The UK population was selected for this comparison because pay changes within RSA vary significantly, according to local market factors. The Group Chief Executive's role has a Group-wide remit, but is located in the UK.

The figures for the most senior Executive Director in 2015 include Stephen Hester's remuneration for a full year, however the figures for 2014 include his remuneration for a portion of the year (as he was appointed in 2014), and Martin Scicluna for the period he was Executive Chairman. Stephen Hester received no salary increase in 2014 or 2015.

	Salary and Fees	Taxable benefits	Bonus
All employees	1.6%	1.9%	30%
Most senior Executive Director[1]	5%	26%	24%

Note:
1. The figures for 2014 include Stephen Hester from the date of his appointment as Group Chief Executive (5 February 2014) and Martin Scicluna for the period he was Executive Chairman (1 January to 4 February 2014).

10. Relative importance of spend on pay

The table below shows the all-employee pay spend and returns to shareholders by way of dividends for 2015. Figures from 2014 are provided for comparison. The employee pay data covers the Group's employees globally, and therefore includes the impact of exchange rate changes. Levels of inflation vary across the different countries in which the Group operates and, therefore, salary changes will be reflective of local market conditions.

(£m)	2014	2015	% difference from prior year
Total Spend on Employee Pay[1]	1,101	948	-14%
Total Distributions to Shareholders[2]	9	65	622%

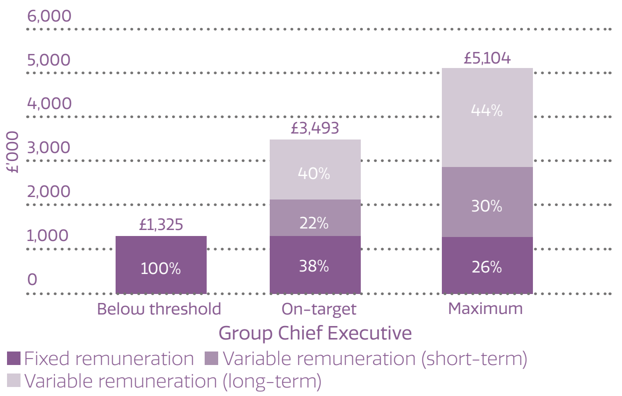
Notes:
1. Includes salaries, social security costs, pension costs and share-based payments as shown in the notes to the Financial Statements on page 133.
2. Includes the figures as shown in the notes to the Financial Statements on page 137.

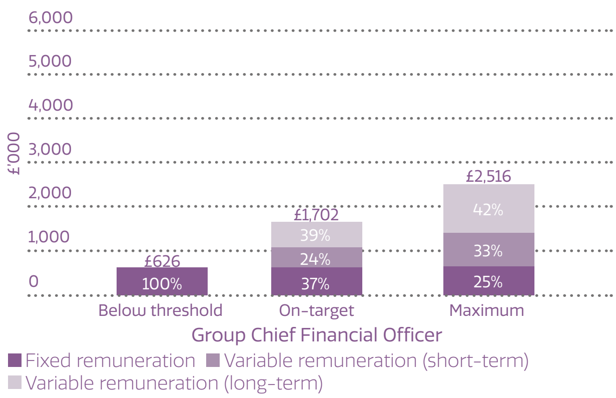
11. Implementation of Remuneration Policy in 2016

This section outlines decisions taken by the Committee in respect of the 2016 financial year, and how the Committee intends to implement the Directors' Remuneration Policy during 2016.

RSA has a pay-for-performance culture, whereby remuneration is closely linked to the performance of both the business and the individual. Executive Directors' reward opportunity contains a balance of fixed and variable elements. The Committee's aim is that superior levels of remuneration will only be paid in return for delivering superior levels of performance. The variable element is fully flexible such that no award is guaranteed. The charts below show how much the Executive Directors could earn for the 2016 financial year based on the application of the Remuneration Policy (detailed on pages 83 to 90). Their remuneration potential changes according to varying levels of performance achievement.

Illustrations of the application of the Remuneration Policy





Notes:
1. The 'below threshold' scenario shows the minimum remuneration receivable. It includes the value of base salary and pension for 2016, and the value of benefits based on the single total figure of remuneration for 2015. No bonus is awarded and no LTIP vesting occurs.
2. The 'on-target' scenario shows the remuneration receivable with a bonus award at half of the maximum opportunity (i.e. 80% of salary) and LTIP vesting at 62.5% (i.e. half-way between threshold (25% vesting) and maximum (100% vesting)). The LTIP maximum award level is taken to be 230% of salary for the Group Chief Executive, and 200% of salary for the Group Chief Financial Officer.
3. The 'maximum' scenario shows the remuneration receivable with both the Annual Bonus Plan and the LTIP paying out in full (i.e. 160% of salary and 230%/200% of salary, respectively).

The remuneration structure is intended to promote the long-term interests of the Company and its shareholders. The table below shows when each component of the Executive Directors' remuneration package, as set out in the charts above, would be delivered to them once any performance conditions or other restrictions have ended (as noted by the shading). These each relate to the 2016 financial year and, in the case of long-term incentive performance share awards, for awards vesting in 2019.

	Financial year					
Remuneration package component	2016	2017	2018	2019	2020	2021
Base salary						
Benefits						
Pension contribution/cash allowance						
Annual bonus: cash award		◇	Clawback may apply →			
Annual bonus: deferred share award		◇	Malus adjustment may apply →		◆	
LTIP: performance share award	◇	Malus adjustment may apply →		◆	Share retention period, clawback may apply →	

◇ Year of cash bonus award, or share award granting ◆ Year of share award vesting
Year when any restrictions or clawback provisions have ended

Directors' Remuneration Report – continued

Base salary, benefits and pension

The Committee reviewed the Group Chief Executive's salary and has determined that a 2% increase will apply from 1 April 2016. This level of increase is in line with those for other UK-based employees this year. In respect of benefits and pension, the Policy will continue to be implemented the same way as it was at the end of 2015.

Director	Annual base salary effective 1 April 2016	% change
Scott Egan[1]	£525,000	0%
Stephen Hester	£969,000	2%

Note:
1. In accordance with his appointment terms, Scott Egan's salary will first be reviewed effective 1 April 2017.

How will incentives be aligned to the business strategy in 2016?

The table below shows how the business strategy, and the key performance indicators which underpin it, are reflected in the Annual Bonus Plan and long-term incentive performance measures for Executive Directors in 2016:

Strategic priorities	Key performance indicators	Annual Bonus Plan 2016	Long-term incentive cycle 2016-18
Business Review: · Strategic focus, · Capital and balance sheet strength, · Performance improvement	TNAV, TNAV:NWP, Capital surplus, Attritional loss ratio, Controllable expenses	*Business Review Scorecard:* Capital metrics including TNAV:NWP and Solvency II coverage ratio; Management actions including controllable expenses, disposals, risk items, attritional loss ratio and strategic plan initiatives	*Business Review Scorecard:* Capital metrics including TNAV:NWP and Solvency II coverage ratio, Controllable expenses, Attritional loss ratio, Growth in TNAV per share, Cumulative earnings
Profitability	Group underlying PBT, Group COR	Group underlying PBT, Group COR	
Shareholder Value	Group underlying ROTE	Group underlying ROTE	Group underlying ROTE (three-year average), Relative TSR

Annual Bonus Plan 2016

As noted in the Committee Chairman's letter on pages 66 to 67, the Annual Bonus Plan will follow a similar design to 2015. Its performance measures are aligned with the core priorities for focus in 2016. The Executive Directors will be expected to deliver against stretching targets, which are geared towards making continued performance improvement. They are targeted against the performance of the entire Group, taking into account their contribution thereto.

The Business Review Scorecard component includes capital strength metrics and strategic management actions required to deliver this stage of the turnaround. The Personal Scorecard consists of 'SMART' objectives, which are aligned to the areas of: financials, strategy, risk management, customer and people.

The bonus opportunity remains unchanged at 80% of salary for on-target achievement, rising to a maximum of 160% of salary. Threshold performance represents 16% of salary (i.e. 10% of the maximum opportunity). Half of the total bonus will be awarded in cash where clawback can apply, the balance is deferred into shares for a three-year period where malus adjustment can apply.

The Committee will assess performance for 2016 once the financial year has ended, taking into account material risk factors. All of the bonus targets are considered to be commercially sensitive because they signal the Group's forward plan for the year, and therefore they are not provided in this document. Disclosure will be provided in the 2016 Directors' Remuneration Report, to the extent that the targets do not remain commercially sensitive.

The table below sets out the structure of the Executive Directors' bonus plan for 2016.

Bonus performance measures	Weighting (% of bonus)	Maximum opportunity (% of salary)
Group underlying Return on Tangible Equity (ROTE)	20%	32%
Group underlying Profit before Tax (PBT)	10%	16%
Group COR	10%	16%
Business Review Scorecard	30%	48%
Personal Scorecard	30%	48%
Totals	100%	160%

Long-term Incentive Plan 2016-18

The RSA Performance Share Plan (PSP) was approved by shareholders at the AGM on 9 May 2014. The plan directly supports the building of shareholder value by targeting Group underlying Return on Tangible Equity (ROTE), relative Total Shareholder Return (TSR) and a Business Review Scorecard. The Scorecard measures a range of indicators on an underlying basis, and includes: growth in Tangible Net Asset Value per Share (TNAV), cumulative earnings, controllable expenses, attritional loss ratio and a range of capital strength metrics including the ratio of TNAV:NWP and Solvency II coverage ratio.

For the 2016 grant, performance measures will be assessed against a performance period of 1 January 2016 to 31 December 2018, taking into account underlying business performance and material risk factors.

To maintain an appropriate degree of stretch in the targets, the three-year average required for an on-target level of vesting on the Group underlying ROTE element is set higher up the 11-16% target range compared to the 2015-17 cycle. This ensures account is taken of the turnaround progress made in the previous year. Underlying ROTE is defined in the Key Performance Indicator section on page 22. It will be measured on a simple average basis over the performance period.

The Business Review Scorecard will be evaluated using a performance framework whereby each metric will be reviewed against its target, together with any other aspects connected to the business turnaround and judgement in the round used by the Committee to determine the level of vesting. The specific targets cannot be disclosed prospectively for commercial reasons, including price sensitivity. A performance narrative will be given to summarise the level of vesting on the Business Review Scorecard once the performance conditions have been tested.

Stephen Hester's maximum LTIP opportunity in the 2016 grant will reduce to 230% of salary at maximum vesting compared to earlier years, which is the usual level of award for the Group Chief Executive. Scott Egan's LTIP opportunity in 2016 will be 200% of salary at maximum vesting. Executive Directors must retain all vested shares arising from this incentive plan for two years post-vesting (except those sold to cover statutory deductions), and they are subject to the Group's Clawback Policy. The table below summarises the LTIP's structure.

LTIP performance measures 2016–18	Weighting	Threshold target: 25% vesting	Maximum target: 100% vesting
Relative TSR[1]	⅓	RSA's TSR is equal to the unweighted index of comparators	RSA's TSR outperforms the unweighted index of comparators by at least 7% per annum (22.5% compound over three years) or exceeds the TSR of the highest performing company in the index
Group underlying ROTE[2]	⅓	11%	16%
Business Review Scorecard	⅓	Commercially sensitive	Commercially sensitive

Notes:
1. The TSR index of comparators for this cycle includes: ACE, Admiral, Allianz, Aviva, Direct Line, Gjensidige Forsikring, Hiscox, Intact, Mapfre, QBE, Topdanmark, Tryg and Zurich. A straight-line calculation is applied to determine the portion of awards that vest for performance between the threshold and maximum targets.
2. Group underlying ROTE will be calculated on a three-year average basis. A straight-line calculation is applied to determine the portion of awards that vest for performance between threshold and on-target, and between on-target and maximum. The average required for on-target vesting (62.5% vesting) is less than the mid-point of the 11-16% range and is considered commercially sensitive because it is set in line with, and therefore signals, the Group's forward plan for the period. Disclosure will be provided retrospectively following the end of the performance period.

Executive shareholding requirement

The Group Chief Executive's target shareholding requirement is maintained at 300% of salary. The requirement for other Executive Directors remains at 150%.

Non-Executive Directors' fees

Under RSA's Articles, the Non-Executive Directors' remuneration is determined by the Board, within limits set by shareholders. The only exception is in respect of the Chairman, whose terms fall within the remit of the Group Remuneration Committee. The Chairman and Board (minus the Non-Executive Directors) discharges its accountability for setting and managing Non-Executive Directors' remuneration; it will do this when their contractual terms or fee structure are under consideration, which is typically once a year, as noted on pages 88 to 89.

The Committee reviewed the Chairman's fee in accordance with the Remuneration Policy, and did so referencing a range of information including market data on fees taken from the same peer groups used to benchmark the Executive Directors' salaries, UK inflation figures and the average reviews applied elsewhere in the Group. The Chairman's fee will remain unchanged at £400,000 per annum, effective 1 January 2016. Future reviews will take place annually.

The table below shows the Non-Executive Director fee structure. The Company reviewed the Non-Executive Directors' fees during 2015 in accordance with the Remuneration Policy and the fees effective from 1 July 2013 will remain unchanged in 2016.

Fee structure	From 1 July 2013
Base fee	£60,000
Additional fee for chairing committees:	
Group Audit Committee	£20,000
Group Remuneration Committee	£20,000
Group Investment Committee	£12,500
Board Risk Committee	£20,000
Additional fee for Senior Independent Director	£20,000
Additional committee fee[1]	£5,000

Note:
1. A fee of £5,000 applies for each committee a Non-Executive Director is a member of other than as Committee Chairman.

Directors' Remuneration Report – continued

12. Statement of voting at General Meeting

The following voting was recorded at the AGM on 8 May 2015 regarding the resolution to approve the Annual Report on Remuneration:

Resolution	Votes for	Votes against	Total votes cast	Votes witheld[1]
To approve the Directors' Remuneration Report				
Number of votes	477,230,039	91,223,968	568,454,007	155,701,802
% of votes cast	83.95%	16.05%	100%	–

Note:
1. Votes withheld are not included in the calculation as a vote withheld is not a vote in law.

13. Dilution

RSA monitors its dilution levels on a regular basis to ensure that they remain within the headroom limits set by the Investment Association (IA). As at 31 December 2015, the dilution levels were as follows:

Limit	RSA dilution %
10% over 10 years for all share schemes	4.17%
5% over 10 years for discretionary schemes, including long-term incentives	2.76%

14. External directorships

Stephen Hester and Scott Egan do not hold outside directorships of FTSE 100 (or any other listed) companies but would be allowed to have one such appointment, subject to the approval of the Group Nomination and Governance Committee. In accordance with the Remuneration Policy, they would be permitted to retain any fees or expenses arising from such an appointment.

15. Directors' contracts

The Executive Directors' service agreements became effective on the following dates:

Executive Director	Effective date
Scott Egan	1 October 2015
Stephen Hester	5 February 2014

Non-Executive Directors are issued with an appointment letter. The table below shows when the Non-Executive Directors' appointments became effective and when their terms will expire:

Non-Executive Director	Date of initial appointment	Expiry date of current term
Alastair Barbour	10 October 2011	10 October 2017
Kath Cates	1 September 2013	1 September 2016
Enrico Cucchiani	1 December 2014	1 December 2017
Hugh Mitchell	26 September 2012	26 September 2018
Martin Scicluna	1 January 2013	1 January 2019
Joseph Streppel	3 October 2011	3 October 2017
Johanna Waterous	20 May 2008	20 May 2017

Hugh S Mitchell
Non-Executive Director and Chairman of Group Remuneration Committee
24 February 2016

Appendix – Summary of Remuneration Policy

Introduction

The Remuneration Policy was approved by shareholders on 9 May 2014, and was effective from this date. No changes to the Policy are proposed this year.

The Policy covers how decisions on directors' remuneration will be made at RSA, and the remuneration philosophy and strategy which underpin these decisions.

For ease of reference, the elements of the Policy referenced in Committee activity during 2015 are re-presented on the following pages 84 to 90, including the policy tables and information on directors' contractual terms. The full Policy Report is contained in the 2013 Annual Report and Accounts (pages 71 to 79), which is available at www.rsagroup.com/financial-reporting.

RSA's remuneration philosophy and strategy

RSA's remuneration philosophy and strategy are directly informed by the business strategy, which is set out in the Strategic Report on pages 2 to 39 of this report.

The remuneration principles the Committee follows are:

- Competitive remuneration packages are offered in order to attract, retain and reward the levels of high calibre talent which are essential to RSA's success in today's competitive global insurance market
- Each component of the total remuneration package is simple and transparent, so as to be effective and understood by executives, shareholders and regulators
- A significant proportion of the overall remuneration package takes the form of variable pay, giving focus to stretching short and long-term objectives which directly support the achievement of strategic priorities and are aligned to shareholders' interests
- Executive Directors and other executives are required to hold a significant number of shares in the Company; they are encouraged to act in shareholders' best interests by having a personal investment in RSA
- The remuneration framework is reviewed regularly to ensure that it continues to appropriately reward executives, while protecting shareholders' interests and complying with principles of good risk management and reward governance.
- The tables on the following pages describe how these remuneration principles are applied in practice.

Directors' Remuneration Report – continued

RSA's Remuneration Policy for Executive Directors

Purpose and Strategic Link	Policy for 2014 onwards
Base salary (fixed remuneration) Salaries are aligned to market competitive levels. This is to attract and retain high calibre executives, essential for ensuring RSA's ongoing success.	· Reviewed annually with consideration of factors including: market positioning, internal pay relativities, levels of pay for other RSA employees, inflation, affordability, job scale and content, individual's experience and expertise. Only annual base salary is pensionable. An existing Executive Director's salary may be increased outside of the normal review cycle for material role changes. · Benchmarked referencing competitive practice within two peer groups of listed international insurers and FTSE listed companies of broadly comparable market capitalisation to RSA, excluding banks and 'heavy' industries. · Committee can change the constituents of the benchmark peer group or the basis upon which market information is obtained at its discretion to ensure that the data remains robust and relevant.

Note to table: Policy is consistent for other UK-based managers.

Benefits (fixed remuneration) Employment benefits are provided to support the executive and form part of a market competitive package.	· Directors receive a variety of benefits, some of which are delivered as taxable cash-in-lieu allowances. Benefits cover the areas of: health and well-being, leave of absence, car and business travel, sickness benefit, insurances, professional subscriptions, external advice and employee discounts on certain insurance products. Home to work travel may be covered where appropriate. Tax changes are not compensated. · Assistance would be available under RSA's relocation policy or global mobility policy should this be required. This may include tax equalisation in the event an executive is subsequently appointed to the Board as an expatriate, although the Committee would review if this was necessary long-term. · UK-based Executive Directors can participate in RSA's flexible benefits programme and acquire shares through voluntary HMRC-approved share plans (Sharesave and Sharebuild). They can also claim expenses according to RSA's business and travel policies. · Benefits are determined with reference to market practice within the same benchmark peer groups referenced above. The Committee can also source information from bespoke benefits surveys to aid decision-making. · Committee can amend any benefit or introduce new ones to ensure the remuneration package remains market competitive or to respond to regulatory, legal or best practice changes. Internal appointees to the Board may retain any legacy benefits they receive, at the Committee's discretion, or a buy-out may be made depending on the benefit type and circumstance.

Note to table: Policy is consistent for other UK-based managers and most other UK-based employees.

Pension (fixed remuneration) Pension benefit forms a part of a market competitive package and enables executives to save for retirement.	· Non-contributory pension plan membership or a full/partial cash allowance, where the Director is unable to join the Company's pension plans. The RSA defined benefit pension plan is closed to all new entrants. · Pension cash allowances are paid monthly and are subject to statutory deductions. · Pension cash allowances are set referencing practice within the benchmark peer groups and specialist survey data may also be obtained. The Committee has regard to the market median allowance data. · Committee can adjust the employer pension contribution or cash allowance levels to ensure these remain appropriate and market competitive. It can also agree changes to the terms of the Directors' pension plan(s), as appropriate.

Note to table: Policy is consistent for other UK-based managers.

Annual Bonus Plan (variable remuneration) Supports RSA's short-term objectives. Targets are directly linked to the operational plan and reflect RSA's priority to create shareholder value through sustained growth and profitability, based on its risk profiles. Deferral into shares creates shareholder alignment.	· Overall bonus opportunity is set at a level to be market competitive. Awards are calculated against stretching annual financial and non-financial targets, as well as the performance of the individual executive. Only superior performance will result in a bonus award which is above target. · Fifty per cent of the bonus will be awarded in cash and the remainder will be deferred into a share award for a period of three years. Dividends or equivalents accrue on the deferred shares, and are awarded at the end of the deferral period. The deferred bonus shares are granted under the rules of the LTIP as a conditional award. · Under RSA's Clawback Policy, cash and deferred share awards arising from the Annual Bonus Plan can be reduced or forfeited prior to receipt under a range of circumstances and other sanctions can apply. The policy is noted in detail on page 75. The Committee reviews the policy annually and may amend or update it, as required. · The Executive Directors' maximum bonus opportunity is set having regard to the market median bonus opportunity of its benchmark peer groups. · Committee can exercise discretion to change the bonus measures, how they are weighted, calculated and targeted. It can also change the Directors' bonus awards (both upwards and downwards) once the measures have been tested, provided this is appropriate and in shareholders' interests. The Committee can make such amendments as are necessary to respond to regulatory, legal or accounting requirements. Shareholders will be notified if this has been carried out by disclosure in the relevant Directors' Remuneration Report.

Note to table: All permanent UK-based employees are eligible to receive a bonus award, but share deferral is only operated for senior leaders at RSA.

Opportunity and performance conditions

- Performance conditions do not apply, but business and individual performance may be considered when conducting the review process. Although salaries are reviewed annually, there is no automatic right for any Director to receive a salary increase.
- Other than exceptional circumstances such as a role change, salary increases will not exceed the level of increases applied to other RSA employees.
- The Executive Directors' salaries effective 1 April 2016 are noted on page 80.

- Performance conditions do not apply.
- Benefits are valued and determined with reference to the benchmarking peer groups and other surveys reviewed by the Remuneration Committee. Details of the benefits received by the Executive Directors for 2015 are provided on pages 71 to 72.

- Performance conditions do not apply.
- No Executive Director will receive a pension benefit in excess of 30% of salary.
- The Executive Directors' pension benefits for 2015 are detailed on pages 71 to 72.

- Normal bonus opportunity is 16% of salary at threshold, rising to 80% of salary for on-target performance and 160% of salary at maximum. Additional bonus headroom of up to a further 40% of salary may be available, at the Committee's discretion, to recognise highly exceptional circumstances. Full disclosure will be given if an increased bonus opportunity is applied.
- Performance is measured over one financial year, according to a range of metrics, some of which can be assessed on a scorecard basis, typically including: growth in earnings and profitability, underwriting performance, risk management, expense ratio and cost savings, capital strength, balance sheet strength, customer and employee engagement, and objectives which are personal to the executive. All measures operate independently. Around 70% of the Annual Bonus Plan is weighted according to financial metrics. The performance conditions and targets which were used to inform the 2015 bonus awards are detailed on pages 72 to 73.
- Group Executives are targeted against performance of the entire Group. Executive Directors who have a regional accountability will be targeted against the performance of both the Group and their business areas.
- Targets are set with reference to the Group's operational plan.
- No additional performance conditions apply to the deferred bonus shares once they are granted.

Directors' Remuneration Report – continued

RSA's Remuneration Policy for Executive Directors – continued

Purpose and Strategic Link	Policy for 2014 onwards
Long-term Incentive Plan (LTIP) (variable remuneration) Supports RSA's long-term strategy. Targets reflect RSA's priority to create shareholder value through sustained earnings and share price growth.	· LTIP grants are made annually to a range of senior employees across the Group. For Executive Directors, awards are made in the form of performance shares which vest subject to performance conditions. The LTIP is also used as a vehicle for granting restricted shares which, for an Executive Director would only be used to satisfy a buy-out upon appointment and shares awarded through compulsory bonus deferral. · Performance conditions are reviewed annually. Dividends or equivalents accrue during the performance period and are added to the shares that vest. · A two-year retention period will apply to the Executive Directors' vested shares prohibiting their sale (excluding any sold to satisfy statutory deductions). This policy will cover performance-based awards granted through the LTIP and it will first be implemented for shares vesting in 2017 (i.e. the 2014 grant). The retention period only applies while the Director remains in employment. · Under RSA's Clawback Policy, unvested share awards granted from 2013 onwards can be subject to forfeiture (partial or full) covering a range of circumstances and other sanctions can apply. The policy is noted in detail on page 75. The Committee reviews the policy annually and may amend or update it, as required. · The Executive Directors' maximum award opportunity is set having regard to the market median grant within the benchmark peer groups. · Committee can act within the parameters of the Plan's rules as approved by shareholders and its performance conditions, covering matters such as the measures, calculation methods, performance period, eligibility rules, and general Plan mechanics. The purpose of discretion is to enable the LTIP to be appropriately administered under both normal and exceptional circumstances, e.g. corporate or capital events affecting the Group or a significant number of employees. In addition, the Committee can make such amendments as may be necessary to respond to legal, accounting or regulatory changes. Awards can be reduced or otherwise amended, provided the action is fair and justifiable, for example, to guard against a windfall award or the converse generated by an accounting treatment, to put employees in a neutral position following a capital event. Specifically, under a change of control, performance conditions are tested and awards can vest earlier than scheduled, pro-rated for time and performance, however, the Committee can determine whether a pro-ration for time is applied to other forms of award not subject to performance conditions.

Note to table: The policy applicable to the Executive Directors' long-term incentives is the same for all other participants who receive performance-based awards, with exception to the two-year post-vesting retention period which only covers Executive Directors. LTIP award opportunities vary for individuals below the Board.

Legacy incentives (variable remuneration)	· The Executive Directors will continue to retain any awards granted under RSA's 2006 Long-term Incentive Plan including deferred share awards. No further grants will be made under the 2006 Plan. The Committee can exercise the same discretion as noted in the LTIP section above, as appropriate.
Required shareholding Ensures alignment with shareholders' interests and enables the Director to build a stake in the business.	· Executive Directors must acquire shares in RSA and hold them according to specified levels, expressed as a salary multiple. · Executives have five years in which to build up their holding, commencing from the first date an unconditional share award is made to them as a Director. No shares are to be sold until the holding level is reached, except where required to cover statutory deductions. · The shares which count towards the holding are those held either in their own right or that of immediate family members, and any awarded by RSA which cease to be bound by any performance or service conditions. Vested LTIP shares form part of the holding during the two-year retention period. · For the purpose of reporting to shareholders, the holding levels will be determined using the mid-market closing price of an RSA ordinary share and executives' annual gross basic salaries, both as at 31 December in the reporting year. · The Committee can exercise discretion to temporarily waive or reduce the holding requirement or allow shares to be sold in exceptional business or personal circumstances (e.g. ill-health, divorce, financial hardship).

Note to table: Members of the Executive Team and selected senior leaders across the Group are also required to hold shares in RSA.

Opportunity and performance conditions

- Normal threshold LTIP opportunity is 58% of salary, rising to 144% of salary for on-target performance and 230% of salary at maximum.
- For recruitment purposes, or in highly exceptional circumstances, such as for retention, the Committee may agree to a conditional performance-related award being made up to an additional 170% of salary. This would be considered a 'one-off' award. Where an exceptional award is made, full disclosure will be given on the rationale.
- Conditional awards are determined based on the Director's salary as at the grant date, using the mid-market closing price of an RSA ordinary share, as determined by the Committee in accordance with the Plan's rules.
- The LTIP is intended to support the delivery of the business strategy over a three-year time horizon, and it will therefore include at least two metrics which, typically, will be directly linked to value creation through performance of the Group's share price, earnings/profitability, capital strength and balance-sheet strength. The measures can be assessed on an absolute and/or a relative basis. The metrics can be assessed through a scorecard. The performance conditions are not subject to re-testing.
- The performance period will normally be at least three years for all measures. By exception, the relative TSR metric will be assessed over circa 34 months for the 2014 grant only.
- The performance conditions and targets that will apply to the 2016 grant are detailed on pages 80 to 81.
- Shareholders will be consulted if changes to the measures are proposed by the Committee.

- Performance conditions for any outstanding awards are Group underlying Return on Equity and relative Total Shareholder Return as noted in the Directors' Remuneration Report for 2013 and in this Report on page 77. There is no re-testing of the performance conditions.

- Performance conditions do not apply.
- With effect from 1 January 2014, the shareholding levels to be reached are:

Group Chief Executive:	300% of salary
Other Executive Directors:	150% of salary

The Executive Directors' shareholding levels as at 31 December 2015 are noted on page 76.

- The shareholding levels were determined with reference to the practice across the benchmark peer groups.

Directors' Remuneration Report – continued

RSA's Remuneration Policy for Executive Directors – continued

Purpose and Strategic Link	Policy for 2014 onwards
Appointment treatment Ensures a consistent and transparent approach is taken when appointing executives to the Board, in line with best practice.	· Appointment salaries are set using the same approach as for the Directors' salary reviews, as noted on pages 84 to 85 above. The Committee can exercise discretion on the timing and level of salary reviews for newly appointed Directors reflecting the individual's development and performance in the role. · Benefits, pension and contractual terms will be the same as those offered to current Executive Directors, but the Committee may exercise judgement to flex the package to accommodate any specific terms bespoke to the individual, e.g. related to health, annual leave, pension or insurance benefits. · No Director will be appointed on a notice period exceeding 12 months. · Where the Director is an internal promotion within the Group, he/she may be permitted to retain any legacy benefits or terms at the Committee's discretion. Continuity of service with the Group will be maintained. · Where the Director is an external appointment, the Committee may agree to a compensatory package reflecting incentives or benefits forfeited upon resignation. This will only be permitted on receipt of reasonable evidence of loss. There will be no cash sign-on payments where there is no loss. · Typically, the form of award that is being forfeited (e.g. cash or shares) will be replaced by the same form of award at RSA. Share awards, if they are subject to performance conditions, will generally be compensated by performance share grants in the LTIP. A fair value approach will be applied to determine the value of any compensatory share awards. · As a point of principle, restricted shares will only be used where a performance condition has been achieved or is nearing testing and there is a reasonable expectation of the vesting level. Cash bonuses may be bought out with restricted shares in order to give the Director an early 'stake' in RSA. · Committee can exercise discretion on how to settle any buyout and over what time period to phase any compensatory awards. It will have regard to the performance and vesting periods of the Director's forfeited incentives when determining this.

Note to table: The policy is largely consistent with the approach taken on recruitment remuneration for senior executives across the Group.

Leaver treatment Ensures fair treatment for departing executives while avoiding reward for failure.	· Directors who resign or are dismissed for cause are not eligible for an annual bonus if they have left or are under notice at the date of payment, and forfeit all unvested LTIP awards. They retain any shares they have voluntarily deferred in the LTIP under the 2006 Plan. Directors who resign can retain any compulsory deferred bonus shares awarded from 2014 onwards and any associated dividends or equivalents. · Good leavers, at the Committee's discretion, and normally including such circumstances as planned retirement, death, disability/medical severance, transfers outside of the Group and redundancy, would be eligible for an annual bonus for the proportion of the bonus year served. Deferred bonus shares will normally vest in line with the normal timetable, and LTIPs vest subject to performance and time-prorating. The Committee will make reasonable judgement on determining whether a Director qualifies for good leaver status by reason of retirement, by understanding the individual's intentions post employment termination and taking account of the context of his/her departure from the Group. The Committee has the discretion to make the final bonus award in cash and therefore waive compulsory deferral. · If a loss of office were to occur giving rise to a redundancy payment under prevailing employment legislation, the payment will be calculated taking account of the Director's length of service with the Group and his annual gross basic salary as at his employment termination date. Benefits continue until the employment termination date or the date the contractual notice period expires, whichever is the latter; they can be settled as payments. · The unexpired period of the Director's notice may either be paid or served, including on garden leave; this is regardless of which party has served notice. Generally, in the event of termination and in all cases of termination on performance grounds, the Committee's policy would be to seek and apply mitigation, and payments may be made on a phased basis.

Note to table: The policy is largely consistent with the approach taken for senior executives across the Group.

RSA's Remuneration Policy for Non-Executive Directors

Purpose and Strategic Link	Policy for 2014 onwards
Fees Ensures competitive remuneration is paid to attract high calibre non-executives and recognise their time commitment on the Board.	· Fees are reviewed annually but an annual increase may not always be applied. · When assessing fee levels, account is taken of the required time commitment and the degree of expertise necessary to fulfil the particular role (such as chairing a committee). · The fees are benchmarked using the same peer groups as for the Executive Directors' remuneration, and will have regard to the market median. · Fees are paid in cash, subject to any required statutory deductions which are taken at source. · The Company has the discretion to introduce new fees or change the Non-Executives Directors' terms.
Other key terms of office Reflects current good governance.	· The Chairman is provided with secretarial support and the use of an office. · Non-Executive Directors may claim expenses in line with RSA's business and travel policies; some of these expenses do not qualify for HMRC tax relief. They receive no other benefits, but they can have RSA insurance products at a discount. · As the Non-Executive Directors are not employed by the Company, they are not eligible to receive a bonus award or participate in any of RSA's share plans. · The Non-Executive Directors may hold shares in RSA, but this is a personal matter and is not mandatory.

Opportunity and performance conditions

- If the Director is entered into an RSA LTIP and made an award of performance shares, these will be subject to the same performance conditions and vesting date as applies to other plan participants.
- Under normal circumstances, a new Executive Director will be eligible for incentive awards in line with the usual policy which provides for a maximum bonus of 160% of salary and LTIP award of 230% of salary. However, in exceptional circumstances, a higher bonus opportunity of up to 200% of salary may be agreed and a performance-related LTIP award may be approved by the Committee in the Director's first year of service up to the limit of 400% of salary.
- Restricted shares may be issued and, if so, these will not carry any financial performance conditions, only continued service with the Group or such other conditions as the Committee may agree. Restricted shares will only be awarded to an Executive Director in the case of compensation for loss upon recruitment.
- The Committee may agree to reduce the value of the compensatory award below the anticipated or actual loss value if the compensation is paid at an advanced date (i.e. early settlement).
- Any compensatory award using cash or restricted shares will always carry a service condition and an appropriate repayment schedule to protect shareholders' interests.

- Where good leavers receive pro-rated bonus or LTIP awards, performance is tested in line with the normal performance timetable. The Committee can, however, arrange for the performance conditions to be tested early and for awards to vest sooner than the scheduled date in cases of death in service, medical severance (with discretion) or under a change of control.
- Based on the leaving circumstances and having regard of shareholders' interests, the Committee can exercise discretion to reduce or lapse awards or enable a proportion of awards to be received but only in highly exceptional circumstances and where appropriate. Shareholders will be informed if discretion is applied, and details will be provided wherever possible.
- There are no pre-determined special provisions for Directors with regard to compensation for loss of office. Compensation is based on what would be earned by way of salary and other contractual benefits including pension, over the notice period. In the normal course of events, reasonable professional fees may be paid in relation to a Director's employment termination.
- No payment or compensation for loss of office made to any departing Director will be disclosed if it is less than £10,000 gross.

Opportunity and performance conditions

- Performance conditions do not apply.
- With exception to the Chairman, all Non-Executive Directors receive a base fee, further fees are then paid to reflect membership of more than one committee and for chairing a committee. A separate fee is paid to the Senior Independent Director. The Chairman receives a fee for his role and this is set by the Committee.
- Base fees (including the Chairman's fee) will be kept within the aggregate limit stated in the Group's Articles of Association.
- Details of the Chairman's fee and the Non-Executive Directors' fees earned for 2015 are noted on page 71.

- Performance conditions do not apply.
- Contractual terms are noted on page 90.

Directors' Remuneration Report – continued

Contractual terms

Executive Directors

Each of the Executive Directors is employed under a service agreement, which contains a variety of contractual terms and conditions. Their employment can be terminated by the Company or the individual, by the serving of 12 months' notice. In the case of summary dismissal, no notice will be served by the Company and no compensation will be paid in lieu of it. Notice periods are approved by the Committee and, at its discretion, can be reduced in the event an Executive Director resigns and wishes to leave prior to the end of his contractual notice period.

As with any RSA employee, the Executive Directors may be suspended from their duties in the event of their misconduct or during an investigation which might result in their dismissal.

The Company has the contractual right to place the Executive Directors on garden leave for part, or all, of their notice period. Salary, benefits and pension contributions continue during garden leave, but this time will not count towards the calculation of any annual bonus award that may subsequently be due. Executive Directors do not have terms which provide additional rights or payments to them in the event of a change of control, reconstruction or amalgamation of the Company. Restrictive covenants are in place to help protect RSA's interests should the individual leave the Company for any reason.

Executive Directors may hold one external non-executive position of a FTSE 100 company provided this does not give rise to any conflict of interest, with the approval of the Nomination Committee. If there is any remuneration arising from this role, the individual can retain it.

The date when each Executive Director was appointed to the Board is shown in the table on page 82. Contracts are available for inspection by shareholders at the Company's registered office.

Non-Executive Directors

Non-Executive Directors are not employed by RSA but they are engaged on a contract for services basis. They are issued with an appointment letter for an initial three-year term, which can be extended with the Board's agreement. The term of office can end prior to its expiry with either the individual or the Company serving one month's notice, or three months in respect of the Chairman. No notice will be served by the Company in the event of gross misconduct.

Non-Executive Directors are expected to disclose any conflicts of interest prior to, and during, the course of their tenure. They will not participate in making a decision if any conflict is considered to impact their independence or limit their ability to discharge their duties to shareholders. Since Non-Executive Directors and the Chairman receive only fees and expenses, no individual can have a loss of office payment, although payment in lieu of notice can be made.

The dates when each Non-Executive Director was appointed to the Board and the expiry dates of their current terms of office are shown in the table on page 82. Details of the Non-Executive Directors' fees are noted on page 81. Appointment letters are available for inspection by shareholders at the Company's registered office.

Other Statutory Information

Substantial share interests[1]

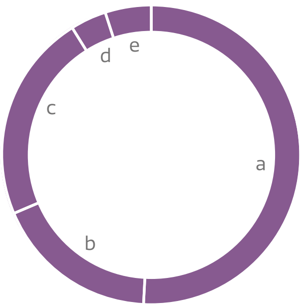
The following table shows the holdings of major shareholders as disclosed to the Company in accordance with the Disclosure and Transparency Rules as at 31 December 2015 and at the date of this Report.

	As at 31 December 2015			At 24 February 2016		
	No of ordinary shares	% of voting rights	Nature of holding	No of ordinary shares	% of voting rights	Nature of holding
Ameriprise Financial, Inc. and its group	75,871,245	7.46%	Direct & Indirect	75,871,245	7.46%	Direct & Indirect
BlackRock Inc	51,091,944	5.02%	Indirect & CFD	54,550,132	5.36%	Indirect & Securities Lending & CFD
Cevian Capital II G.P. Limited	133,068,287	13.12%	Indirect & CFD	133,068,287	13.12%	Indirect & CFD
Franklin Mutual Advisers, LLC[2]	184,256,341	5.01%	Indirect	184,256,341	5.01%	Indirect

Notes:
1. Where the Company has been informed that the threshold for notifications is 5% in accordance with DTR 5.1.5, interests below this threshold are not included in this table.
2. Where the holding had not been re-notified to the Company since the share consolidation became effective on 12 May 2014 the number of ordinary shares shown is as notified pre-consolidation.

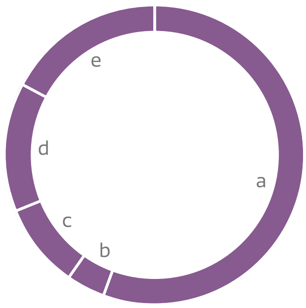
Distribution of shares by geography

a. UK 51.09%
b. Europe 17.54%
c. US and Canada 22.51%
d. Rest of World 4.11%
e. Unanalysed 4.75%



Analysis of Registered Holders

a. Unit Trust/Mutual funds 55.8%
b. Private/Retail 4.0%
c. Pension funds 9.2%
d. Insurance 13.9%
e. Other 17.1%



Registered shareholdings by size as at 31 December 2015

	Number of Holdings	Number of Shares	% of Holdings	% of Shares
1 and 24,999	33,422	30,398,686	98.07	2.99
25,000 and 99,999	263	13,525,882	0.77	1.33
100,000 and 499,999	200	45,256,668	0.59	4.45
500,000 and 999,999	65	47,041,063	0.19	4.63
1,000,000 and 1,999,999	50	70,907,004	0.15	6.97
2,000,000 and 9,999,999,999	78	809,930,539	0.23	79.63
Total	34,078	1,017,059,842	100	100

Other Statutory Information – continued

Share Capital

The Company is listed on the London Stock Exchange under the ticker symbol 'RSA'. The Company has two classes of shares: Ordinary Shares of £1.00 each and Preference Shares of £1.00 each. The Ordinary and Preference Shares rank equally in respect of winding down of the Company, the Preference Shares have preference over the Ordinary Shares in respect of dividends.

As at 31 December 2015, the Ordinary Shares and Preference Shares represented 89% and 11% respectively of the total issued share capital. Directors are limited as to the number of shares they can allot (save in respect of share schemes). Renewal of the directors' authorities to allot shares will be sought at the 2016 AGM. In addition, directors are restricted by the limits set out by the Investment Association. During 2015, the directors exercised their authorities to allot shares only in respect of employee share schemes.

The average total daily trading volume during 2015 was approximately 6.8m Ordinary Shares. The closing market price of an Ordinary Share on 2 January 2015 was 437.5p and the closing market price on 31 December 2015 was 426.5p. The highest daily closing price of an Ordinary Share was 526.5p on 4 August 2015 and the lowest daily closing price was 391.7p on 7 July 2015.

There are no specific restrictions on the size of a shareholding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and legislation. The directors are not aware of any agreements between the Company's shareholders that may result in restrictions on the transfer of securities or on voting rights.

The Company may purchase any of its own shares (including any redeemable shares). An authority from ordinary shareholders for the Company to purchase up to 101,570,553 of its own Ordinary Shares (representing 10% of its issued share capital as at 3 March 2015 was passed at the 2015 AGM. This authority will expire at the conclusion of the 2016 AGM and a new authority will be sought.

During the year, the Company operated two employee benefit trusts to hold Ordinary Shares in the Company which are used to satisfy grants under the Group's share incentive schemes and Share Incentive Plan (Sharebuild). Capita Trustees Limited and Capita IRG Trustees, respectively are the Trustees. The Trustees may vote in respect of any shares held in the trusts but have no obligation to do so, and Trustees may have regard to the financial interests of the beneficiaries in exercising their voting rights over the Company's shares. Standard dividend waiver agreements are in place for the employee share trusts to receive dividends of 0.01 pence per share excluding the Voluntary Invested Deferred Shares under the Royal & Sun Alliance 2006 Long-Term Incentive Plan.

The Company operates a sponsored American Depositary Receipts (ADR) programme which is managed by JP Morgan Chase NA. The programme allows shareholders to invest in the Company through US dollar denominated funds. One ADR represents one Ordinary Share of £1.00 each.

Dividends

As a result of recent regulatory changes applicable to the Group from 1 January 2016 under Solvency II, in order for the Company's Ordinary Shares to be counted towards the new group capital requirements, any dividends declared by the Company must be capable of being cancelled and withheld or deferred at any time prior to payment, if the relevant capital requirements have been breached or payment of the dividend would lead to non-compliance with those requirements. Accordingly, the final dividend will be declared on a conditional basis and the Directors reserve the right to cancel or defer the recommended dividend. The directors do not expect to exercise this right, other than where they believe that it may be necessary to do so in light of the applicable legal or regulatory requirements. The Company is also proposing to amend its Articles of Association so as to make clear that any dividend declared in respect of the Company's Ordinary Shares may be cancelled or deferred by the directors before payment in certain circumstances.

The Directors therefore recommend a final dividend (subject to the dividend being cancelled, withheld or deferred as described above) of 7.0p per Ordinary Share (2014:2p) to be paid on 13 May 2016 to holders of Ordinary Shares on the register at the close of business on 4 March 2016, subject to Ordinary Shareholder approval. An interim dividend of 3.5 p was paid during 2015, making the total dividend for the year 10.5p (2014: 2p). The Company will not be offering a Scrip Dividend alternative in respect of the final dividend.

The Company's Preference Shares receive a dividend at the rate of 7.375% per annum paid in two instalments on, or as near as practicably possible to 1 April and 1 October each year.

AGM

The AGM will be held at 200 Aldersgate, St Paul's, London EC1A 4HD on Friday, 6 May 2016 at 11.00am. A letter from the Chairman and the notice convening the AGM (Notice) is made available to all Ordinary Shareholders at least 20 working days before the meeting and can be found on the Company's website at www.rsagroup.com/AGM2016.

Presentations are given on the Company's performance and activities during 2015 and the financial results of the Company prior to the formal business of the meeting. All directors attend the AGM if they are able to do so, with the Chairman and each Board Committee Chairman making themselves available to take questions from Ordinary Shareholders.

Separate resolutions are proposed on each item of business. In accordance with the provisions of the Articles of Association, any proxy form sent by the Company to shareholders in relation to any general meeting must be returned to the Company, whether in written form or in electronic form, not less than 48 hours before the time for holding the meeting, excluding non-business days (or, in the case of a poll taken otherwise than at, or on, the same day as the meeting, not less than 24 hours before the time appointed for the taking of the poll). At any general meeting, every Ordinary Shareholder present shall have one vote on a show of hands and on a poll, every Ordinary Shareholder present in person or by proxy shall have one vote for each share of which he/she is the holder. Each resolution will be put to a poll at the AGM in 2016. The results of the vote on each resolution will be announced to the London Stock Exchange and will be available on the Company's website, www.rsagroup.com/AGM2016.

Preference Shareholders are only entitled to receive notice of, attend, speak and vote at general meetings if the dividend payable on the Preference Shares is in arrears at the date of the Notice, a resolution is proposed that affects the rights of the Preference Shareholders, a resolution is proposed to wind up the Company, a resolution is proposed to reduce the capital of the Company (other than a redemption or purchase of shares), or in such other circumstances as the Board shall determine. In any of these situations the Preference Shareholders may only vote on the relevant resolution and not on all the business of the general meeting.

At the 2015 AGM, an average of 70.32% of the total issued share capital was voted across all resolutions, with an average of 96.03% voting for each resolution.

Annual greenhouse gas emissions

In accordance with Part 7 of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, certain disclosures are required in respect of greenhouse gas emissions. The information to fulfil this requirement can be found here and on our Corporate Responsibility webpages www.rsagroup.com/corporate-responsibility.

Greenhouse gas emissions for RSA Insurance Group (tonnes of CO_2e)

	2015	2014	2013
Scope 1 Ⓐ	6,115	12,279	12,968
Scope 2 Ⓐ	17,275	24,717	25,787
Scope 3	15,907	16,376	23,901
Business travel Ⓐ	13,050	–	–
Total gross tonnes CO_2e	39,297	53,372	62,656
Gross Tonnes of CO_2e per FTE	2.20	2.37	2.60
Carbon offsets UK & Ireland	20,000	21,827	27,278
Total net emissions	19,297	31,545	35,378
Net Tonnes of CO_2e per FTE	1.08	1.40	1.47

Notes:
The emissions for 2015 have been calculated using a different organisational scope to previous years, reporting all sources of emissions from operations with 50 or more full time equivalent (FTE) employees. In previous years, emissions from offices with less than 50 employees were estimated, but these have been removed from the scope of the 2015 reported emissions. Previously, some Scope 3 emissions were misreported as Scope 1 emissions. Therefore, we have restated our baseline year as 2015 for our carbon reduction target and amended our target accordingly.

Selected data for 2015 as indicated by the symbol Ⓐ has been independently assured by PwC in accordance with ISAE 3000 (Revised) and ISAE 3410. For further information, please refer to our reporting criteria and PwC's assurance opinion which can be found on our Corporate Responsibility pages at www.rsagroup.com/corporate-responsibility.

Scope 1: Emissions from the Group's sources that are controlled by us, including the combustion of fuel, company owned vehicles and the operation of our facilities.

Scope 2: Emissions from the consumption of purchased electricity, heat or steam.

Scope 3: Emissions from non-owned sources that are related to the Group's activities, including business travel and the use of water, paper and waste generated.

Business travel: Emissions from flights, trains, taxis, hotels and vehicles not owned by organisation. This has been separately assured and reported in 2015.

Other Statutory Information – continued

Methodology

Our disclosures cover all sources of greenhouse gas emissions as required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, aligning to our financial control boundaries and including all emissions from operations with 50 or more full time equivalent employees, covering the period 1st January 2015 – 31st December 2015.

Where data is not provided by the operating entity, estimates have been provided based on relative calculations against other businesses within the Company.

Our reporting has been carried out with consideration to the World Business Council for Sustainable Development and World Resources Institute's (WBCSD/WRI) Greenhouse Gas Protocol, a Corporate Accounting and Reporting Standard, together with the latest emissions factors from recognised public sources including, but not limited to Department of Environment and Rural Affairs, the International Energy Agency, the US Energy Information Association, the US Environmental Protection Agency and the Intergovernmental Panel on Climate Change.

Statement by directors

Section 414A of the Companies Act 2006 requires the directors to present a Strategic Report of the Company for the financial year ended 31 December 2015. The information that fulfils the requirements set out in Section 414C can be found on pages 1 to 39, and is incorporated by reference into this report.

So far as each director of the Board is aware, there is no relevant audit information (as defined in section 418(3) of the Companies Act 2006) of which the Company's external auditor is unaware, and each director has taken reasonable steps to make himself/herself aware of, and to establish that the external auditor is aware of, any relevant audit information.

A balanced and understandable assessment of the Group's position and prospects, and an explanation of its strategy for delivering the objectives of the Company are contained in the Strategic Report on pages 1 to 39 which includes:

- use of financial instruments by the company, details of financial risk management objectives and policies of the Company, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used
- The Company's exposure to price risk, credit risk, liquidity risk and cashflow risk
- An indication of likely future developments in the Company's business.

A full list of the Group's subsidiaries and related undertakings is in Appendix C on pages 171 to 172.

Details of events which have occurred after the reporting period are set out in Appendix A on page 167.

The Directors are responsible for preparing the Annual Report and Accounts and consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. Further explanation on the assurances undertaken by the Group Audit Committee on behalf of the Board are set out in the Group Audit Committee Report found on pages 62 to 63.

A report from the external auditor can be found on pages 99 to 102.

Viability statement

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over a three year period.

The Directors have determined that a three year period is an appropriate period over which to provide its viability statement as this is the period focused on by the Board during the operational planning process and is also aligned to the short-tail nature of the business' contracts.

In assessing the viability of the Group, using the Group's Own Risk and Solvency Assessment (ORSA), the Directors have assessed the Group's principal risks and uncertainties, and how these are managed and mitigated, as detailed in the Strategic Report on pages 36 to 39. This includes, but is not limited to, the Group's reinsurance programme which is structured to mitigate the impact of catastrophe and large loss events on earnings and capital, and the Group's underwriting strategy and portfolio management which is used to mitigate the impact of underwriting and claims risk.

The Group's three year cashflow forecast demonstrates its ability to sustain positive cashflows in its businesses through targeted underwriting, portfolio and distribution actions, and to pay dividends as forecasted. This is further supported by the Group's credit facilities and highly liquid investment portfolio which provide further sources of short term cash if needed.

As part of its operational planning process, the Group prepares annually a three year operational plan and capital forecast along with sensitivity analysis (based on the Group's approved Internal Model for Solvency II reporting) which support the Group's strategy. These forecasts are subject to review and challenge by the Directors on at least an annual basis.

In addition the Group, as part its ORSA process, uses PRA set stress tests to assess the capital resilience of the Group to a range of severe but plausible scenarios including a reverse stress test (which includes a combination of insurance, market and economic stresses). These tests allow the Board to review and challenge the Risk Management strategy and consider potential mitigating actions.

Based on the results of this analysis, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.

Going concern

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

Based on this review no material uncertainties that would require disclosure have been identified in relation to the ability of the Group 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 full year consolidated financial statements.

Conflicts of interest and related party transactions

In accordance with section 175 of the Companies Act 2006, each director has a duty to avoid conflicts of interest. Under Articles 91 and 92 of the Company's Articles of Association, conflicts of interest may be authorised by the Board or a Board Committee. Directors are required to notify the Group General Counsel and Company Secretary when a potential conflict of interest arises. Each director's conflicts of interest are reviewed on an annual basis. Any director who has declared a conflict of interest shall not count towards the quorum or vote on any resolution to authorise the conflict of interest and, at the Board's discretion, may be excluded from any meeting at which the conflict of interest is under consideration. Where a conflict of interest is authorised, restrictions may be imposed on the conflicted director, such as excluding the director from the discussion or receiving any information in connection with the conflict of interest.

The Board confirms that it has reviewed the schedule of directors' conflicts of interest during the year and that the procedure in place operated effectively in 2015. None of the directors had any interest in any contract of significance with the Company or any of its subsidiaries during 2015.

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.

Directors' indemnity

Article 140 of the Articles of Association provides that, among other things and insofar as permitted by law, the Company may indemnify its directors against any liability and may purchase and maintain insurance against any liability. The Company has granted an indemnity to each of the directors pursuant to the power conferred by Article 140 of the Articles of Association. The indemnities granted constitute qualifying third party indemnity provisions, as defined by section 234 of the Companies Act 2006 and is in addition to appropriate insurance cover.

The Company believes that it promotes the success of the Company to provide this indemnity to its directors in order to ensure that the Group attracts and retains high calibre directors through competitive terms of employment in line with market standards. The directors and officers of the Company and its subsidiaries also have the benefit of insurance which provides suitable cover in respect of legal actions brought against them.

In addition, the Company has indemnified the directors of SAL Pension Fund Limited, a majority owned subsidiary of the Group, in relation to its role as Trustee of an occupational pension scheme. This indemnity constitutes a qualifying indemnity provision under section 235 of the Companies Act 2006.

Other Statutory Information – continued

Articles of Association

The Company's Articles of Association may be amended by special resolution of the Company's Ordinary Shareholders. The current Articles of Association were adopted at the 2014 AGM and are available on the Company's website at www.rsagroup.com/articles. Changes proposed to the Articles of Association, as recommended by the Board for approval by the shareholders at this year's AGM, are set out in the Notice of Meeting.

Borrowing powers

Article 98 of the Articles of Association sets out the restrictions of the borrowings of the Company. The aggregate amount, for the time being, remaining borrowed by the Group must not, without the previous sanction of an ordinary resolution of the Company, be more than one and a half times the aggregate of:

(i) The amount paid up on the issued share capital of the Company; and

(ii) The total of the capital and revenue reserves of the Group (subject to certain adjustments).

Disclosures required under Listing Rule 9.8.4R

The following table sets out where in the Annual Report and Accounts the information required to be disclosed to meet the requirements of Listing Rule 9.8.4R, where applicable to the Company, can be located:

Information required	Location in Annual Report and Accounts
Dividend waivers	Page 92

Directors' responsibility statement

The Directors' Responsibility Statement appears on page 98 as is incorporated by reference into this Report.

By order of the Board

Derek Walsh
Group General Counsel and
Company Secretary
24 February 2016

Financial statements

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts and the Group and Parent Company financial statements in accordance with applicable laws and regulations. Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable law and have also chosen to prepare the Parent Company financial statements on the same basis. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent 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 Group and Parent Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' and Corporate Governance Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm to the best of our knowledge:

- the financial statements on pages 103 to 107, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Parent Company; and
- the Strategic Report on pages 2 to 39, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties they face.

Signed by order of the Board

Stephen Hester
Group Chief Executive
24 February 2016

Scott Egan
Group Chief Financial Officer
24 February 2016

Independent Auditor's Report to the Members of RSA Insurance Group plc only

Opinions and conclusions arising from our audit

1. Our opinion on the Group financial statements is unmodified

We have audited the financial statements of RSA Insurance Group plc ('RSA') for the year ended 31 December 2015 set out on pages 103 to 178. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS as adopted by the EU');
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit (in decreasing order of audit significance) were as follows.

Insurance liabilities (provision for losses and loss adjustment expenses) £12,191 million (2014: £13,266 million)
Refer to page 61 (Group Audit Committee Report), page 109 (accounting policy) and pages 155 to 160 (financial disclosures)

Risk

Insurance liabilities represent the single largest liability for the Group. Valuation of these liabilities is highly judgemental, and requires a number of assumptions to be made that have high estimation uncertainty. This is particularly the case for those liabilities that are recognised in respect of claims that have occurred, but have not yet been reported to the Group.

Certain lines of business also contain greater inherent uncertainty, for example those where claims emerge more slowly over time, or where there is greater variability in claim settlement amounts. This includes Abuse, Asbestos and Deafness classes, UK Professional and Financial Risk Classes, the Danish Workers Compensation class, the Swedish Personal Accident classes, the Canadian General Liability class and classes of business affected by emerging industry issues such as the impact of Periodic Payment Orders (which are akin to annuities with longevity and inflation risk) on UK motor business.

Small changes in the assumptions used to value the liabilities, particularly those relating to the amount and timing of future claims, can lead to material impacts on the valuation of insurance liabilities. The key assumptions that drive the reserving calculations include loss ratios, estimates of the frequency and severity of claims and, where appropriate, the discount rates for longer tail classes of business by territory and line of business.

The valuation of insurance liabilities depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise.

Finally, a margin is added to the actuarial best estimate of insurance liabilities, to provide for the risk of adverse development in the claims recognised. The appropriate margin to recognise is a judgement taken by management, based on the perceived uncertainty and potential for volatility in the underlying claims. As such, it is a subjective estimate.

As a result of all of the above factors, insurance liabilities represent a significant risk for the Group.

Response

Our audit procedures included:

- The evaluation and testing of key controls around the claims handling and case reserve setting processes of the Group. We examined evidence of the operation of controls over the valuation of individual claims reserves, such as large loss review controls and internal peer reviews (whereby second reviewers examine documentation supporting claims case reserves and consider if the amount recorded in the financial statements is valued appropriately).
- Checking samples of claims case reserves through comparing the estimated amount of the case reserve to appropriate documentation, such as reports from loss adjusters.
- The evaluation and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process (including both current and prior year case reserve data).
- Re-performing reconciliations between the claims data recorded in the policy administration systems and the data used in the actuarial reserving calculations.

In addition, with the assistance of our actuarial specialists, we:

- Assessed the key assumptions and reserving methodologies driving the value of the insurance liabilities. To do this we:
  - compared the assumptions to expectations based on the Group's historical experience, current trends and our own industry knowledge, including information relating to forthcoming legislation that may impact claims settlement speed or amount;
  - evaluated the level of prudence applied and compared this to prior periods;
  - used our industry knowledge to benchmark the Group's reserving methodologies assumptions, and estimates of losses; and
  - reviewed sensitivity analyses over key judgements and assumptions, such as the discount rates for longer tail classes of business and Periodic Payment Order projections.
- Independently re-projected the reserve balances for certain classes of business.
- Evaluated the governance around the overall Group reserving process, including the scrutiny applied by the Local, Regional and Group Reserving committees, as well as Group level actuarial reviews. We assessed qualifications and experience of those responsible and examined the output of the reviews to assess the scope and depth of these processes. Our evaluation of the methodologies and key assumptions for the most significant and subjective classes of business enabled us to assess the quality of the challenge applied through the Group's reserving process. This included evaluating the appropriateness of the Reserve committee's determination of the appropriate margin to be applied to the actuarial best estimate of insurance liabilities. In particular we considered for the allowance for uncertainties inherent in the data and assumptions inherent in developing the actuarial best estimate.

Finally, we also assessed the Group's disclosure in relation to insurance liabilities, including the discount rate and historic claims development.

Independent Auditor's Report to the Members of RSA Insurance Group plc only – continued

Deferred tax assets £163 million (2014: £180 million)

Refer to page 61 (Group Audit Committee Report), page 113 (accounting policy) and page 177 (financial disclosures).

Risk	Response
Forecasting the future taxable profits against which deferred tax assets can be recognised is inherently uncertain. In making these forecasts, the Group must make assumptions about the future growth rate, profit margins and expense ratios of the business. The recognition of the deferred tax asset in the UK is particularly subjective given its sensitivity to expectations about the profitability of the UK and to a lesser extent the Irish businesses, which in turn both depend on the achievement of operating plans.	Our audit procedures included challenging the key assumptions driving the forecast of future taxable profits on which the recognition of the deferred tax asset relies – particularly in the UK business to which the largest element of the deferred tax asset relates. We compared the expected growth rates to the Group's approved operating plan. We assessed the accuracy of that forecasting process in the past, and considered whether projected margins are achievable with reference to the business's recent performance and revised operating plans, as well as our own industry knowledge. We also evaluated the internal review and challenge process the Group undertakes during the development of the operational plan, the extent to which the Group considered alternative outcomes and the depth of review and challenge performed by the Group Risk Function as part of the process to approve the operational plan. We considered the sensitivity of the forecast taxable profits to assumptions such as the Combined Operating Ratio. With the support of our own tax specialists, we also assessed the extent to which projected profits were taxable, in particular the Group's assumptions about how accumulated tax losses and other associated tax attributes can be utilised against UK taxable profits. We have evaluated the adequacy of the Group's disclosures in respect of the assumptions supporting the deferred tax asset valuation and recognition.

Pensions and post-retirement obligations of £7,126 million (2014: £7,598 million)

Refer to page 61 (Group Audit Committee Report), page 113 (accounting policy) and page 160 to 164 (financial disclosures).

Risk	Response
The valuation of the defined benefit pension liabilities (before deducting scheme assets) depends on a number of critical assumptions and estimates, including the discount rate used to calculate the current value of the future payments the Group expects to pay to pensioners, the rate of inflation that must be incorporated in the estimate of the future pension payments, and the life expectancy of pension scheme members. Small changes in these assumptions and estimates used in these valuations can have a significant effect on the valuation of the pension liabilities and therefore the amount of the net surplus/(deficit) of the pension and post-retirement obligations and the financial position of the Group.	Our audit procedures included, among others, challenging the discount rate, inflation rate and life expectancy against externally derived data. This work was supported by our own pension's specialists. We also assessed the adequacy of the Group's disclosures in respect of the sensitivity of the surplus/(deficit) to these assumptions.

IT systems and controls

Refer to page 61 (Group Audit Committee Report).

Risk	Response
Many financial reporting controls depend on the correct functioning of operational and financial IT systems, for example interfaces between policy administration and financial reporting systems, or automated controls that prevent or detect inaccurate or incomplete transfers of financial information. If these systems or controls fail, a significant risk of error in reported financial information can arise from the failure to transfer data appropriately between systems or inappropriate changes being made to financial data or systems. This is an area of significant risk in our audit due to the complexity of the IT infrastructure, particularly in the UK and Scandinavia, where there are legacy systems which require increased manual inputs, relative to more automated processes.	In this area our audit procedures included, among others, testing general IT controls around system access and change management and testing controls over computer operations within specific applications which are required to be operating correctly to mitigate the risk of misstatement in the financial statements. With the support of our own IT specialists, we tested these controls through examining the process for approving changes to the systems, and assessing the restrictions placed on access to core systems through testing the permissions and responsibilities of those given that access. Where general IT controls were not operating effectively and we were therefore unable to rely on the related automated IT controls, we addressed the increased risk that financial information was affected by extending the scope of our work. This included assessing the operation of controls over changes or transactions being recorded in the systems. We also tested manual compensating controls, such as reconciliations between systems and other information sources, and performed additional substantive testing, such as using extended sample sizes and performing data analysis routines over the full population of transactions.

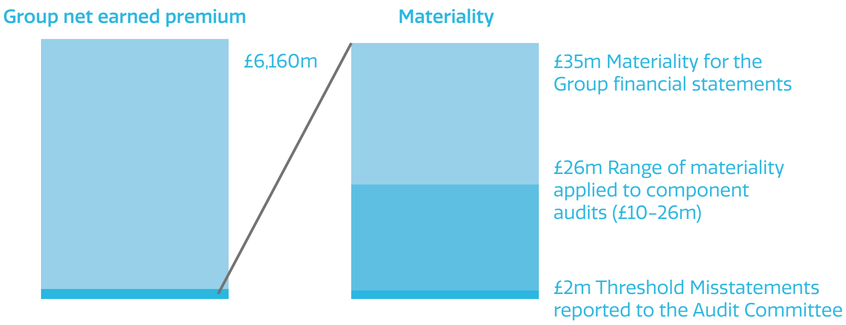
Goodwill and Intangible Assets

In 2014, the valuation of goodwill and other intangible assets was separately identified in our audit report. The level of audit risk in this area has reduced through a combination of the write down of the carrying values of goodwill and other intangible assets recognised in prior years, additional amortisation of capitalised software and business disposals. While we continue to perform audit procedures over these balances, we no longer assess that the valuation of these assets represents one of the risks that has the greatest effect on our audit and, therefore, it is not separately identified in our audit report this year.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £35m, determined with reference to a benchmark of net earned premiums (of which it represents 0.6%). In 2014 materiality was £40m, with reference to a benchmark of net written premiums (of which it represented 0.5%). The change aligns our assessment of materiality to a measure that is a better reflection of revenue from the Group's operations and that, unlike net written premium, is not subject to the volatility arising from multi-year insurance contracts, but is still a key financial statement metric used in assessing the performance of the Group. Materiality has also reduced in absolute terms because disposals of businesses across the Group has reduced the size of the continuing operations, and hence the benchmarks we use to determine it.

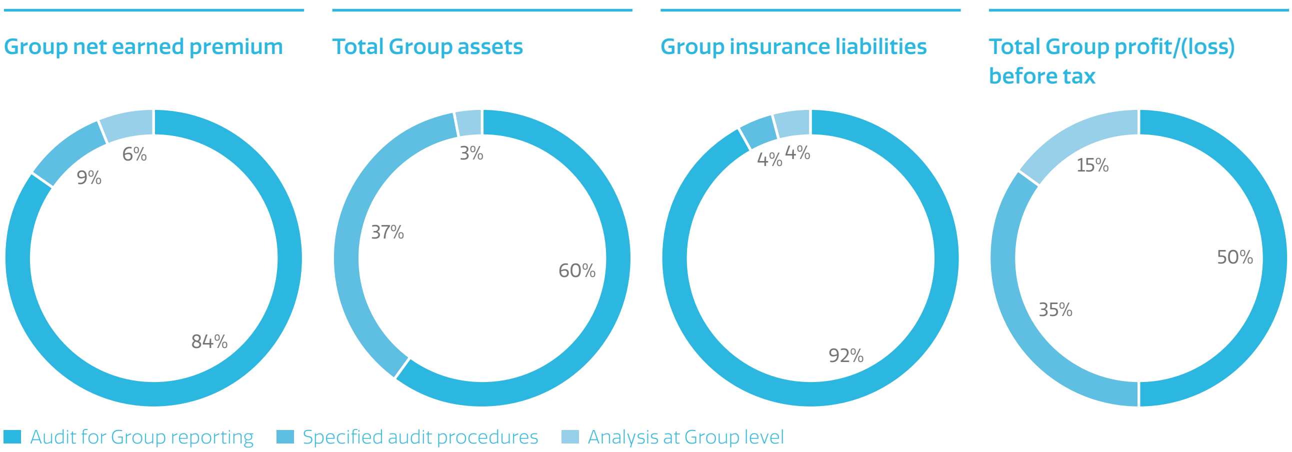
We reported to the Audit Committee any corrected or uncorrected misstatements exceeding £1.75m, in addition to other identified misstatements that warranted reporting on qualitative grounds.



Based on their significance to the financial performance and position of the Group and the Group's continuing operations, audits were performed by component auditors for six of the Group's 19 geographical components, being those located within the UK, Ireland, Canada and Scandinavia. In addition, specified risk-focused audit procedures were performed by component auditors on five of the other components. These components, and the Group's central functions, were not individually significant enough to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed. The nature and extent of these procedures varied in accordance with the assessed risk of misstatement, but were primarily focused on the investments and insurance liabilities recognised on the balance sheet, and the premiums and claims balances recognised in the income statement.

For the remaining components, no Group reporting was required from the local audit team as specific individual risks significant to the Group were not identified. We performed additional analysis at an aggregated Group level to re-examine this assessment.

The different components accounted for the following percentages of the Group's results:



Independent Auditor's Report to the Members of RSA Insurance Group plc only – continued

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component's materiality thresholds, which ranged from £15m to £24m, having regard to the size and risk profile to the Group of these components.

The Group audit team visited five component locations, being those in the UK, Ireland, Canada, Scandinavia and Brazil, in order to assess the audit risk and planned audit approach. Telephone conference meetings were also held with these component auditors and others that were not physically visited. At these visits and meetings, the findings reported to the Group audit team were discussed in more detail and the Group audit team reviewed key elements of the component's audit evidence and work papers. Any further work required by the Group audit team was then performed by the component auditor.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' Viability Statement on page 94, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 2018; or
- the disclosures on page 108 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK & Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Group Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on pages 40 to 96, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 46 to 54 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

7. Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 98, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. 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. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Stuart Crisp
Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants London
24 February 2016

Consolidated income statement

for the year ended 31 December 2015

	Notes	2015 £m	Re-presented[1] 2014 £m
Income			
Gross written premiums		**6,858**	7,297
Less: reinsurance premiums		**(906)**	(992)
Net written premiums	9	**5,952**	6,305
Change in the gross provision for unearned premiums		**(97)**	60
Less: change in provision for unearned reinsurance premiums		**305**	335
Change in provision for unearned premiums		**208**	395
Net earned premiums		**6,160**	6,700
Net investment return	10	**381**	471
Other operating income	12	**142**	188
Total income		**6,683**	7,359
Expenses			
Gross claims incurred		**(4,496)**	(4,822)
Less: claims recoveries from reinsurers		**367**	125
Net claims	11	**(4,129)**	(4,697)
Underwriting and policy acquisition costs		**(1,986)**	(2,119)
Unwind of discount		**(52)**	(166)
Other operating expenses	13	**(308)**	(397)
Total expenses		**(6,475)**	(7,379)
Finance costs	14	**(106)**	(122)
Gains on disposals of businesses	7	**3**	203
Net share of profit/(loss) after tax of associates		**1**	(8)
Profit before tax	9	**106**	53
Income tax expense	18	**(18)**	(161)
Profit/(loss) after tax from continuing operations		**88**	(108)
Profit from discontinued operations	7	**156**	184
Profit for the year		**244**	76
Attributable to:			
Equity holders of the Parent Company		**235**	69
Non-controlling interests		**9**	7
		244	76
Earnings per share on profit/(loss) attributable to the ordinary shareholders of the Parent Company			
Basic			
From continuing operations	20	**6.9p**	(12.9)p
From discontinued operations	20	**15.4p**	19.1p
		22.3p	6.2p
Diluted			
From continuing operations	20	**6.9p**	(12.9)p
From discontinued operations	20	**15.3p**	19.1p
		22.2p	6.2p
Ordinary dividends paid and proposed for the year			
Interim dividend paid (per share)	21	**3.5p**	(nil)p
Final dividend proposed (per share)	21	**7.0p**	2.0p

Note:
1. Further information about the re-presented comparative figures in these financial statements can be found in the re-presentation section of the Significant Accounting Policies note (page 109).

The attached notes on pages 108 to 172 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2015

	Notes	2015 £m	Re-presented[1] 2014 £m
Profit for the year		**244**	76
Items from continuing operations that may be reclassified to the income statement:			
Exchange losses net of tax on translation of foreign operations		**(120)**	(112)
Fair value (losses)/gains on available for sale financial assets net of tax	10	**(211)**	243
		(331)	131
Items from continuing operations that will not be reclassified to the income statement:			
Pension – re-measurement of net defined benefit asset/(liability) net of tax	22	**65**	(7)
Movement in property revaluation surplus net of tax		**3**	4
		68	(3)
Other comprehensive (expense)/income for the year from continuing operations		**(263)**	128
Other comprehensive expense for the year from discontinued operations	7	**(106)**	(19)
Total other comprehensive (expense)/income for the year	22	**(369)**	109
Total comprehensive (expense)/income for the year from continuing operations		**(175)**	20
Total comprehensive income for the year from discontinued operations	7	**50**	165
Total comprehensive (expense)/income for the year		**(125)**	185
Attributable to:			
Equity holders of the Parent Company			
from continuing operations		**(189)**	8
from discontinued operations		**51**	170
		(138)	178
Non-controlling interests			
from continuing operations		**14**	12
from discontinued operations		**(1)**	(5)
		13	7
		(125)	185

Note:
1. Further information about the re-presented comparative figures in these financial statements can be found in the re-presentation section of the Significant Accounting Policies note (page 109).

The attached notes on pages 108 to 172 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2015

	Ordinary share capital £m	Ordinary share premium £m	Own shares £m	Preference shares £m	Re-valuation reserves £m	Capital redemption reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Share-holders' equity £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2014	1,012	704	(1)	125	298	8	66	681	2,893	121	3,014
Total comprehensive income											
Profit for the year	–	–	–	–	–	–	–	69	69	7	76
Other comprehensive income/(expense) (note 22)	–	–	–	–	229	–	(112)	(8)	109	–	109
	–	–	–	–	229	–	(112)	61	178	7	185
Transactions with owners of the Company											
Contribution and distribution											
Dividends (note 21)	–	–	–	–	–	–	–	(9)	(9)	(6)	(15)
Shares issued for cash (note 33)	382	371	–	–	–	–	–	–	753	–	753
Share based payments (note 19)	2	–	–	–	–	–	–	8	10	–	10
Other reserve transfer (note 33)	(381)	–	–	–	–	381	–	–	–	–	–
	3	371	–	–	–	381	–	(1)	754	(6)	748
Changes in shareholders' interests in subsidiaries	–	–	–	–	–	–	–	–	–	(14)	(14)
Total transactions with owners of the Company	3	371	–	–	–	381	–	(1)	754	(20)	734
Balance at 1 January 2015	**1,015**	**1,075**	**(1)**	**125**	**527**	**389**	**(46)**	**741**	**3,825**	**108**	**3,933**
Total comprehensive income (note 22)											
Profit for the year	–	–	–	–	–	–	–	235	235	9	244
Other comprehensive (expense)/income (note 22)	–	–	–	–	(234)	–	(204)	65	(373)	4	(369)
	–	–	–	–	(234)	–	(204)	300	(138)	13	(125)
Transactions with owners of the Company											
Contribution and distribution											
Dividends (note 21)	–	–	–	–	–	–	–	(65)	(65)	(3)	(68)
Shares issued for cash (note 33)	1	2	–	–	–	–	–	–	3	–	3
Share based payments (note 19)	1	–	–	–	–	–	–	13	14	–	14
Other reserve transfer	–	–	–	–	–	–	29	(29)	–	–	–
	2	2	–	–	–	–	29	(81)	(48)	(3)	(51)
Changes in shareholders' interests in subsidiaries	–	–	–	–	–	–	–	3	3	11	14
Total transactions with owners of the Company	2	2	–	–	–	–	29	(78)	(45)	8	(37)
Balance at 31 December 2015	**1,017**	**1,077**	**(1)**	**125**	**293**	**389**	**(221)**	**963**	**3,642**	**129**	**3,771**

Refer to note 22 for further details on the revaluation reserve. During the year a reclassification was made between Retained Earnings and the Foreign Currency Translation Reserves of £29m to more accurately reflect the underlying transactions. There is no impact to basic and diluted earnings per share. The attached notes on pages 108 to 172 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 December 2015

	Notes	2015 £m	2014 £m
Assets			
Goodwill and other intangible assets	23	**616**	800
Property and equipment	24	**109**	151
Investment property	25	**365**	346
Investments in associates		**13**	31
Financial assets	26	**11,797**	12,840
Total investments		**12,175**	13,217
Reinsurers' share of insurance contract liabilities	29	**1,988**	1,897
Insurance and reinsurance debtors	31	**2,653**	3,174
Deferred tax assets	30	**163**	180
Current tax assets	30	**51**	21
Other debtors and other assets	31	**693**	759
Other assets		**907**	960
Cash and cash equivalents	32	**816**	1,011
		19,264	21,210
Assets held for sale and disposal groups	7	**1,347**	808
Total assets		**20,611**	22,018
Equity and liabilities			
Equity			
Shareholders' equity		**3,642**	3,825
Non-controlling interests		**129**	108
Total equity		**3,771**	3,933
Liabilities			
Loan capital	35	**1,254**	1,243
Insurance contract liabilities	37	**12,191**	13,266
Insurance and reinsurance liabilities	37	**945**	904
Borrowings	36	**11**	299
Deferred tax liabilities	30	**40**	62
Current tax liabilities	30	**31**	83
Provisions	39	**261**	338
Other liabilities	40	**1,017**	1,160
Provisions and other liabilities		**1,349**	1,643
		15,750	17,355
Liabilities of disposal groups	7	**1,090**	730
Total liabilities		**16,840**	18,085
Total equity and liabilities		**20,611**	22,018

The attached notes on pages 108 to 172 form an integral part of these consolidated financial statements.

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

Scott Egan
Group Chief Financial Officer

Consolidated statement of cashflows

for the year ended 31 December 2015

	Note	2015 £m	Re-presented[1] 2014 £m
Cashflows from operating activities			
Net profit for the year before tax from continuing operations		**106**	53
Adjustments for non-cash movements in net profit for the year			
Depreciation		**21**	24
Amortisation and impairment of intangible assets		**80**	190
Amortisation of available for sale assets		**64**	65
Fair value losses on disposal of financial assets		**(37)**	(90)
Impairment charge on available for sale financial assets		**7**	–
Share of (profit)/loss of associates		**(1)**	5
Profit on disposal of subsidiaries		**(3)**	(203)
Foreign exchange loss/(gain)		**108**	(8)
Other non-cash movements		**(123)**	317
Changes in operating assets/liabilities			
Losses and loss adjustment expenses		**(77)**	(392)
Unearned premiums		**(179)**	(190)
Movement in working capital		**404**	508
Reclassification of investment income and interest paid		**(232)**	(258)
Tax paid		**(108)**	(74)
Dividend income		**25**	23
Interest and other investment income		**322**	353
Pension deficit funding		**(65)**	(65)
Net cashflows from operating activities – continuing operations		**312**	258
Net cashflows from operating activities – discontinued operations		**11**	94
Cashflows from investing activities			
Proceeds from sales or maturities of:			
Financial assets		**3,931**	4,409
Investment property		**3**	–
Property and equipment		**1**	32
Investment in subsidiaries (net of cash disposed of)		**14**	373
Purchase of:			
Financial assets		**(4,118)**	(5,773)
Investment property		**–**	(22)
Property and equipment		**(14)**	(36)
Intangible assets		**(48)**	(63)
Net cashflows from investing activities – continuing operations		**(231)**	(1,080)
Net cashflows from investing activities – discontinued operations		**219**	209
Cashflows from financing activities			
Proceeds from issue of share capital	33	**3**	753
Dividends paid to ordinary shareholders		**(56)**	–
Dividends paid to preference shareholders		**(9)**	(9)
Dividends paid to non-controlling interests		**(3)**	(6)
Redemption of borrowings		**(299)**	(461)
Receipt of borrowings		**–**	395
Interest paid		**(107)**	(118)
Net cashflows from financing activities – continuing operations		**(471)**	554
Net cashflows from financing activities – discontinued operations		**–**	(1)
Net (decrease)/increase in cash and cash equivalents		**(160)**	34
Cash and cash equivalents at the beginning of the year		**1,135**	1,162
Effect of changes in foreign exchange on cash and cash equivalents		**(73)**	(61)
Cash and cash equivalents at the end of the year	32	**902**	1,135

Note:
1. Further information about the re-presented comparative figures in these financial statements can be found in the re-presentation section of the Significant Accounting Policies note (page 109).

The attached notes on pages 108 to 172 form an integral part of these consolidated financial statements.

Basis of preparation and significant accounting policies

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

1) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). The consolidated financial statements are prepared under the historical cost basis. Where other bases are applied these are identified in the relevant accounting policy.

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

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

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

Accounting policies that are significant to understanding the performance, financial position and cashflows of the Group are set out in note 5 with other policies presented in Appendix B. The notes are grouped together by their nature. Estimation techniques and assumptions are now presented in the relevant note in order to provide context to the figures presented. The most significant estimates and judgements are those used in determining Insurance contract liabilities (note 37), Deferred tax (note 30) and Defined benefit pension scheme liabilities (note 38). All of the information previously disclosed continues to be presented, where material, within the financial statements.

2) Adoption of new and revised standards

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

3) Recently issued accounting pronouncements

IFRS 9 'Financial Instruments'

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

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

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

IFRS 15 'Revenue Recognition'

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

IFRS 16 'Leases'

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

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

The Group has not yet completed its evaluation of the impact of IFRS 16 on the financial statements but the undiscounted value of the Group's lease obligations are disclosed in note 41.

4) Re-presentation of financial statements and disclosures

During 2015, the Group sold a number of its businesses and classified a number of other businesses as held for sale where it has become highly probable that their value to the business will be recovered principally through their sale, rather than through continuing operations. Where these businesses represented a separate geographical area of operations, the business has been classified as a discontinued operation (see note 7 for further details). This has resulted in the re-presentation of the comparatives for the allocation of the loss after tax from continuing operations, the other comprehensive income, the earnings per share (EPS) and diluted EPS between the amounts from continuing and discontinued operations.

In 2014, and further refined in 2015, additional changes have been made to the management basis used to determine the underwriting, investment results and central expenses. The Segmental information set out in note 9 has been re-presented on the revised basis. The table below sets out the changes when compared to year-end 2014 as reported, the net effect is nil:

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

5) Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements, as set out below, have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise stated.

The Group has not made any significant changes to its accounting policies during 2015.

Premium income

Premium written is recognised in the period in which the Group is legally bound through a contract to provide insurance cover. It represents the full amount of premiums receivable under the contract, including any estimates where the amounts are not known at the date written. These are recognised as unearned premiums until recognised as revenue principally computed on a monthly or daily pro-rata basis. Net premiums earned are stated net of amounts passed (ceded) to reinsurers. Premiums are shown before deduction of commission and exclude any sales based taxes or duties.

Gross claims incurred and insurance contract liabilities

Gross claims incurred represent the cost of investigating and settling insurance claims on insurance contracts underwritten by the Group. Provisions for losses and loss adjustment expenses are recorded at the estimated ultimate cost, net of expected salvage and subrogation recoveries when a claim is incurred.

The provisions for losses and loss adjustment expenses, and related reinsurance recoveries, are discounted where there is a 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, an average period of settlement of 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 value and duration to match the provisions for insurance contract liabilities being discounted during the period expected before the final settlement of such claims.

Differences between the estimated cost and subsequent settlement of claims or re-estimated costs are recognised in the consolidated income statement in the year in which they are settled or in which the insurance contract liabilities are re-estimated.

Acquisition costs comprise the direct and indirect costs of obtaining and processing new insurance business. These costs are recognised as deferred acquisition costs and are deducted from the provision for unearned premium. Deferred acquisition costs ('DAC') are amortised on the same basis as the related unearned premiums are earned.

At the end of each reporting period tests are performed to ensure the adequacy of the Group's insurance contract liabilities by considering the cashflows associated with the provision for unearned premium net of related deferred acquisition costs. In performing these tests, best estimates of future contractual cashflows, including claims handling and administrative expenses as well as investment income on assets backing such liabilities are used. Any deficiency is charged to the consolidated income statement immediately by establishing a provision for liability adequacy known as the unexpired risk provision. The unexpired risk provision is assessed in aggregate for business classes which are managed together and where there are no restraints on the ability to use assets held in relation to such business to meet any of the associated liabilities.

Further information on net claims can be found in note 11, and insurance contract liabilities in note 37.

Basis of preparation and significant accounting policies – continued

Reinsurance

Written premiums ceded to a reinsurer are recognised in the period in which the reinsurance contract is entered into and include estimates where the amounts are not finalised at the end of the reporting period. The ceded written premiums are recognised in earnings over the period of the reinsurance contract, based on the expected earning pattern in relation to the underlying insurance contract(s).

Reinsurers' share of insurance contract liabilities within the consolidated statement of financial position includes the reinsurers' share of provisions for losses and loss adjustment expenses and unearned premiums. The Group reports third-party reinsurance balances on the consolidated balance sheets on a gross basis to indicate the extent of credit risk related to third-party reinsurance. The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the Group may not receive all amounts due under the reinsurance contract.

Annuities purchased by the Group to provide for payments under structured settlement arrangements are accounted for as reinsurance ceded and a corresponding reinsurers' share of insurance contract liabilities in cases where the Group 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 consolidated income statement at the date of purchase.

Further information can be found in note 29.

Financial Instruments

Classification and measurement of financial assets and financial liabilities

The Group initially recognises financial instruments at their fair value on the date at which they are purchased.

At initial measurement, the Group classifies its financial assets and financial liabilities in one of the following categories:

- Designated at fair value through profit and loss (FVTPL);
- Held for trading;
- Available for sale (AFS);
- Cash and cash equivalents;
- Loans and receivables;
- Financial liabilities; or
- Derivatives designated as hedging instruments.

Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities that are FVTPL are added to their fair value in their initial measurement.

Further information can be found in note 26, note 27 and note 28.

The table below summarises the classification and treatment of the Group's financial assets and financial liabilities.

Category	Financial Instrument	Description	Subsequent Measurement	Recognition of change in fair value
Designated Fair Value Through Profit & Loss (FVTPL) on initial recognition	Debt Securities, Equity Securities.	Where the investment return is managed on the basis of the total return on investment (including unrealised investment gains).	Fair Value using prices at the end of the period.	Income Statement – net investment gains/ (losses).
Held for Trading	Derivative assets/ (liabilities) not designated as hedging instruments.		Carried at fair value. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.	Income Statement – net investment gains/ (losses).
Available for Sale (AFS)	Debt Securities, Equity Securities.	Where the investment return on equity or debt securities is managed on the basis of the periodic cashflows arising from the investment.	Fair Value using prices at the end of the period.	Other Comprehensive Income – unrealised gains/(losses). Income Statement – Net investment gains/ (losses) when realised or impaired.
Cash and cash equivalents	Cash and Cash Equivalents.	Consist of cash and highly liquid investments that are readily convertible into a known amount of cash, are subject to insignificant risk of changes in value and have a maturity date of 90 days or less from the date of acquisition.	Carrying amounts at amortised cost.	
Loans and receivables	Loans, reinsurance deposits, other deposits and financial assets arising from non-investment activities.	Financial assets with fixed or determinable payments not quoted in an active market.	Amortised cost using the effective interest method.	Income Statement – Net investment gains/ (losses) when realised or impaired.
Financial Liabilities	Other borrowings.	Financial liabilities with fixed or determinable payments.	Amortised cost using the effective interest method.	Income Statement- Net investment gains/ (losses) when settled.
	Loan capital.	Financial liabilities with fixed or determinable payments and maturity date.	Amortised cost using the effective interest method.	

Basis of preparation and significant accounting policies – continued

Category	Financial Instrument	Description	Subsequent Measurement	Recognition of change in fair value
Derivatives designated as hedging instruments	Derivative assets/ (liabilities) designated as hedging instruments.	Hedge of a net investment in a foreign operation or hedge of future cashflows or hedge of fair value of fixed interest securities.	Carried at fair value. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.	Hedge of future cashflows – effective portion is initially recognised in OCI; subsequently recognised in the income statement when the hedged cashflows affect profit or loss. Hedge of a net investment in foreign operations – effective portion is recognised in other comprehensive income, ineffective portion is immediately recognised in the income statement. Hedge of fair value – recognised in the income statement. The change in fair value of the hedged investments attributable to the hedged risk is transferred from the revaluation reserve to the income statement.

Investment Income

Dividends on equity investments are recognised as investment income in the consolidated income statement on the date at which the investment is priced 'ex dividend'. Interest income is recognised in the consolidated income statement using the effective interest rate method.

Unrealised gains and losses on AFS 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 consolidated income statement. On derecognition of an investment classified as available for sale, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the consolidated income statement. Further information can be found in note 10.

Impairment of financial instruments

The Group determines, at each reporting date, whether there is evidence that the value of a financial asset or a group of financial assets, other than those measured as FVTPL, are impaired. A financial asset is impaired if there is objective evidence that indicates that an event has occurred after the initial recognition of the asset that may have resulted in a loss of value as a result of having a negative effect on the estimated future cashflows generated by that asset which can be estimated reliably.

An impairment loss in respect of debt instruments is calculated as the difference between its carrying amount and the present value of the estimated future cashflows discounted at the original effective interest rate of the instrument. Interest on the impaired asset continues to be recognised using the effective interest rate method.

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

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 consolidated income statement. Impairment losses on equity investments are not reversed. Further information can be found in note 10.

Taxation and deferred tax

Taxation and deferred tax is recognised in the consolidated income statement, 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 for prior years.

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 consolidated 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 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 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.

Post-retirement benefits and obligations

The Group operates both defined contribution and defined benefit schemes.

A defined contribution scheme is a pension scheme under which the Group pays fixed contributions and has no further payment obligations once the contributions have been paid. Contributions to defined contribution pension schemes are charged in the consolidated income statement in the period in which the underlying employment services are provided to the Group.

A defined benefit scheme refers to any other pension scheme; specifically, the Group's defined benefit schemes define 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.

The value of the net defined benefit liability/(asset) recognised in the consolidated statement of financial position for each individual post-retirement scheme is calculated as the difference between the present value of the defined benefit obligations of the scheme and the fair value of the scheme assets out of which the obligations are to be settled.

For those schemes in a net liability (deficit) position, the net liability is recognised in the consolidated statement of financial position in provisions. For those schemes in a net asset (surplus) position, the asset is recognised in the consolidated statement of financial position in other debtors and other assets only 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.

The amounts charged (or credited where relevant) in the consolidated income statement relating to post-retirement defined benefit schemes are as follows:

- The current service cost: this is the present value of additional benefits payable for employees' services provided during the reporting period;
- The past service costs and gains or losses on settlements: these are changes to the obligations already established for past service costs that have arisen from an amendment to the terms of the scheme amendment or a curtailment of the benefits payable by the scheme. These are recognised at the earlier of when the terms of the scheme are amended or the curtailment occurs or, where applicable, when the Group recognises related restructuring costs or termination benefits;
- Net interest on the net defined benefit liability/(asset): this is determined by applying the discount rate applied to the defined benefit obligation for the period to the net defined benefit liability/(asset), and results in a net interest (expense)/income;
- The administration costs of operating the pension schemes.

Remeasurements of the net defined benefit liability/(asset) recognised in other comprehensive income comprises actuarial gains and losses as a result of changes in assumptions and experience adjustments in the calculation of the defined benefit obligation, and return on scheme assets excluding interest. The most significant of these is the selection of the discount rate used to calculate the defined benefit obligation, details of which are set out in note 38.

Basis of preparation and significant accounting policies – continued

Goodwill, other intangible assets and internally developed computer software

Goodwill

Goodwill is the difference between the cost of a business acquisition and the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is initially capitalised in the consolidated statement of financial position at cost and is subsequently recognised at cost less accumulated impairment losses. The cost of the acquisition is the amount of cash paid and the fair value of other purchase consideration.

Other intangible assets

Other intangible assets are valued at cost less accumulated amortisation, and less any accumulated impairment losses.

Other intangible assets comprise renewal rights, customer lists, brands, computer software and other acquired identifiable non-monetary assets without physical form. The useful economic lives are between one and five years and are estimated considering relevant metrics such as contract length, forecast period to technological obsolescence, and product life cycles. The asset is amortised on a straight-line basis across this period.

Internally developed computer software

The Group capitalises internal and external computer software development costs where the software is separately identifiable; the Group has control over the software; and where it can be demonstrated that they provide future economic benefits for the Group through facilitating revenue or improved processes. The costs capitalised includes administrative and other general overhead expenditure when they can be directly attributed to the software development and preparing it for use. The useful economic life of externally acquired and internally generated software is normally estimated to be between three and seven years.

Further information on goodwill and other intangibles can be found in note 23.

Impairment of goodwill, other intangible assets and internally developed computer software

Goodwill is subject to an impairment test on an annual basis. Other intangible assets which includes internally generated software are reviewed for indications of impairment on an annual basis and are subject to an impairment test only if there is an indication of impairment.

Goodwill, other intangible assets and internally developed computer software is allocated to cash generating units (CGUs) for the purpose of impairment testing. When testing for impairment, the recoverable amount of a CGU is determined based on value in use calculations. Further information on how the value in use is calculated can be found in note 23.

Where the carrying amount is more than the recoverable amount, impairment of goodwill or intangible assets is recognised in the consolidated income statement. 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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Assets and liabilities held for sale

Assets and liabilities are classified as held for sale if it is considered highly probable that the carrying amount of the assets and directly associated liabilities will be recovered principally through a sale, rather than through continuing operations. This includes the expectation that the sale will be completed within 12 months of the classification date as held for sale. Assets and liabilities held for sale are each presented as a single line in the statement of financial position, at the lower of the carrying amount and fair value less costs to sell.

Where the asset or liability comprises a separate business operation (e.g. a subsidiary, an associate or a branch), the assets (including any goodwill allocated to the business) and the directly associated liabilities of the business are considered together as one disposal group. In the period when assets are recognised as held for sale on the face of the consolidated statement of financial position for the first time, the comparative prior period is not re-presented.

Further information can be found in note 7.

Discontinued operations

A discontinued operation is a component of the Group that has either been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operation.

The profit from discontinued operations is shown separately on the face of the income statement as a single amount. It comprises the profit or loss after tax from discontinued operations together with the gain or loss after tax recognised on completed sales or the gain or loss after tax on the discontinued operations arising from revaluing the carrying value of a held for sale operation to its fair value less costs to sell. Further information can be found in note 7.

In the period in which an operation is first classified as discontinued, the consolidated income statement, statement of other comprehensive income, statement of cashflows, earnings per share and diluted earnings per share for the comparative prior period is re-presented to present those operations as discontinued. Further information can be found in note 4.

Reorganisation costs

Reorganisation costs represent external and clearly identifiable internal costs that are necessarily incurred and directly attributable to the Group's restructuring programme. The aim of the restructuring programme is to both reduce operating costs and improve profitability. Employee termination costs are only recognised when they are part of a restructuring programme that has been communicated to those affected or when a detailed plan of redundancies is announced.

Provisions for onerous contracts are recognised when action is taken by the Group as part of a restructuring programme that reduces any remaining benefit expected under a contract to below its remaining unavoidable costs.

Further information can be found in note 8.

Risk and capital management

6) Risk and Capital Management

Insurance risk

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

A) Underwriting risk

B) Reinsurance risk

C) Reserving risk

A) Underwriting risk

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

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

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

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

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

B) Reinsurance risk

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

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

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

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

C) Reserving risk

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

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

There is a risk to the Group from the inherent uncertainty in estimating provisions at the end of the reporting period for the eventual outcome of outstanding notified claims as well as estimating the number and value of claims that are still to be notified. In particular, the estimation of the provisions for the ultimate costs of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of business due to the slow emergence and longer settlement period for these claims.

The Group seeks to reduce its reserving risk through the use of experienced regional actuaries who estimate the Actuarial Indication of the required reserves based on claims experience, business volume, anticipated change in the claims environment and claims cost. This information is used by local Reserving Committees to recommend to the Group Reserving Committee the appropriate level of reserves for each region – which will include adding a margin onto the Actuarial Indication as a provision for unforeseen developments such as future claims patterns differing from historical experience, future legislative changes and the emergence of latent exposures such as asbestosis. The Group Reserving Committee review these local submissions and recommend the final level of reserves to be held by the Group. The Group has a Group Reserving Committee which is chaired by the Group Chief Financial Officer and includes the Group Chief Executive, Group Underwriting Director, Group Chief Actuary and Group Chief Risk Officer. A similar committee has been established in each of the Group's major operating segments. The Group Reserving Committee monitors the decisions and judgements made by the business units as to the level of reserves to be held. It then recommends to the Group Board via the Group Audit Committee for the final decision on the level of reserves to be included within the consolidated financial statements. In forming its collective judgement, the Committee considers the following information:

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

Financial risk

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

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

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

Credit risk

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

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

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

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

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

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

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

Risk and capital management – continued

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

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

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

As at 31 December 2015

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

Note:
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 credit risk to the Group is deemed to be low as the cover could be cancelled if payment were not received on a timely basis.

As at 31 December 2014

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

Note:
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 credit risk to the Group is deemed to be low as the cover could be cancelled if payment were not received on a timely basis.

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

Ageing of financial assets that are past due but not impaired

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

As at 31 December 2015

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

As at 31 December 2014

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

Market risk

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

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

i. Price risk

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

The table below illustrates the impact to the income statement of a hypothetical 15% change in equity prices or a 15% change in property prices.

Risk and capital management – continued

Changes in the income statement and equity:

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

This analysis assumes that there is no correlation between equity price, interest rate and property market rate risks. It also assumes that all other assets and liabilities remain unchanged and that no management action is taken. This analysis does not represent management's view of future market change, but reflects management's view of key sensitivities.

This analysis is presented gross of the corresponding tax credits/(charges).

The equity price risk sensitivity analysis is indicative and is based on the Groups equity portfolio as at 31 December 2015.

ii. Interest rate risk

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

Given the composition of our investments as at 31 December, the table below illustrates the impact to the income statement and other comprehensive income of hypothetical 100bps change in interest rates on long-term debt and fixed income securities that are subject to interest rate risk.

	Decrease in income statement		Decrease in other comprehensive income	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Interest rate markets:				
Impact on fixed interest securities in interest rates of 100bps increase	**25**	24	**(435)**	(481)

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

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

iii. Currency risk

The Group incurs exposure to currency risk in two ways:

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

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

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

At 31 December 2015, the Group's total shareholders' equity analysed by currency is:

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

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

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

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

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

Liquidity risk

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

A large proportion of investments is maintained in short-term (less than one year) highly liquid securities, which are used to manage the Group's operational requirements based on actuarial assessment and allowing for contingencies. In addition the Group has committed credit facilities available if needed as set out in note 36.

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

As at 31 December 2015

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

Risk and capital management – continued

As at 31 December 2014

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

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

The capital and interest payable on the bonds and notes have been included until the dates on which the Group has the option to call the instruments and the interest rates are reset. For further information on terms of the bonds and notes, see note 35.

Capital Management

It is a key regulatory requirement that the Group maintains sufficient capital to support its exposure to risk. Accordingly, the Group's capital management strategy is closely linked to its monitoring and management of risk. The Group's capital objectives consist of striking the right balance between the need to support claims liabilities and ensure the confidence of policyholders, exposure to other risks, support competitive pricing strategies, meet regulatory capital requirements, and providing adequate returns for its shareholders.

The Group's overall capital position is primarily comprised of shareholders' equity and subordinated loan capital and aims to maximise shareholder value, while maintaining financial strength and maintaining adequate regulatory capital. In addition the Group also aims to hold sufficient capital so as to maintain its single 'A' credit rating.

The Group operates in many countries, and its regulated entities hold appropriate levels of capital to satisfy applicable local regulations. Compliance with local regulatory requirements is embedded within the BRC mandate, for the protection of the Group's policyholders and the continuation of the Group's ability to underwrite.

Regulatory solvency position during 2015

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

For the Group's senior regulated insurance company, Royal & Sun Alliance Insurance plc, the capital position will be reported under Solvency I at 31 December 2015 for the last time before it is replaced by Solvency II.

As at 31 December 2015 the Group has an IGD surplus of approximately **£1.6bn** (unaudited) (2014: £1.8bn). The IGD surplus as at 31 December 2015 reflects capital generation including disposal gains offset by market movements (strengthening of GBP and rising yields). The coverage ratio stood at **2.2 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 based on its 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. These models have been integrated into the Group's business processes and are used to enhance the management of the Group.

Solvency II

Historically, economic capital has been the Group's preferred measure of capital sufficiency. This has been focused 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 focused on the SCR calculated by the internal model.

At 31 December 2015, the estimated SCR and corresponding eligible own funds were as follows:

	Unaudited 2015 £bn
Eligible own funds	2.9
SCR	2.0
Coverage (unrounded)	143%

The first annual Solvency II reports will be in respect of the year ended 31 December 2016 including the publicly available Solvency and Financial Condition Report.

The internal model is used to support, inform and improve the Group's decision making across the Group. It is used to determine the Group's optimum capital structure, its investment strategy, its reinsurance programme and to determine the pricing and target returns for each portfolio. The internal model is also used for the ORSA process.

ORSA

The Solvency II directive introduces a requirement for undertakings to conduct an ORSA. In anticipation of this requirement, the Group has updated its risk and capital management processes; and in the preparatory phase for Solvency II submitted to its regulators the Forward Looking Assessment of Own Risk, the precursor to the Solvency II ORSA.

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; and
- the actions it will take to achieve and maintain the desired levels of risk and capital.

The assessment considers both the current position and the positions that may arise during the planning horizon of the firm (typically the next three years). It looks at both the expected outcome and the outcome arising when the plan assumptions do not materialise as expected.

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 risks 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, which is submitted to the Group's regulators as part of the normal supervisory process.

Significant transactions and events

7) Discontinued operations and disposals

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

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

Further information on the completion of the sale of the Russia operation can be found in Appendix A Events after the reporting period. The revenue, expenses and related income tax expense in 2015 and 2014 relating to these discontinued operations is set out below. The total profits on the sale of discontinued operations disposed of during the year after tax was **£170m** (2014: £172m).

Discontinued income statement

for the year ended 31 December 2015

	Notes	**2015 £m**	Re-presented 2014 £m
Income			
Gross written premiums		**1,365**	1,563
Less: reinsurance premiums		**(492)**	(403)
Net written premiums	9	**873**	1,160
Change in the gross provision for unearned premiums		**32**	(1)
Less: change in provision for unearned reinsurance premiums		**(53)**	15
Change in provision for unearned premiums		**(21)**	14
Net earned premiums		**852**	1,174
Net investment return	10	**60**	64
Total income		**912**	1,238
Expenses			
Gross claims incurred		**(672)**	(877)
Less: claims recoveries from reinsurers		**222**	193
Net claims	11	**(450)**	(684)
Underwriting and policy acquisition costs		**(366)**	(464)
Unwind of discount		**(15)**	(14)
Other operating expenses	13	**(45)**	(35)
Total expenses		**(876)**	(1,197)
Finance costs		**–**	(1)
Gain on disposal		**170**	172
Net share of profit after tax of associates		**–**	8
Profit before tax		**206**	220
Income tax expense	18	**(50)**	(36)
Profit after tax		**156**	184

Discontinued statement of comprehensive income

for the year ended 31 December 2015

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

Held for Sale disposal groups

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

At 31 December 2015

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

Significant transactions and events – continued

31 December 2014

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

Discontinued operations disposed of during the year

Year ended 31 December 2015

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

Year ended 31 December 2014

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

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

Gain on disposal of business

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

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

8) Reorganisation costs

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

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

Notes to the Income Statement and Other Comprehensive Income

9) Segmental information

Following a strategic review of its operations in 2014, the Group has disposed of or is in the process of disposing of a number of its businesses. Further information on the Group's disposal activity is disclosed in note 7. As a result of the review, the Group's operating segments of Scandinavia, Canada, UK & Ireland, Central Functions and non-core are split between core and non-core businesses, which is consistent with how the Group is managed.

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

Core businesses

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

Non-Core businesses

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

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

As businesses become classified as discontinued (see note 7) their results on a segmental basis are re-presented from non-core and into discontinued operations including restating the 2014 comparatives.

Assessing segment performance

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

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

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

Underwriting result, COR and Operating result are the key internal measures of profitability of the operating segments.

The COR reflects the ratio of claims costs and expenses (including commission) to earned premiums, expressed as a percentage.

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

Year ended 31 December 2015

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

Notes to the Income Statement and Other Comprehensive Income – continued

Year ended 31 December 2014 – re-presented

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

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

10) Net investment return

A summary of the gross investment income, net realised and net unrealised gains/(losses) included in the income statement is given below.

	Investment income		Net realised gains/(losses)		Net unrealised gains/(losses)		Impairments		Total investment return	
	2015 £m	Re-presented 2014 £m	**2015 £m**	Re-presented 2014 £m	**2015 £m**	Re-presented 2014 £m	**2015 £m**	Re-presented 2014 £m	**2015 £m**	Re-presented 2014 £m
Investment property	**22**	28	**2**	–	**25**	30	**–**	–	**49**	58
Equity securities										
Available for sale	**20**	18	**21**	71	**–**	–	**(2)**	–	**39**	89
At FVTPL	**5**	5	**–**	(1)	**(7)**	(3)	**–**	–	**(2)**	1
Debt securities										
Available for sale	**289**	316	**4**	7	**–**	–	**(3)**	–	**290**	323
At FVTPL	**–**	–	**–**	–	**(1)**	(10)	**–**	–	**(1)**	(10)
Other loans and receivables:										
Loans secured by mortgages	**1**	1	**–**	–	**–**	–	**–**	–	**1**	1
Other loans	**–**	1	**(6)**	–	**–**	–	**(2)**	–	**(8)**	1
Short term investments	**2**	1	**–**	1	**–**	–	**–**	–	**2**	2
Group occupied property	**–**	–	**–**	–	**(2)**	(1)	**–**	–	**(2)**	(1)
Deposits, cash and cash equivalents	**5**	9	**–**	(2)	**1**	–	**–**	–	**6**	7
Derivatives	**3**	1	**–**	3	**4**	(4)	**–**	–	**7**	–
Continuing operations	**347**	380	**21**	79	**20**	12	**(7)**	–	**381**	471
Discontinued operations	**56**	60	**4**	6	**–**	2	**–**	(4)	**60**	64
Total net investment return	**403**	440	**25**	85	**20**	14	**(7)**	(4)	**441**	535

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

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 income statement		Impairments transferred to income statement		Net movement recognised in other comprehensive income	
	2015 £m	Re-presented 2014 £m	**2015 £m**	Re-presented 2014 £m	**2015 £m**	Re-presented 2014 £m	**2015 £m**	Re-presented 2014 £m
Equity securities	**(23)**	23	**(20)**	(71)	**5**	–	**(38)**	(48)
Debt securities	**(180)**	372	**(4)**	(11)	**–**	–	**(184)**	361
Other	**(8)**	(1)	**6**	–	**2**	–	**–**	(1)
Total continuing operations	**(211)**	394	**(18)**	(82)	**7**	–	**(222)**	312
Discontinued operations	**(8)**	3	**(8)**	(9)	**–**	4	**(16)**	(2)
Total	**(219)**	397	**(26)**	(91)	**7**	4	**(238)**	310

The **£8m** realised gain on discontinued operations (£6m gain net of tax) has been recycled to the gain on sale of discontinued operations as shown in note 7.

Notes to the Income Statement and Other Comprehensive Income – continued

11) Net claims

	2015 £m	Re-presented 2014 £m
Gross claims paid	**4,574**	5,310
Gross changes in provision for losses and loss adjustment expenses	**(78)**	(488)
Reinsurance recoveries on claims paid	**(307)**	(437)
Reinsurers' share of changes in provision for losses and loss adjustment expenses	**(60)**	312
Continuing operations	**4,129**	4,697
Discontinued operations	**450**	684
Total net claims	**4,579**	5,381

12) Other operating income

	2015 £m	Re-presented 2014 £m
Engineering inspection fees	**36**	45
Administration fees income	**30**	37
Instalment policy fee income	**8**	9
Other fees	**68**	97
Continuing operations	**142**	188
Discontinued operations	**–**	–
Total other operating income	**142**	188

13) Other operating expenses

	2015 £m	Re-presented 2014 £m
Administration and other expenses	**17**	64
Investment expenses and charges	**14**	24
Amortisation of intangible assets	**25**	30
Pension administration expenses	**8**	10
Solvency II costs	**26**	24
Reorganisation costs (see note 8)	**183**	102
Impairment of goodwill and other intangible assets (see note 23)	**9**	88
Foreign exchange losses	**23**	(3)
Non-recurring charges	**3**	58
Continuing operations	**308**	397
Discontinued operations	**45**	35
Total other operating expenses	**353**	432

In 2015, the **£3m** non-recurring charges represent costs incurred in relation to the potential Zurich Insurance Group bid. The 2014 non-recurring charge of £67m (of which £58m was attributable to continuing operations and £9m to discontinued operations) related to the revisions of estimates including the re-estimation of deferred acquisition costs and dilapidation provisions in respect of leasehold properties resulting in charges of £17m and £5m respectively and a review of the Group's reinsurance accounting resulted in a charge of £22m. Finally, as a result of a remediation process, better information became available which resulted in certain revisions to accounting estimates and a charge of £23m which predominantly related to the Irish business.

14) Finance costs

	2015 £m	Re-presented 2014 £m
Interest expense on loan capital	**104**	112
Other loan interest	**2**	7
Pension net interest costs	**–**	4
Total Finance costs	**106**	123
Finance costs relating to continuing operations	**106**	122
Finance costs relating to discontinued operations	**–**	1

15) Employee expenses

Staff costs for all employees comprise:

	2015 £m	Re-presented 2014 £m
Wages and salaries	**739**	875
Social security costs	**102**	121
Pension costs	**93**	95
Share based payments to Directors and employees	**14**	10
Total staff costs	**948**	1,101
Staff costs relating to continuing operations	**848**	947
Staff costs relating to discontinued operations	**100**	154

The average number of employees during the year was as follows:

	2015 Number	Re-presented 2014 Number
Scandinavia	**3,382**	3,590
Canada	**3,599**	4,037
UK & Ireland	**7,914**	8,600
Non-core	**538**	558
Average number of employees during the year relating to continuing operations	**15,433**	16,785
Average number of employees during the year relating to discontinued operations	**2,954**	5,188
Total average number of employees during the year	**18,387**	21,973

UK & Ireland includes staff employed in Group Corporate Centre.

Further information on pension obligations of the Group can be found in note 38. Further information on employee share schemes can be found in note 19.

Notes to the Income Statement and Other Comprehensive Income – continued

16) Related party transactions

The following transactions were carried out with key management:

	2015 £m	2014 £m
Salaries and other short-term employee benefits	**9**	7
Bonus awards	**5**	3
Pension benefits	**1**	–
Share based awards	**2**	1
Total	**17**	11

Key management personnel comprise members of the Group Executive Committee, Executive Directors, and Non-Executive Directors.

Included in salaries and other short-term employee benefits and bonus awards is **£5,378,000** (2014: £3,899,000) paid in respect of Directors. These amounts exclude the value of share options granted to Directors and gains made on the exercise of such options, Group contributions paid in respect of pension schemes and cash or other assets received or receivable under long-term incentive schemes. The total value of the Directors' remuneration (including values for these excluded items) and other details are disclosed in the Directors' Remuneration Report.

A number of the Directors, other key managers, their close families and entities under their control have general insurance policies with subsidiary companies of the Group. Such policies are available at discounted rates to all employees including Executive Directors

17) Auditor's remuneration

	2015		Re-presented 2014	
	Continuing £m	Discontinued £m	Continuing £m	Discontinued £m
Fees payable to the auditor for audit of the Company's annual accounts	**0.9**	**–**	0.8	–
Fees payable to the auditor and its associates for other services:				
The audit of the Company's subsidiaries, pursuant to legislation	**3.3**	**0.9**	3.3	1.6
Audit related assurance services	**0.8**	**–**	0.7	–
Other assurance services	**–**	**–**	0.9	–
Other services	**0.1**	**–**	–	–
	5.1	**0.9**	5.7	1.6

18) Income tax

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

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

Reconciliation of the income tax expense

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

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

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

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

Tax Rates

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

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

19) Share based payments

The total employment cost recorded in the consolidated income statement for all share scheme plans in 2015 is **£14m** (2014: £10m).

Analysis of share scheme costs:

	2015 £m	2014 £m
LTIP	**1**	3
PSP	**9**	3
SAYE	**2**	2
Sharebuild	**2**	2
Total	**14**	10

Notes to the Income Statement and Other Comprehensive Income – continued

Analysis of new award costs:

	2015		2014	
	Charge for year £m	Total value £m	Charge for year £m	Total value £m
PSP	5	13	3	12
SAYE	–	1	–	1
Sharebuild	–	–	–	2
Total	5	14	3	15

The balance of the value of the awards will be charged to the consolidated income statement during the remaining vesting periods.

Performance Share Plan

Awards of Performance Shares to executive directors and other selected executives are subject to performance conditions consisting of the Group's underlying return on tangible equity relative to Total Shareholder Return and Business Review Scorecard targets over a three-year performance period. All awards vest on the third anniversary of the date of grant to the extent that the performance conditions have been met.

The Remuneration Committee may also make conditional awards of Restricted Shares to other executives and senior managers, which are not subject to performance conditions.

Additionally, the Remuneration Committee 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, which are also not subject to performance conditions.

If an employee resigns from the Group, then Performance Shares and Restricted Shares lapse at date of leaving the Group. Deferred Bonus Shares awards are generally retained by the employee to whom the share was granted if they leave the Group, unless the employee is dismissed for cause.

However, the 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 Long-Term Incentive Plan was replaced by the Performance Share Plan at the end of 2013. No awards have been granted under this plan since 2013 year end.

Further information on the PSP and the LTIP can be found in the Directors' Remuneration Report within the Corporate Governance section.

Information on the ESOS, SAYE and Sharebuild schemes are included in Appendix B of the Notes to the Annual Report and Accounts.

20) Earnings per share

The earnings per ordinary share are calculated by reference to the profit attributable to the ordinary shareholders and the weighted average number of shares in issue during the year. These were 1,015,489,000 for basic EPS and 1,019,280,000 for diluted EPS (excluding those held in Employee Stock Ownership Plan (ESOP) and Share Incentive Plan (SIP) trusts). The number of shares in issue at 31 December 2015 was 1,016,318,206 (excluding those held in ESOP and SIP trusts).

Basic EPS

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

Diluted EPS

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

Note 33 includes further information of the outstanding share options and unvested share awards to Group employees that could potentially dilute basic earnings per share in the future, including those awards omitted from the calculation of diluted earnings per share because they were antidilutive in 2015 and 2014.

21) Distributions paid and proposed

The final dividend to equity holders is recognised as a liability when approved at the Annual General Meeting. The Company and its subsidiaries may be subject to restrictions on the amount of dividends they can pay to shareholders as a result of regulatory requirements. However, based on the information currently available, the Group does not believe that such restrictions materially impact the ability to meet obligations or pay dividends. At the Annual General Meeting (AGM) on 6 May 2016, a final dividend in respect of the year ended 31 December 2015 of 7p per ordinary share amounting to a total dividend of £71m is to be proposed. The proposed dividend will be paid and accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2016.

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

22) Total other comprehensive income

Year ended 31 December 2015

	Investment valuation reserve £m	Group occupied property reserve £m	Hedging instrument reserve £m	Total re-valuation reserves £m	Foreign currency translation reserve £m	Retained earnings £m	Shareholders' equity £m	Non-controlling interests £m	Total equity £m
Exchange (losses)/gains net of tax	(15)	(1)	–	(16)	(204)	–	(220)	5	(215)
Fair value (losses) net of tax	(222)	–	(3)	(225)	–	–	(225)	(1)	(226)
Pension – remeasurement of net defined benefit liability net of tax	–	–	–	–	–	65	65	–	65
Movement in property revaluation net of tax	–	7	–	7	–	–	7	–	7
Total other comprehensive income/(expense) for the year	(237)	6	(3)	(234)	(204)	65	(373)	4	(369)

Notes to the Statement of Financial Position

Year ended 31 December 2014

	Investment valuation reserve £m	Group occupied property reserve £m	Hedging instrument reserve £m	Total re-valuation reserves £m	Foreign currency translation reserve £m	Retained earnings £m	Shareholders' equity £m	Non-controlling interests £m	Total equity £m
Exchange (losses)/gains net of tax	(26)	(1)	–	(27)	(112)	–	(139)	2	(137)
Fair value (losses) net of tax	250	–	2	252	–	(1)	251	(2)	249
Pension – remeasurement of net defined benefit liability net of tax	–	–	–	–	–	(7)	(7)	–	(7)
Movement in property revaluation net of tax	–	4	–	4	–	–	4	–	4
Total other comprehensive income/(expense) for the year	224	3	2	229	(112)	(8)	109	–	109

23) Goodwill and intangible assets

As at 31 December 2015

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

As at 31 December 2014

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

Amortisation

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

Impairments

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

When testing for impairment, the carrying value of the CGU to which goodwill has been allocated is compared to the recoverable amount as determined by a value in use calculation. These calculations use cashflow projections based on operating plans approved by management covering a three year period and are based on the best estimates of future premiums, operating expenses and taxes using historical trends, general geographical market conditions, industry trends and forecasts and other available information as discussed in more detail in the strategic report section. Cashflows beyond this period are extrapolated using the estimated growth rates which management deem appropriate for the CGU. The cashflow forecasts are adjusted by appropriate discount rates. Where a sales price has been agreed for CGU, the sales proceeds are considered the best estimate of the value in use.

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

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

Notes to the Statement of Financial Position – continued

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

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

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

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

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

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

Impairment Sensitivity

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

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

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

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

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

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

24) Property and equipment

	Group occupied property-land and buildings 2015 £m	Other 2015 £m	Total 2015 £m	Group occupied property-land and buildings 2014 £m	Other 2014 £m	Total 2014 £m
Cost/valuation						
At 1 January	57	307	364	65	333	398
Additions	1	19	20	–	42	42
Disposal of subsidiaries	–	(13)	(13)	(10)	(24)	(34)
Disposals	(7)	(15)	(22)	–	(30)	(30)
Revaluation adjustments credited/ (charged) to Other Comprehensive Income	7	–	7	4	–	4
Revaluation adjustments charged to Income Statement	(2)	–	(2)	–	–	–
Exchange adjustment	(4)	(26)	(30)	(2)	(14)	(16)
At 31 December	52	272	324	57	307	364
Accumulated depreciation						
At 1 January	1	211	212	–	238	238
Depreciation charge	1	22	23	1	28	29
Depreciation on disposals	–	(23)	(23)	–	(44)	(44)
Exchange adjustment	(1)	(19)	(20)	–	(11)	(11)
At 31 December	1	191	192	1	211	212
Accumulated impairment						
At 1 January	–	–	–	–	1	1
Impairment charge	–	2	2	–	2	2
Impairment on disposals	–	–	–	–	(3)	(3)
Exchange adjustment	–	–	–	–	–	–
At 31 December	–	2	2	–	–	–
Carrying amount at 31 December	51	79	130	56	96	152
Less: Asset classified as held for sale	13	8	21	–	1	1
Carrying amount at 31 December net of held for sale	38	71	109	56	95	151

Other incorporates fixtures, fittings and other equipment.

Group occupied property was revalued on 31 December 2015 by independent valuers using the basis of valuation as set out in note 27.

Depreciation expenses of **£23m** (2014: £29m) have been charged to underwriting costs and policy acquisition costs.

The carrying amount of Group occupied property that would have been recognised had the assets been carried under the cost model including assets held for sale at 31 December 2015 is **£38m** (2014: £42m).

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

	2015 £m	2014 £m
At 1 January	20	23
Revaluation adjustment	7	4
Transfers and disposal of subsidiaries	(4)	(6)
Exchange adjustment	(1)	(1)
Group occupied property reserve at 31 December	22	20

Notes to the Statement of Financial Position – continued

25) Investment property

Investment property, consisting of **£365m** (2014: £346m) freehold and leasehold land and buildings, is held for long-term rental yields and is not occupied by the Group.

The movement in the carrying value of investment property is detailed below:

	2015 £m	2014 £m
At 1 January	346	331
Purchases	–	22
Fair value gains (note 10)	25	32
Exchange adjustment	(2)	(2)
Disposal subsidiary	–	(37)
Investment property at 31 December	369	346
Less: Assets classified as held for sale	4	–
Investment property at 31 December net of assets held for sale	365	346

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

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

26) Financial assets

The following table summarise the Group's financial assets by classification as at 31 December 2015 and 31 December 2014.

As at 31 December 2015

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

As at 31 December 2014

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

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

	2015				2014
	Cost/ amortised cost £m	**Unrealised gains £m**	**Unrealised losses and impairments £m**	**Fair value £m**	Fair value £m
Equity securities	**589**	**44**	**(48)**	**585**	495
Debt securities	**11,157**	**451**	**(120)**	**11,488**	12,649
Financial assets measured at fair value	**11,746**	**495**	**(168)**	**12,073**	13,144
Loans and receivables	**100**	**–**	**–**	**100**	97
Total financial assets	**11,846**	**495**	**(168)**	**12,173**	13,241
Less: Assets classified as held for sale					
Debt securities	**384**	**–**	**(8)**	**376**	401
Total assets classified as held for sale	**384**	**–**	**(8)**	**376**	401
Total financial assets net of held for sale	**11,462**	**495**	**(160)**	**11,797**	12,840

The Group continued to recognise the debt securities in the statement of financial position as the Group remains exposed to the risks and rewards of ownership.

Collateral

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

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

Notes to the Statement of Financial Position – continued

Derivative financial instruments

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

As at 31 December 2015

	Fair Value		Notional Amount			
	Asset £m	Liability £m	Less than 1 year £m	From 1 to 5 years £m	Over 5 years £m	Total £m
Designated as hedging instruments						
Currency risk (net investment in foreign operation)	**7**	**(8)**	**1,076**	**–**	**–**	**1,076**
Cross currency interest swaps (fair value/ cashflow)	**–**	**(39)**	**–**	**160**	**158**	**318**
Total	**7**	**(47)**				
At FVTPL						
Currency risk mitigation	**–**	**(8)**	**252**	**39**	**–**	**291**
Inflation risk mitigation	**31**	**(34)**	**–**	**–**	**236**	**236**
Total	**31**	**(42)**				
As at 31 December 2014						
Designated as hedging instruments						
Currency risk (net investment in foreign operation)	15	(3)	1,040	–	–	1,040
Cross currency interest swaps (fair value/ cashflow)	–	(19)	–	158	117	275
Total	15	(22)				
At FVTPL						
Currency risk mitigation	3	(6)	461	–	–	461
Inflation risk mitigation	28	(29)	–	–	180	180
Total	31	(35)				

The use of derivatives can result in accounting mismatches when gains and losses arising on the derivatives are presented in the income statement in accordance with the Group's accounting policies and corresponding losses and gains on the risks being mitigated are not included in the income statement. In such circumstances the Group may apply hedge accounting in accordance with IFRS and the Group accounting policy on hedging. The Group applies hedge accounting to derivatives acquired to reduce foreign exchange risk in its net investment in certain major overseas subsidiaries. There was no ineffectiveness recognised in the income statement in respect of these hedges during 2015 or 2014.

The Group also applies hedge accounting to specified fixed interest assets in its investment portfolio. During 2014, the Group invested in a portfolio of high investment grade corporate bonds denominated in US dollars to allow it to invest in a more diversified range of issuers. These investments are used to cover the insurance liabilities in the UK business. In order to remove exchange risk from this portfolio of investments the Group also acquired cross currency interest rate swaps to swap the cashflows from the portfolio into cashflows denominated in pounds Sterling. The Group applies fair value hedge accounting when using 'fixed to floating' interest rate swaps and cashflow hedge accounting when using 'fixed to fixed' interest rate swaps. The interest rate swaps exactly offset the timing and amounts expected to be received on the underlying investments. The investments have a remaining term of between two and eight years. There have been no default and no defaults are expected on the hedged investments.

The total losses on cashflow hedge instruments during 2015 was a **£4m** loss (2014: profit of £4m) in the consolidated statement of other comprehensive income, and the amount reclassified to the income statement was **£nil** (2014: £nil). The ineffectiveness recognised in the income statement was **£nil** (2014: £nil).

The total losses on the fair value hedge instruments recognised in the income statement were **£19m** (2014: £11m) and the offsetting gains related to the hedged risk were £18m (2014: £8m).

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

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

27) Fair value measurement

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

Cash and cash equivalents, 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.

Group occupied property and investment property

Group 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 Group'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).

Notes to the statement of financial position – continued

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 cashflows. 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, judgement is required to establish fair values. Valuations that require the significant use of unobservable data are considered Level 3 valuations.

The following table provides an analysis of financial instruments and other items that are measured subsequent to initial recognition at fair value as well as financial liabilities not measured at fair value, grouped into Levels 1 to 3. The table does not include financial assets and liabilities not measured at fair value if the carrying value is a reasonable approximation of fair value.

	Fair value hierarchy 2015				
	Level 1 £m	Level 2 £m	Level 3 £m	Less: Assets of operations classified as held for sale £m	Total £m
Group occupied property – land and buildings	–	–	38	–	38
Investment properties	–	–	369	4	365
Available for sale financial assets:					
Equity securities	278	–	269	–	547
Debt securities	6,988	4,331	154	376	11,097
Financial assets at FVTPL:					
Equity securities	–	–	38	–	38
Debt securities	–	–	15	–	15
	7,266	4,331	883	380	12,100
Derivative assets:					
At FVTPL	–	31	–	–	31
Designated as hedging instruments	–	7	–	–	7
Total assets measured at fair value	7,266	4,369	883	380	12,138
Derivative liabilities:					
At FVTPL	–	42	–	–	42
Designated as hedging instruments	–	47	–	–	47
Total liabilities measured at fair value	–	89	–	–	89
Loan capital	–	1,361	8	–	1,369
Total value of liabilities not measured at fair value	–	1,361	8	–	1,369

During 2015, the Group has re-evaluated the basis of valuation of certain investments. As a consequence during 2015 the Group has transferred **£3,369m** from a classification of Level 1 to a classification of Level 2.

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

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

The movement in the fair value measurements of Level 3 financial assets is shown in the table below. There were no financial liabilities measured at fair value in Level 3 in 2014 or 2015.

Notes to the statement of financial position – continued

	Available for sale investments		Investments at FVTPL		
	Equity securities £m	Debt securities £m	Equity securities £m	Debt securities £m	Total £m
At 1 January 2014	63	10	34	27	134
Total losses recognised in:					
Income statement	–	–	(1)	(10)	(11)
Other comprehensive income	(2)	–	–	–	(2)
Purchases	73	–	22	–	95
Disposals	(3)	(8)	(12)	–	(23)
Exchange adjustment	(2)	–	–	1	(1)
At 1 January 2015	**129**	**2**	**43**	**18**	**192**
Total losses recognised in:					
Income statement	**–**	**–**	**(7)**	**(1)**	**(8)**
Other comprehensive income	**(4)**	**3**	**–**	**–**	**(1)**
Purchases	**152**	**149**	**7**	**14**	**322**
Disposals	**(4)**	**–**	**(5)**	**(17)**	**(26)**
Exchange adjustment	**(4)**	**–**	**–**	**1**	**(3)**
Level 3 financial assets at 31 December 2015	**269**	**154**	**38**	**15**	**476**
Less: Assets classified as held for sale	**–**	**–**	**–**	**–**	**–**
Level 3 financial assets at 31 December 2015 net of held for sale	**269**	**154**	**38**	**15**	**476**

The Group's Property portfolio (including the Group 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 £62m in the fair value of the portfolio.

The Group 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 £404m. 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 £19m.

28) Interests in structured entities

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 Group 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 Group therefore considers that it does not act as a sponsor for any structured entity.

However, the Group 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 Group to broaden the diversification of its investment portfolio in a cost-efficient manner. The Group normally limits its exposures in individual structured entities to less than 20% of the total capital of the entity.

The Group is exposed to the risks of the underlying investments 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 Group has commitments for future undrawn subscriptions limited to the amounts set out in the subscription agreements. The Group has no obligations to provide any additional funding or other financial support to these entities.
The Group has determined that its maximum exposure to structured entities is the sum of the carrying value and the undrawn commitments. These exposures at 31 December 2015 are summarised in the table below:

Class of investments	Nature of the underlying investments of the vehicle	Carrying value 2015 £m	Undrawn commitments 2015 £m	Exposure 2015 £m	Carrying value 2014 £m	Undrawn commitments 2014 £m	Exposure 2014 £m
Domestic mortgage backed securities	Mainly residential mortgages in Scandinavia	**1,860**	**–**	**1,860**	2,110	–	2,110
Commercial mortgage backed securities	Mainly commercial mortgages in Canada	**87**	**–**	**87**	82	–	82
Collateralised debt obligations	Structured debt security backed by bonds	**143**	**–**	**143**	136	–	136
Cash Money Market funds	Short term cash deposits	**296**	**–**	**296**	365	–	365
Other	Mainly consist of property funds	**262**	**143**	**405**	122	204	326
		2,648	**143**	**2,791**	2,815	204	3,019

The line items in the Consolidated Statement of Financial Position in which the items above are included are as follows:

	2015 £m	2014 £m
Investments – financial assets – equity securities	**297**	160
Investments – financial assets – debt securities	**1,973**	2,216
Cash and cash equivalents	**296**	365
Other	**82**	74
	2,648	2,815

29) Reinsurers' share of insurance contract liabilities

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

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

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

Notes to the statement of financial position – continued

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

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

30) Current and deferred tax

Current tax

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

Deferred tax

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

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

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

Provisions and other temporary differences arise predominately in respect of capital expenditure **£80m** (2014: £65m) and amounts for which no relief is available until settled **£46m** (2014: £65m).

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

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

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

The Group has temporary differences in respect of the retained earnings of overseas subsidiaries and associates not held for sale of **£1,053m** (2014: £1,093m) on which overseas taxes, including withholding taxes, might be incurred on the remittance of these earnings to the UK. This amount relates predominantly to the Group's subsidiaries in Canada. The Group is able to control the remittance of earnings to the UK and there is no intention to remit the retained earnings in the foreseeable future if the remittance would trigger a material incremental tax liability. As such the Group has not recognised any deferred tax in respect of the potential taxes on the temporary differences arising on unremitted earnings of continuing overseas subsidiaries and associates.

Of the **£123m** (2014: £118m) net deferred tax asset recognised by the Group's continuing operations, **£117m** (2014: £123m) relate to tax jurisdictions in which the Group has suffered a loss in either the current or preceding period. The assets have been recognised on the basis that future taxable profits will be available against which these deferred tax assets can be utilised. The evidence for the future taxable profits is a forecast consistent with the three-year operational plans prepared by the relevant businesses, which are subject to internal review and challenge. Where relevant, the forecast includes extrapolations of the operational plans using assumptions consistent with those used in the plans.

Notes to the statement of financial position – continued

31) Insurance, reinsurance and other debtors

Insurance and reinsurance debtors

	2015 £m	2014 £m
Insurance debtors comprise:		
Due from policyholders	**1,409**	1,476
Due from intermediaries	**1,545**	1,634
Total insurance debtors	**2,954**	3,110
Reinsurance debtors	**168**	207
Total insurance and reinsurance debtors	**3,122**	3,317
Less: Assets classified as held for sale	**469**	143
Total insurance and reinsurance debtors net of held for sale	**2,653**	3,174

Other debtors and other assets

	2015 £m	2014 £m
Derivatives designated as accounting hedging instruments	**7**	15
Other derivatives	**31**	31
Other debtors	**253**	350
Pension scheme surplus	**195**	129
Accrued interest and rent	**125**	148
Prepayments	**141**	96
Total other debtors and assets	**752**	769
Less: Assets classified as held for sale	**59**	10
Total other debtors and assets net of held for sale	**693**	759
To be settled within 12 months	**442**	607
To be settled after 12 months	**251**	152

32) Cash and cash equivalents

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

	2015 £m	2014 £m
Cash and cash equivalents and bank overdrafts (as reported within the Consolidated Statement of Cashflows)	**902**	1,135
Add: Overdrafts reported in Borrowings (note 36)	**11**	–
Total cash and cash equivalents	**913**	1,135
Less: Assets classified as held for sale	**97**	124
Total cash and cash equivalents (as reported in the Consolidated Statement of Financial Position)	**816**	1,011

33) Share capital

The issued share capital of the Parent Company is fully paid and consists of two classes; Ordinary Shares with a nominal value of £1 each and Preference Shares with a nominal value of £1 each. The issued share capital at 31 December 2015 is:

	2015 £m	2014 £m
Issued and fully paid		
1,017,059,842 ordinary shares of £1 each (2014: 1,015,486,873 ordinary shares of £1 each)	**1,017**	1,015
125,000,000 preference shares of £1 each (2014: 125,000,000 preference shares of £1 each)	**125**	125
	1,142	1,140

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

	Number of shares	Nominal value £m	Share premium £m
At 1 January 2014	3,681,798,995	1,012	704
Issued for cash – rights issue (Ordinary Shares of 27.5p)	1,380,976,863	380	367
Issued in respect of employee share options and employee share awards			
Ordinary Shares of 27.5p each	6,150,197	2	4
Ordinary Shares of £1 each	1,701,662	2	–
Share consolidation/Transfer to capital redemption reserve	(4,055,140,844)	(381)	–
At 1 January 2015	**1,015,486,873**	**1,015**	**1,075**
Issued in respect of employee share options and employee share awards	**1,572,969**	**2**	**2**
At 31 December 2015	**1,017,059,842**	**1,017**	**1,077**

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

Ordinary Shares of £1 each
Each member holding an Ordinary Share shall be entitled to vote on all matters at a general meeting of the Company, be entitled to receive dividend payments declared in accordance with the Articles of Association, and have the right to participate in any distribution of capital of the Company including on a winding-up of the Company.

Preference Shares of £1 each
The Preference Shares are not redeemable but the holders of the Preference Shares have preferential rights over the holders of Ordinary Shares in respect of dividends and of the return of capital in the event of the winding up of the Company.

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

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

Employee share schemes
741,636 Ordinary Shares (2014: 1,202,271 Ordinary Shares) are held by various employee share trusts which may subsequently be transferred to employees (including Executive Directors) to satisfy options exercised under the Group employee share option plans and shares awards vesting to Group employees under the long-term incentive plans and under the Sharebuild. These shares are presented as own shares. Own shares are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the own shares. Any consideration paid or received is recognised directly in equity.

At 31 December 2015, the total number of options over Ordinary Shares outstanding under the Group employee share option plans is **6,784,365** (2014: 7,866,932) and the total number of potential shares outstanding under the long-term incentive plan and under the Sharebuild is **13,941,035** Ordinary Shares (2014: 14,299,045 Ordinary Shares). Further information on the employee share schemes is provided in note 19 and in the Directors' Remuneration Report within the Corporate Governance section.

Notes to the statement of financial position – continued

34) Non-controlling interests

The non-controlling interests (NCI) of the Group comprise the investments in the following Group entities:

	NCI shares at 31 December 2015	
	%	Share of net assets £m
Royal & Sun Alliance (Middle East) Ltd	**50%**	**107**
British Aviation Insurance Company Limited	**43%**	**16**

Royal & Sun Alliance (Middle East) Ltd owns 50% of the ordinary share capital of Al Alimaya for Cooperative Insurance Company, a company operating in the Kingdom of Saudi Arabia and 70% of Al Ahlia Insurance Company, a company operating in the Sultanate of Oman.

During 2015, the dividends paid to the non-controlling interests in the Middle East were **£2m** (2014: £2m).

35) Loan Capital

	2015 £m	2014 £m
Subordinated guaranteed US$ bonds	**5**	5
Guaranteed subordinated step-up notes due 2039	**496**	495
Guaranteed subordinated notes due 2045	**394**	394
Total dated loan capital	**895**	894
Perpetual guaranteed subordinated capital securities	**359**	349
Total loan capital	**1,254**	1,243

The subordinated guaranteed US$ bonds were issued in 1999 and have a nominal value of $9m and a redemption date of 15 October 2029. The rate of interest payable on the bonds is 8.95%.

The dated guaranteed subordinated step-up notes were issued on 20 May 2009 at a fixed rate of 9.375%. The nominal £500m bonds have a redemption date of 20 May 2039. The Group has the right to repay the notes on specific dates from 20 May 2019. If the notes are not repaid on that date, the rate of interest would be reset at a rate of 8.475% plus the appropriate benchmark gilt for a further five-year period.

The dated guaranteed subordinated notes were issued on 10 October 2014 at a fixed rate of 5.125%. The nominal £400m bonds have a redemption date of 10 October 2045. The Group has the right to repay the notes on specific dates from 10 October 2025. If the bonds are not repaid on that date, the applicable rate of interest would be reset at a rate of 3.852% plus the appropriate benchmark gilt for a further five-year period.

The perpetual guaranteed subordinated capital securities issued on 12 May 2006 have a nominal value of £375m and the rate of interest payable is 6.701% of the nominal value. The Group has the option to repay the bonds on specific dates starting 12 July 2017. If the bonds are not repaid, from that date, the interest payable would be LIBOR plus 2.51%.

The bonds and the notes are contractually subordinated to all other creditors of the Group, such that in the event of a winding-up or of bankruptcy, they are able to be repaid only after the claims of all other creditors have been met.

There have been no defaults on any bonds or notes during the year. The Group has the option to defer interest payments on the bonds and notes but has to date not exercised this right.

36) Other borrowings

The Group's borrowings as at 31 December 2015 are **£11m** (2014: £299m). The 2015 borrowings relate to bank accounts in overdraft where no right of offset exists. The 2014 borrowings related to loans from credit institutions under a repurchase agreement which were repaid during 2015. Further information is contained in note 26.

At 31 December 2015 total unsecured loans from credit institutions under committed credit facilities of **£500m** (2014: £500m) are available to the Group. There are no amounts outstanding at 31 December 2015 (2014: £nil). The facility expires in 2017.

At 31 December 2015 the Group has in place a **US$1bn** (2014: US$1bn) Euro commercial paper programme. There are no amounts outstanding at 31 December 2015 (2014: £nil).

37) Insurance contract liabilities

Estimation techniques and uncertainties

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

There is also considerable uncertainty in regard to the eventual outcome of the claims that have occurred by the end of the reporting period but remain unsettled. This includes claims that may have occurred but have not yet been notified to the Group and those that are not yet apparent to the insured.

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

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

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

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

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

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

Discount assumptions

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

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

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

Notes to the statement of financial position – continued

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

As at 31 December 2015, the value of the discount on net claims liability reserves is **£403m** (2014: £444m) excluding annuities and periodic payment orders. All other factors remaining constant, a decrease of 1% in the discount rates would reduce the value of the discount by approximately £127m.

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

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

The Group accounting policies in respect of insurance contract liabilities are described in note 5.

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

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

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

Provision for unearned premiums, gross of acquisition costs

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

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

Provision for losses and loss adjustment expenses

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

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

Claims development tables

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

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

The lower triangle of the tables presents the amounts paid against those provisions in each subsequent accounting period.

The estimated provisions for ultimate incurred losses change as more information becomes known about the actual losses for which the initial provisions were set up and as the rates of exchange.

Notes to the statement of financial position – continued

Consolidated claims development table gross of reinsurance

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

Consolidated claims development table net of reinsurance

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

Notes to the statement of financial position – continued

Insurance and reinsurance liabilities

	2015 £m	2014 £m
Direct insurance creditors	**229**	300
Reinsurance creditors	**891**	643
Total insurance and reinsurance liabilities	**1,120**	943
Less: Liabilities classified as held for sale	**175**	39
Total insurance and reinsurance liabilities net of held for sale	**945**	904

38) Post-retirement benefits and obligations

Defined contribution pension schemes

Costs of **£52m** (2014: £62m) were recognised in respect of defined contribution schemes by the Group. The Group's Swedish subsidiaries are part of a multi-employer defined benefit scheme along with other financial institutions in Sweden. As it is not possible to determine the assets and liabilities in respect of any one employer under this scheme, it is included in these accounts as a defined contribution scheme. Contributions of **£9m** (2014: £9m) were paid to this scheme during 2015 and are included in the costs shown above. The expected contributions in 2016 are **£9m**. Total estimated contributions to the scheme from all employers in 2015 were **£51m**. The latest information regarding the funding of this scheme is taken from the interim report for the first half of 2015, when the scheme funding rate was 114% (2014: 110%).

Defined benefit pension schemes and other post-retirement benefits

Independent actuaries calculate the value of the defined benefit obligations by applying the Projected Unit Credit Method. The future expected cash outflows (calculated based on assumptions that include inflation and mortality) are discounted to present value, using a discount rate determined at the end of each reporting period by reference to current market yields on high quality corporate bonds ('AA' rated) identified to match the currency and estimated term of the obligations.

The actuarial valuation involves making assumptions about discount rates, future salary increases, future inflation, the employees' age upon termination and retirement, mortality rates, future pension increases, disability incidence and health and dental care cost trends.

If actuarial experience differs from the assumptions used, the expected obligation could increase or decrease in future years. Due to the complexity of the valuation and its long-term nature, the defined benefit obligation is highly sensitive to changes in the assumptions. Assumptions are reviewed at each reporting date. As such, the valuation of the liability is highly sensitive to changes in bond rates and will also be impacted by changes in equity markets.

UK Schemes

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.

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

	Number
Active members – members in employment with the Group 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 a 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.

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.

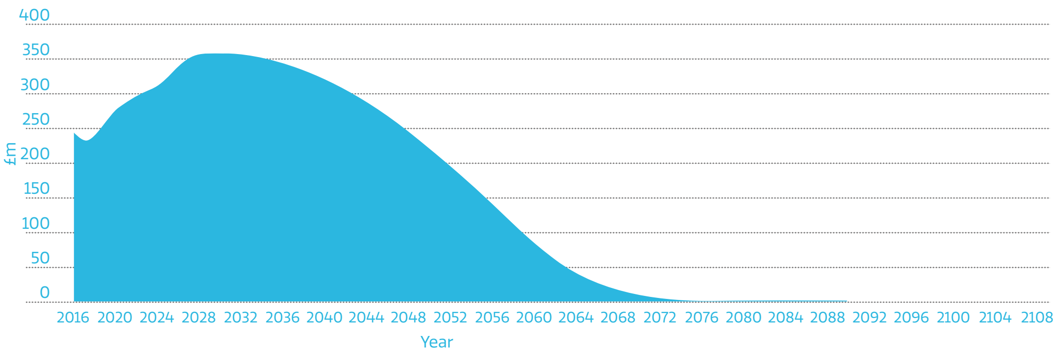
The Group is exposed to risks through its obligation to fund the schemes. These risks include market risk (assets not performing as well as expected), inflation risk and mortality risk over the lives of the members. The Group and the trustees of the schemes work together to reduce these risks through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

During 2009, the Group entered into arrangements that provide coverage against mortality 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 2014 and 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.

For the two main UK defined benefit schemes, the level of contributions in 2015 were **£93m** (2014: £93m) of which **£65m** (2014: £64m) was 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 cashflows of the two main UK schemes is 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** (2014: 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.

Notes to the statement of financial position – continued

Non-UK schemes

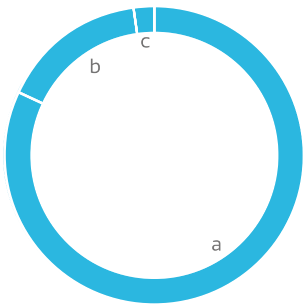
The Group also operates defined benefits schemes in other countries. The most significant of these schemes are in Canada and Ireland.

The Group also provides post-retirement healthcare benefits to certain current and retired Canadian employees. The benefits are not prefunded. Life insurance benefits, which provide varying levels of coverage, are provided at no cost to retirees. Healthcare benefits, which also provide varying levels of coverage, require retiree contributions in certain instances and benefits are generally payable for life.

The split of post-retirement liabilities across other countries is shown below:

NON-UK LIABILITY SPLIT BY COUNTRY

a. Canada 82%
b. Ireland 16%
c. Scandinavia 2%
d. Colombia 0%



All schemes

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

Movement in surplus/(deficit) during the year:

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

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

	2015			2014
	UK £m	Other £m	Total £m	Total £m
Present value of funded obligations	6,678	352	7,030	7,466
Present value of unfunded obligations	6	90	96	132
Present value of obligations	6,684	442	7,126	7,598
Equities	593	130	723	1,108
Government debt	3,982	131	4,113	4,192
Non-government debt	2,393	102	2,495	2,255
Derivatives	476	–	476	698
Securities with quoted market price in an active market	7,444	363	7,807	8,253
Property	166	–	166	199
Cash	69	4	73	67
Other (including infrastructure, commodities, hedge funds, loans)	744	–	744	506
Other investments	979	4	983	772
Value of asset and longevity swaps	(1,597)	–	(1,597)	(1,525)
Total assets in the schemes	6,826	367	7,193	7,500
Total surplus/(deficit)	142	(75)	67	(98)
Defined benefit pension schemes	142	(31)	111	(35)
Other post-retirement benefits	–	(44)	(44)	(63)
Schemes in surplus (note 31)	179	16	195	129
Schemes in deficit (note 39)	(37)	(91)	(128)	(227)

The UK pension schemes do not hold any of the Group's own transferable financial instruments as plan assets, and no property held by the schemes is occupied by the Group.

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

	2015 £m	2014 £m
Retirement benefit obligation at 1 January	7,598	6,731
Current service costs	30	29
Past service costs and losses arising from settlements	4	4
Interest cost	274	305
Contributions by scheme participants	1	1
Actuarial (gains)/losses	(439)	821
Gains on curtailments	(3)	(8)
Payments from the schemes	(286)	(267)
Exchange rate adjustment	(53)	(18)
Retirement benefit obligations at 31 December	7,126	7,598

The following is a reconciliation of the Group's pension schemes' assets:

	2015 £m	2014 £m
Pension schemes' assets at 1 January	**7,500**	6,566
Return on schemes' assets included in pension net interest cost	**274**	301
Return on schemes' assets less amounts included in pension net interest cost	**(343)**	821
Contributions by the Group	**113**	114
Contributions by schemes' participants	**1**	1
Total expenses paid from the schemes	**(21)**	(15)
Payments from the schemes	**(286)**	(267)
Settlements	**(3)**	(8)
Exchange rate adjustment	**(42)**	(13)
Pension schemes' assets at 31 December	**7,193**	7,500

Assumptions

The principal actuarial assumptions used are:

	UK		Other	
	2015 %	2014 %	2015 %	2014 %
Assumptions used in calculation of retirement benefit obligations:				
Discount rate	**3.92**	3.70	**3.90**	3.70
Annual rate of inflation (RPI)	**3.02**	3.00	**–**	–
Annual rate of inflation (CPI)	**1.92**	2.20	**1.52**	1.90
Annual rate of increase in salaries	**3.02**	3.00	**2.57**	3.60
Annual rate of increase in pensions[1]	**2.93**	2.90	**1.52**	1.90
Assumptions used in calculation of pension net interest costs for the year:				
Discount rate	**3.70**	4.60	**3.70**	4.80

Note:
1. For the UK 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%. For other schemes the weighted average assumption is shown.

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 by 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 for males and 29.1 (2014: 28.9) years for 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 for males and 30.6 (2014: 30.1) years for females.

Sensitivities

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[1]	Increase by 0.25%	**166**	177
Mortality long-term rate	Increase by 0.25%	**62**	70
Mortality assumption[2]	Reduce by 12%	**187**	192

Notes:
1 The impact shown is for the appropriate increase in the revaluation of deferred pensions and the increases to pensions in payment resulting from the specified increase in RPI and CPI.
2 Reducing the mortality assumption by 12% is the equivalent of increasing the life expectancy of a male aged 60 years by 1 year.

Notes to the statement of financial position – continued

39) Provisions

	2015 £m	2014 £m
Pensions and post-retirement obligations	**128**	227
Reorganisation provisions	**52**	16
Other provisions	**82**	96
Total provisions at 31 December	**262**	339
Less: Provisions classified as held for sale	**1**	1
Total provisions at 31 December net of held for sale	**261**	338

Of the above, **£122m** (2014: £252m) is due to be settled outside of 12 months.

Other provisions includes **£15m** (2014: £20m) 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, and Motor Insurance Bureau provisions of **£13m** (2014: £13m).

The balance consists of a number of provisions none of which are individually significant.

See note 38 for further information regarding the pensions and post-retirement benefit obligations.

Movements during the year on reorganisation and other provisions

	Reorganisation provisions £m	Other provisions £m
Provisions at 1 January 2015	16	96
Exchange adjustment	(1)	(3)
Additional provisions during the year	63	49
Utilised	(26)	(43)
Released	–	(17)
Provisions at 31 December 2015	**52**	**82**
Less: Provisions classified as held for sale	**–**	**1**
Provisions at 31 December 2015 net of held for sale	**52**	**81**

40) Other liabilities

	2015 £m	2014 £m
Deposits received from reinsurers	**16**	25
Derivatives designated as accounting hedges	**47**	22
Other derivatives	**42**	35
Other creditors	**462**	530
Accruals and deferred income	**607**	567
Total other liabilities	**1,174**	1,179
Less: Liabilities classified as held for sale	**157**	19
Total other liabilities net of held for sale	**1,017**	1,160
To be settled within 12 months	**843**	854
To be settled after 12 months	**174**	306

Other creditors of **£462m** (2014: £530m) includes payroll and other indirect taxes **£201m** (2014: £200m), outstanding settlements for investment purchases **£50m** (2014: £130m), liability recognised to reflect recoverable amount of certain subsidiaries being less than carrying value **£30m** (2014: £nil), non-insurance creditors **£24m** (2014: £27m) and other creditors **£153m** (2014: £171m).

Other commitments and contingencies

41) Leases

The operating lease payments recognised as an expense during the year are **£54m** (2014: £57m). The Group has no significant lease agreements that include contingent rent.

Operating lease commitments where the Group is the lessee

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

	Land and buildings		Other	
	2015 £m	2014 £m	**2015 £m**	2014 £m
One year or less	**42**	47	**1**	2
Between one and five years	**131**	137	**1**	2
After five years	**122**	108	**–**	–
	295	292	**2**	4
Recoveries under sub tenancies	**(7)**	(8)	**–**	–
Total	**288**	284	**2**	4

Operating lease commitments where the Group is the lessor

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

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

42) Other commitments

Capital commitments

The Group's significant capital commitments in respect of property and equipment and intangible assets are detailed in the table below:

	2015 £m	2014 £m
Property and equipment	**53**	49
Intangible assets	**48**	39
Total	**101**	88

Funding commitments to structured entities and invested assets

The future commitments to structured entities are disclosed in note 28 of these financial statements. In addition, the Group has committed to invest **£147m** (2014: £nil) in other classes of investments.

43) Other contingent liabilities

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

The Group 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 Group 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.

In addition, the Group 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.

Appendices

Appendix A: Events after the reporting period

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

Appendix B: Other accounting policies

Subsidiaries

Subsidiaries are entities over which the Group has control. The Group controls a subsidiary if the Group has all of the following:

- the 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.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

For business combinations completed on or after 1 January 2010, the cost of acquisition include the fair value of deferred and contingent consideration at the acquisition date and subsequent changes in the carrying value of the consideration are recognised in the consolidated income statement. 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.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Changes in the ownership interests of a subsidiary between shareholders of the Group and shareholders holding a non-controlling interest are accounted for as transactions between equity holders of the Group. Any difference between the fair value of the consideration given by the transferee and the carrying value of the ownership interest transferred is recognised directly in equity.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries are aligned to ensure consistency with the policies adopted by the Group.

Investments in associates

Associates are entities over which the Group 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 by the equity method of accounting and are initially recognised at cost.

The Group's shares of its associates' profits or losses are recognised in the consolidated income statement and its share of comprehensive income is recognised in the consolidated statement of comprehensive income. The cumulative post acquisition movements are adjusted in the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Adjustments are made, where necessary, to the accounting policies of associates to ensure consistency with the policies adopted by the Group.

Appendices – continued

Translation of foreign operations

The results and financial position of subsidiaries and associates whose functional currency is not Sterling are translated into Sterling as follows:

- Assets and liabilities for each statement of financial position presented are translated at closing exchange rates at the end of the period;
- Income and expenses for each income statement are translated at average exchange rates during each period;
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income within the foreign currency translation reserve. Further information can be found in note 22. When a foreign entity is sold, the cumulative exchange differences relating to that foreign entity are recognised in the consolidated income statement as part of the gain or loss on sale.

Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the ordinary shareholders of the Parent Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by various share trusts of the Group and held as own shares.

Diluted earnings per share is calculated by increasing the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, notably those related to the employee share schemes.

Hedge accounting

Transactions are classified as hedging transactions when the following conditions for hedge accounting are met:

- There is a formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge;
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cashflows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship;
- The effectiveness of the hedge can be reliably measured;
- The hedge is assessed on an ongoing basis and determined to have been highly effective.

Hedge of a net investment in a foreign operation

Where a foreign exchange derivative is designated as a hedging instrument against a net investment in foreign operations, the effective portion of the hedge is recognised in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. At the point at which the net investment in the foreign operation is derecognised, the gains and losses accumulated in other comprehensive income are transferred to the consolidated income statement.

On designation of forward foreign exchange contracts the interest element is separated from the forward exchange rate and is excluded from the hedge relationship. Effectiveness of the hedge is then measured using the spot rate, which is also the exchange rate used when measuring the net investment in the designated subsidiaries.

For foreign exchange options the hedge designation is to hedge the value of the foreign operations at the strike price at the exercise date of the option.

Hedge of future cashflows

Where a derivative is designated as a hedging instrument against the cashflows from a fixed interest security, the gains and losses arising from the change in fair value of the derivative are recognised initially in other comprehensive income in the cashflow hedge reserve. This amount is adjusted to be the lesser of the cumulative gain or loss on the derivative and the cumulative change in fair value of the expected future cashflows of the security, both since the inception of the hedge.

The accumulated amount in the cashflow hedge reserve, is reclassified to the income statement in the period in which the hedged cashflows affect profit or loss.

Hedge of changes in fair value

Where a derivative is designated as a hedging instrument in a fair value hedge of the changes in value of a fixed interest security, the gains and losses arising from the change in fair value of the derivative are recognised in the consolidated income statement. The change in fair value of the hedged investments that are attributable to the hedged risk is transferred from the revaluation reserve to the income statement.

Property and equipment

Property, plant and equipment is comprised of Group occupied land and buildings and other equipment (comprising of fixtures, fittings and other equipment including computer hardware and motor vehicles) and is initially recognised at cost.

Group occupied property is stated at fair value, less subsequent depreciation for buildings. The fair value methodology is set out in note 27. Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and credited to a separate revaluation reserve within equity. Decreases in the carrying amount arising on revaluation are recognised in other comprehensive income and reduce the revaluation reserve, to the extent they offset previous revaluation increases; further decreases are charged to the consolidated income statement. Buildings are depreciated to their residual value on a straight-line basis over the useful economic life of the building; depreciation is charged to the consolidated income statement except where a building has been revalued upwards, in which case the amount of the depreciation relating to the difference between the buildings revalued amount and the original cost is transferred from revaluation reserve to retained earnings. Land is not depreciated.

All other plant equipment is stated at cost less accumulated depreciation and accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset only when it is probable that the expenditure will result directly in a flow of future economic benefits to the Group, and the cost can be measured reliably.

The estimated useful lives of property, plant and equipment is as follows:

Group occupied buildings	normally 30 years
Fixtures and fittings	10 years
Equipment	3–5 years

The useful economic life and residual value are reviewed on an annual basis. Where the carrying value of an asset is deemed to be greater than the recoverable amount, the asset is impaired as outlined in the significant accounting policies note. Gains and losses on disposal are recognised based on the carrying amount of the asset. On disposal of buildings, the associated revaluation surplus is transferred to retained earnings.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the time of the transaction. 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 consolidated income statement.

Investment property and rental income

Investment property is recorded at fair value. The fair value methodology is set out in more detail in note 27. Unrealised gains and unrealised losses or changes are recognised in net investment income in the consolidated income statement. Rental income from operating leases on investment property is recognised in the consolidated income statement on a straight-line basis over the length of the lease.

Policy acquisition costs

Policy acquisition costs incurred in acquiring insurance contracts include commissions and premium taxes directly related to the writing or renewal of insurance policies. These acquisition costs are deducted from unearned premiums and recognised in the consolidated income statement on the same basis as the unearned premiums.

Loan capital

Loan capital comprises subordinated bonds which are initially measured at the consideration received less transaction costs. Subsequently, loan capital is measured at amortised cost using the effective interest rate method.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events that are more likely than not to result in an outflow of economic resources in order to settle the obligation, and the amount of that outflow can be reliably estimated.

Contingent liabilities

A contingent liability is recognised if the Group has a possible future obligation as a result of past events, but either the amount of the expected future outflow of economic resources or the likelihood of payment cannot be reliably estimated.

Appendices – continued

Termination benefits

Termination benefits are payable when either employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Termination benefit expenses are recognised in the income statement at the earlier of the date when the Group can no longer withdraw the offer and the date 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.

Own shares

Own shares are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of shares. Any consideration paid or received is recognised directly in equity.

Other operating income

Other operating income is comprised principally of:

- Administration fee income: is received from policyholders in order for certain changes to their policy or policyholder details within their period of cover to be made and is recognised in full on the date that the change is made;
- Premium policy instalment income: is received from policyholders as a finance charge on premiums paid in instalments and is recognised over the period that the instalments are made on a straight-line basis;
- Engineering inspection fees: are received in respect of inspection services of plant and machinery and are recognised in full in the month in which the inspection is made.

Share based payments

The fair value of the employee share options and other equity settled share based payments is calculated at the grant date and recognised as an expense over the vesting period. The vesting of share awards is dependent on service and performance conditions, as well as market conditions. The assumption of the number of shares expected to vest is revised at the end of each reporting period, with the corresponding credit recognised immediately in the income statement. Where an option is cancelled by an employee, the full value of the option (less any value previously recognised) is recognised at the cancellation date. The proceeds received by the Group upon exercise of share options, net of any transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised, with a corresponding increase in equity.

Dilution levels for all schemes are held strictly within limits set by the Investment Association (IA).

Further information on the share schemes the Group operates can be found in note 19 and in the Directors Remuneration Report.

Dividends

The final dividend is recognised as a liability when approved at the Annual General Meeting.

Operating lease commitments

The Group leases various outlets and offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Payments made under operating leases are charged on a straight-line basis over the term of the lease.

Appendix C: Subsidiaries and associates

Unless otherwise stated, the share capital disclosed comprises ordinary shares which are 100% held within the Group.

SUBSIDIARIES

Argentina

Aseguradora de Creditos y Garantias S.A.

Atlantis Sociedad Inversora S.A.

Royal & Sun Alliance Seguros (Argentina) S.A. *(99.35%)*

Santa Maria del Sol S.A.

Bahrain

Royal & Sun Alliance Insurance (Middle East) BSC (c) *(50.00%)*

Brazil

Royal & Sun Alliance Insurance PLC – Escritório de Representação no Brasil Ltda. *(99.80%)*

Royal & Sun Alliance Seguros (Brasil) SA

Canada

2278857 Ontario Inc.

3342484 Canada Limited

8301140 CANADA LIMITED

8301140 CANADA LIMITED *(preferred)*

8842264 Canada Limited

Ascentus Insurance Ltd.

Canadian Northern Shield Insurance Company

Coast Underwriters Limited *(class 1 preferred unlimited)*

Coast Underwriters Limited *(class 2 preferred unlimited)*

Coast Underwriters Limited *(class B1 shares)*

Coast Underwriters Limited *(85.42%, class A shares unlimited)*

Johnson Inc. *(common series B)*

Johnson Inc. *(common series A)*

Johnson, L. Inc. *(A common shares)*

Johnson, L. Inc. *(B common shares)*

MRM Solutions Limited *(85.41%, A common shares)*

MRM Solutions Limited *(B common shares, non-voting)*

Quebec Assurance Company

Roins Financial Services Limited *(preference non-voting)*

Roins Financial Services Limited

Roins Holding Limited *(common unlimited)*

Royal & Sun Alliance Insurance Company of Canada

Royal & Sun Alliance Insurance Company of Canada *(class A preferred non-voting)*

RSA Canada Holdings Limited

RSA Canada Holdings Limited *(preferred)*

RSA Travel Insurance Inc

The Johnson Corporation

Unifund Assurance Company *(preferred non-voting)*

Unifund Assurance Company *(common)*

Unifund Claims Inc.

Veinot, Morin and Associates Inc.

Western Assurance Company Corporation

Chile

Inversiones RSA Chile Limitada

RSA Chilean Holding SpA

RSA Seguros Chile S.A. *(99.48%)*

RSA Seguros de Vida S.A.

Servicios y Ventas Compañia Limitada *(99.74%)*

Colombia

Financia Expreso RSA SA *(98.57%)*

PROTECCIÓN GARANTIZADA LTDA *(50.27%)*

Royal & Sun Alliance Seguros (Colombia) S.A. *(98.49%)*

Denmark

Besigtelses Kontoret af 1914 A/S

Codan A/S

Codan Ejendomme II A/S

Codan Forsikring A/S

Forsikringsselskabet Privatsikring A/S

NIS 2 A/S

NIS Denmark A/S

Guernsey

Insurance Corporation of the Channel Islands Limited

Insurance Corporation Service Company Limited *(99.98%)*

India

Royal & Sun Alliance IT Solutions (India) Private Limited

RSA Actuarial Services (India) Private Limited

Ireland

123 Money Limited *(C ordinary non-voting)*

123 Money Limited *(B1 ordinary non-voting)*

123 Money Limited *(B2 ordinary non-voting)*

123 Money Limited *(B3 ordinary non-voting)*

123 Money Limited *(B4 ordinary non-voting)*

123 Money Limited *(B5 ordinary non-voting)*

123 Money Limited

Benchmark Underwriting Limited

EGI Holdings Limited

Europa General Underwriters Limited

Royal & Sun Alliance (Ireland) Limited

RSA Insurance Ireland Limited

RSA Overseas (No.3) Limited

RSA Overseas Holdings (No. 1)

RSA Overseas Holdings (No. 2)

RSA Reinsurance Ireland Limited

Sertus Underwriting Limited

The Patriotic Limited

Isle of Man

Ellan Vannin RSA (No. 1) Limited

Ellan Vannin RSA (No. 2) Limited

Ellan Vannin RSA (No. 3) Limited[1]

Ellan Vannin RSA (No. 4) Limited

Ellan Vannin RSA (No. 5) Limited

Royal Insurance Service Company (Isle of Man) Limited

RSA Isle of Man No.1 Limited

RSA Manx Holdings Limited *(A Ordinary)*

Tower Insurance Company Limited

Jersey

Urica Capital Limited *(49.90%,participating)*

Luxembourg

RSA Overseas Holdings (Luxembourg) (No. 1) SARL

Mexico

Royal & Sun Alliance Seguros (Mexico) S.A. de C.V. *(I Series M)*

Royal & Sun Alliance Seguros (Mexico) S.A. de C.V. *(I Series E)*

Netherlands

GDII – Global Direct Insurance Investments V.O.F. *(Partnership Interest)*

IDIP Direct Insurance B.V.

Intouch Insurance Group B.V.

Royal & SunAlliance Benelux Holdings NV

Royal Insurance Global B.V.

RSA Overseas (Netherlands) B.V.

RSA Overseas Holdings B.V.

Sun Alliance Finance B.V.

Norway

NIS Norway AS

Appendices – continued

Oman
Al Ahlia Insurance Company SAOC *(70.00%)*

Russian Federation
GDII – Rus L.L.C.

Joint Stock Company 'Intouch Insurance' *(74.56%)*

Joint Stock Company 'Intouch Insurance' *(100%, preference non-voting)*

Saudi Arabia
Al Alamiya for Cooperative Insurance Company *(50.07%)*

Singapore
RSA Asia Management Office PTE. LTD.

Survey Association Pte Ltd

Sweden
Holmia Livforsakring AB

NIS Sweden I AB

NIS Sweden II AB

United Kingdom
Acrecrest Limited

Alliance Assurance Company Limited

B.E. Inspection Limited

Bradford Insurance Trustee Limited

British and Foreign Marine Insurance Company Limited

British Aviation Insurance Company Limited *(57.10%)*

Century Insurance Company Limited

Codan Finance Limited

Coverselect Limited

Fyfe Group Limited

Liability Insurance Solutions Limited

Liverpool Marine and General Insurance Company Limited

London Guarantee & Reinsurance Company Limited

Magian Underwriting Agency (1998) Limited

Martello Professional Risks Limited

Millhood Limited

Motor Trade Solutions Limited

National Vulcan Engineering Insurance Group Limited

Noble Marine (Insurance Brokers) Limited

Noble Marine (Underwriting Agencies) Limited

Non-Destructive Testers Limited

Oak Underwriting plc

Octopus (London) Limited

PI Brokernet Limited

Professional Indemnity Direct Limited

Punchbowl Park Management Limited *(65.09%)*

R&SA Global Network Limited (64.00%)

R&SA Marketing Services plc

Road Runner Motor Trade Limited

Royal & Sun Alliance Insurance (Global) Limited

Royal & Sun Alliance Insurance Finance Limited(1)

Royal & Sun Alliance Insurance plc *(A ordinary)*

Royal & Sun Alliance Insurance plc *(B ordinary)*

Royal & Sun Alliance Pension Trustee Limited

Royal & Sun Alliance Property Services Limited

Royal & Sun Alliance Reinsurance Limited

Royal Insurance (U.K.) Limited

Royal Insurance Holdings plc(1)

Royal Insurance Operational Services (U.K.) Limited *(deferred ordinary)*

Royal Insurance Operational Services (U.K.) Limited

Royal International Insurance Holdings Limited

Roysun Limited

RSA Accident Repairs Limited

RSA Actuarial Services Limited

RSA Claims Management Limited

RSA CRS (US) Limited

RSA Direct Limited

RSA E-Holdings Limited

RSA Engineering Limited(1)

RSA Finance

RSA Finance (Isle of Man) Limited

RSA Global Limited

RSA Law Limited *(90.00%, A ordinary)*

RSA Northern Ireland Insurance Limited

RSA Overseas Holdings (UK) Limited

RSAI Limited

Sal Pension Fund Limited(2)

Saturn Professional Risks Limited

Sun Alliance and London Insurance plc

Sun Alliance Fund Management Limited(1)

Sun Alliance Insurance International Limited

Sun Alliance Insurance Overseas Limited

Sun Alliance Insurance UK Limited

Sun Alliance Management Services Limited

Sun Alliance Mortgage Company Limited(1)

Sun Insurance Office Limited

Swinchan Holdings Limited(1)

The Globe Insurance Company Limited

The London Assurance

The Marine Insurance Company Limited

The Northern Maritime Insurance Company Limited

The Sea Insurance Company Limited

The Union Marine and General Insurance Company Limited

The Westminster Fire Office Limited

Westgate Properties Limited

United States
Royal & Sun Alliance Insurance Agency Inc.

Uruguay
Royal & Sun Alliance Seguros (Uruguay) SA

ASSOCIATES

Canada
Groupe Viau Inc. *(20.00%, A common)*

Shaw Sabey & Associates Ltd. *(25.00%, common unlimited)*

Sweden
CAB Group AB *(27.30%)*

United Kingdom
Caunce O'Hara & Company Limited *(39.00%)*

Centrium Management Company Limited *(31.45%)*

Eurotempest Limited *(33.33%)*

Polaris U.K. Limited *(25.38%)*

Footnotes
1 Directly owned by the parent company RSA Insurance Group plc.
2 99.99% owned by the parent company RSA Insurance Group plc.

Other notes:
a. All of the entities listed are included in the consolidated accounts.
b. 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).
c. 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.
d. No subsidiary holds a disclosable interest in the shares of RSA Insurance Group plc.

Financial statements of the Parent Company

Parent company statement of comprehensive income

for the year ended 31 December 2015

	2015 £m	2014 £m
Loss for the year net of tax	**(52)**	(9)
Fair value (losses)/gains net of tax	**(91)**	357
Total comprehensive (expense)/income for the year	**(143)**	348

The loss for the year net of tax includes a tax credit of **£8m** (2014: credit £7m). There is no tax relating to fair value gains.

Parent company statement of changes in equity

for the year ended 31 December 2015

	Ordinary share capital £m	Ordinary share premium £m	Preference shares £m	Revaluation reserves £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Balance at 1 January 2014	1,012	704	125	904	8	1,105	3,858
Total comprehensive income for the year							
Loss for the year net of tax	–	–	–	–	–	(9)	(9)
Fair value gains net of tax	–	–	–	357	–	–	357
	–	–	–	357	–	(9)	348
Dividends – paid (note 7)	–	–	–	–	–	(9)	(9)
Issued for cash (note 4)	382	371	–	–	–	–	753
Share consolidation (note 4)	(381)	–	–	–	381	–	–
Share based payments	2	–	–	–	–	8	10
Balance at 1 January 2015	**1,015**	**1,075**	**125**	**1,261**	**389**	**1,095**	**4,960**
Total comprehensive expense for the year							
Loss for the year net of tax	**–**	**–**	**–**	**–**	**–**	**(52)**	**(52)**
Fair value gains net of tax	**–**	**–**	**–**	**(91)**	**–**	**–**	**(91)**
	–	**–**	**–**	**(91)**	**–**	**(52)**	**(143)**
Dividends – paid (note 7)	**–**	**–**	**–**	**–**	**–**	**(65)**	**(65)**
Shares issued for cash (note 4)	**1**	**2**	**–**	**–**	**–**	**–**	**3**
Share based payments	**1**	**–**	**–**	**–**	**–**	**13**	**14**
Balance at 31 December 2015	**1,017**	**1,077**	**125**	**1,170**	**389**	**991**	**4,769**

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

Financial statements of the Parent Company – continued

Parent company statement of financial position

as at 31 December 2015

	Notes	2015 £m	2014 £m
Assets			
Intangible assets		**1**	4
Investments	2	**4,317**	4,408
Amounts owed by subsidiaries	9	**2,356**	2,489
Current tax assets	6	**8**	9
Deferred tax assets	6	**8**	9
Other debtors and other assets	3	**68**	10
		2,440	2,517
Cash and cash equivalents		**4**	10
Total assets		**6,762**	6,939
Equity and liabilities			
Equity			
Shareholders' equity	4	**4,769**	4,960
Total equity		**4,769**	4,960
Liabilities			
Amounts owed to subsidiaries	9	**646**	639
Loan capital	5	**1,254**	1,243
Current tax liabilities	6	**–**	2
Accruals and other liabilities		**93**	95
Total liabilities		**1,993**	1,979
Total equity and liabilities		**6,762**	6,939

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

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

Scott Egan
Group Chief Financial Officer

Parent company statement of cashflows

for the year ended 31 December 2015

	Note	2015 £m	2014 £m
Net cashflows from operating activities	8	**(98)**	(102)
Purchase of intangible assets		**–**	(1)
Net movement in amounts owed by subsidiaries		**154**	(175)
Net cashflows from investing activities		**154**	(176)
Proceeds from issue of share capital		**3**	753
Dividends paid		**(65)**	(9)
Investment in subsidiary		**–**	(395)
Subordinated debt – repayments		**–**	(459)
Subordinated debt – new issue		**–**	395
Net cashflows from financing activities		**(62)**	285
Net (decrease)/increase in cash and cash equivalents		**(6)**	7
Cash and cash equivalents at beginning of the year		**10**	3
Cash and cash equivalents at end of the year		**4**	10

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

Notes to the separate financial statements

1) Significant accounting policies

RSA Insurance Group plc, ('the Company'), incorporated in England and Wales, is the ultimate Parent Company of the RSA group of companies. The principal activity of the Company is to hold investments in its subsidiaries and the receipt and payment of dividends.

These separate financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Except where otherwise stated, all figures included in the separate financial statements are presented in millions of pounds Sterling ('Sterling'), shown as £m, rounded to the nearest million.

In accordance with section 408 of Companies Act 2006, the Company's income statement and related notes have not been presented in these separate financial statements.

The accounting policies that are used in preparation of these separate financial statements are consistent with the accounting policies used in preparation of the consolidated financial statements of RSA Insurance Group plc as set out in those financial statements.

The additional accounting policies that are specific to the separate financial statements of the Company are set out below.

Investment in subsidiaries

The Company accounts for its investments in directly owned subsidiaries as available for sale financial assets, which are included in the accounts at fair value.

Changes in the fair value of the investments in subsidiaries are recognised directly in equity in the statement of comprehensive income. Where there is a decline in the fair value of a directly owned subsidiary below cost, and there is objective evidence that the investment is impaired, the cumulative loss that has been recognised in equity is removed from equity and recognised in the income statement.

Dividend income

Dividend income from investments in subsidiaries is recognised when the right to receive payment is established.

2) Investments

	2015 £m	2014 £m
Investments at 1 January	**4,408**	5,109
Additions during the year	–	395
Impairment during the year	–	(1,158)
Fair value adjustments	**(91)**	62
Investments at 31 December	**4,317**	4,408

The balance at 31 December comprises:

	2015 £m	2014 £m
Investment in subsidiaries	**3,663**	3,724
Loans to subsidiaries	**654**	684
	4,317	4,408

The investments in subsidiaries are recognised in the statement of financial position at fair value measured in accordance with the Company's accounting policies. The Company's investments are classified as Level 2 financial assets. Fair value of the Company's significant subsidiary is determined by reference to the market value (derived from relevant indices) of the Company's ordinary shares and loan capital instruments at the end of the reporting period, being the most transparent independent available indicator. The market value is adjusted for the fair value of the Company's preference shares, assets and liabilities, excluding directly owned subsidiaries. The adjusting items have been fair valued by determining the present value of future cashflow projections, using an appropriate arm's length discount rate. The remaining subsidiaries are held at fair value which has been determined to be net asset value.

The subordinated loans to a subsidiary have the same terms as the external loan capital from which the loans to the subsidiary were financed. The fair values of these loans are based on the quoted prices for the external loan capital. The nominal values of the two loans are **£78m** (2014:£78m) and **£492m** (2014:£492m) with interest rates of 6.701% and 9.375% respectively.

The Directors believe that the methodology used supports the inclusion of the investments in subsidiaries in the statement of financial position, at the fair values ascribed to them. The market value of the Company's ordinary shares at 31 December 2015 was **4.27p**. A movement of 1% in the share price would have an impact of **£43m** on the fair value.

Full details of the principal subsidiaries of the Company are set out in Appendix C to the consolidated financial statements.

3) Other debtors and other assets

	2015 £m	2014 £m
Other prepayments and accrued income	**68**	1
Other debtors	**–**	9
Total other debtors and other assets	**68**	10

4) Share capital

Full details of the share capital of the Company are set out in note 33 to the consolidated financial statements.

5) Loan capital

Full details of the loan capital of the Company are set out in note 35 to the consolidated financial statements.

6) Current and deferred tax

	Asset		Liability	
	2015 £m	2014 £m	2015 £m	2014 £m
To be settled within 12 months	**8**	9	**–**	–
To be settled after 12 months	**–**	–	**–**	2
	8	9	**–**	2

The current tax relating to items that are credited to equity is **£2m** (2014: £2m).

Deferred tax assets

Deferred tax for the current year is based on a rate of **18%** (2014: 20%). The following are the major deferred tax assets recognised by the Company and movements during the year:

	2015 £m	2014 £m
Other temporary differences	**1**	1
Reclassification of bonds	**–**	2
Accelerated capital allowances	**7**	6
Net deferred tax position at 31 December	**8**	9

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

	2015 £m	2014 £m
Net deferred tax position at 1 January	**9**	11
Amount charged to income statement	**1**	–
Amount charged to equity	**(1)**	(2)
Effect of change in tax rates – income statement	**(1)**	–
Net deferred tax position at 31 December	**8**	9

The Company has recognised a deferred tax asset of **£nil** (2014: £1m) in other temporary differences in respect of deferred tax reliefs of **£58m** (2014: £58m). No deferred tax has been recognised in respect of **£58m** (2014: £55m) of deferred tax reliefs due to the unpredictability of future profits streams.

Net deferred tax assets of **£8m** (2014: £9m), 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.

7) Dividends

Full details of the dividends paid and proposed by the Company are set out in note 21 to the consolidated financial statements.

Notes to the separate financial statements – continued

8) Cash generated from operations

	2015 £m	2014 £m
Net (loss) for the year before tax	**(61)**	(16)
Changes in operating assets/liabilities	**(37)**	(86)
Net cashflows from operating activities	**(98)**	(102)

9) Related party transactions

The following transactions were carried out with related parties:

Provision of services and benefits

RSA Insurance Group plc provides services and benefits to its subsidiary companies operating within the UK and overseas as follows:

- Provision of technical support in relation to risk management, information technology and reinsurance services. Services are charged for annually on a cost plus basis, allowing for a margin of **5%** (2014: 5%).
- Issue of share options and share awards to employees of subsidiaries. Costs are charged for annually, based on the underlying value of the awards granted calculated in accordance with the guidance set out within IFRS 2. The amounts charged in respect of these services to the Company's subsidiaries totalled **£67m** (2014: £51m).

Key management compensation.

	2015 £m	2014 £m
Salaries and other short-term employee benefits	**9**	7
Bonus awards	**5**	3
Pension benefits	**1**	–
Share based payments	**2**	1
Total	**17**	11

Other transactions

Year-end balances with related parties are set out below:

	2015 £m	2014 £m
Receivable from related parties:		
Receivable from subsidiaries, interest bearing loans	**1,816**	1,902
Receivable from subsidiaries, non-interest bearing loan	**540**	587
Total receivable from related parties	**2,356**	2,489
Payable to related parties:		
Payable to subsidiaries, interest bearing loans	**185**	185
Payable to subsidiaries, non-interest bearing loan	**461**	454
Total payable to related parties	**646**	639

Interest is receivable on interest bearing loans to subsidiaries, which are repayable on 24 hours written notice. The rates of interest charged are at three months LIBOR + margins ranging from 0.6% to 2.5%.

Interest is payable on interest bearing loans from subsidiaries, which are repayable on 24 hours written notice; **£170m** (2014: £170m) at three months LIBOR plus 0.6% and **£15m** (2014: £15m) at three months LIBOR plus 200bps.

Interest received from subsidiaries is **£81m** (2014: £97m), and interest paid to subsidiaries is **£2m** (2014:£15m).

Royal & Sun Alliance Insurance plc (RSAI), a subsidiary of the Company, has provided guarantees to the Company's creditors for amounts arising from its loan capital agreements (as set out in note 35 to the consolidated financial statements) and for amounts arising from its committed credit facilities (as set out in note 36 to the consolidated financial statements). The guarantees relating to the loan capital agreements are subordinated to all other creditors of RSAI.

10) Share based compensation

Full details of share based compensation plans are provided in note 19 to the consolidated financial statements.

11) Risk management

The risks faced by the Company are derived from its investment in subsidiaries and are therefore the same as those of the RSA Group of companies. Details of the key risks to the Group and the steps taken to manage them are disclosed in the Risk Management section of the consolidated financial statements.

Shareholder information

Registered office and group corporate centre

20 Fenchurch Street, London EC3M 3AU. Telephone: +44(0) 20 7111 7000.

Registered in England and Wales No. 2339826.

Group website

The Company's corporate website provides shareholders with a broad range of information about the Company's heritage, social and environmental responsibilities and investor information such as the Group's financial statements, current and historic share prices, Annual General Meeting (AGM) materials, events, governance information and answers to frequently asked questions in respect of shareholder matters. Visit the investor website at www.rsagroup.com/investorrelations for further information.

Registrar

The Company's share register is maintained by Equiniti Limited. Any administrative enquiries relating to shareholdings, such as dividend payment instructions or a change of address, should be notified to Equiniti at the following address:

Equiniti Limited

Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone: 0371 384 2048

When contacting Equiniti, please quote your shareholder reference number which can be found on your share certificate or dividend tax voucher. Telephone lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding English public holidays. Overseas callers should use +44(0) 121 415 7064. Shareholders with a text phone facility should use +44(0) 371 384 2255 or alternatively use the Text Relay service by dialling 18001 0121 415 7064 directly from the text phone. To securely email Equiniti with an enquiry visit www.help.shareview.co.uk.

Annual General Meeting

Holders of the Company's Ordinary Shares are invited to attend the Company's 2016 AGM, which will be held at 200 Aldersgate, St Paul's, London EC1A 4HD at 11.00am on Friday 6 May 2016.

Managing your Shareholding

Information on how to manage your shareholding can be found at www.help.shareview.co.uk. If you do not find the information you require, you can send your enquiry via secure email from these pages. You will be asked to complete a form providing your name, address and shareholder reference number. If you require an email response, you will need to provide your email address.

Amalgamation of accounts

Shareholders who receive duplicate sets of Company mailings owing to multiple accounts in their name may contact Equiniti to request that their accounts be amalgamated.

Electronic communications

Receiving the Company's communications electronically allows the Company to communicate with its shareholders in a more environmentally friendly, cost effective and timely manner.

You can elect to receive email notification of shareholder communications by registering at www.shareview.co.uk where you can also set up a bank mandate to receive dividends directly to your bank account and submit proxy votes for shareholder meetings. Shareholders may elect to receive a printed copy of the Annual Report and Accounts at any time by contacting Equiniti.

Additionally, if you wish to register for the Company's investor news service to receive the latest news and press releases by email, visit www.rsagroup.com/investornewsalert.

Dividends

Shareholders are encouraged to have their dividends paid directly into their bank account. It is a more secure and faster way to receive the dividend payment with cleared funds available to shareholders on the dividend payment date. Shareholders who have their dividends paid directly into their bank receive a consolidated tax voucher once a year, showing payments received in the respective tax year. Alternatively, individual tax vouchers are available upon request. To take advantage of this convenient method of payment visit www.shareview.co.uk or contact Equiniti. Details of 2016 dividend dates can be found at www.rsagroup.com/dividends.

Shareholder information – continued

Scrip Dividend Scheme

The Company renewed its authority to offer a Scrip Dividend Scheme to shareholders at the 2014 AGM.

The Company will not be offering a Scrip Dividend alternative in respect of the final 2015 Ordinary dividend.

The Terms and Conditions of the Scheme have been amended to make it clearer that a scrip dividend will not be available in the event that a cash dividend is not paid (including where it is cancelled or deferred by the Board). The revised Terms and Conditions of the Scheme are available on the shareholder services area of the Company's website or from Equiniti. Shareholders with a scrip dividend mandate in place need take no further action as your mandate remains effective until notified to the Registrar in writing.

For dividends where a Scrip alternative is offered, shareholders wishing to receive a Scrip dividend instead of a cash dividend should contact Equiniti for details or visit the shareholder services area of the Company's website.

American Depositary Receipts

The Company operates a sponsored American Depositary Receipts ('ADR') programme which is managed by JPMorgan Chase NA. The programme allows shareholders to invest in the Company through US dollar denominated funds. Any enquiry relating to the sponsored ADR programme should be addressed to:

JPMorgan Chase & Co
PO Box 64504
St Paul
MN 55164-0504 USA

or alternatively visit adr.com/shareholder and select Contact Us.

Low cost share dealing facilities

Shareholders may purchase or sell their RSA Ordinary Shares through their stockbroker, a high street bank or one of the providers detailed below:

Equiniti offer a telephone and internet dealing service. Commission is currently 1.5% on amounts up to £50,000 and 0.25% on the excess thereafter, with a minimum charge of £60 for telephone dealing and £45 for internet dealing. For telephone sales call +44(0) 345 6037 037. Lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding English public holidays. For internet sales log on to www.shareview.co.uk/dealing. Please quote your shareholder reference number.

Stocktrade also offer a telephone dealing service. Commission is currently 1% which is subject to a minimum charge of £25. For telephone sales call +44(0) 131 240 0414 between 8.00am and 4.30pm, Monday to Friday. Please quote reference: 'RSA Group dial and deal service'.

Alternatively visit their website, www.stocktrade.co.uk.

Please note that rates quoted are as at February 2016 and may be subject to change. Please contact either provider for further guidance on their full terms and conditions.

Share register fraud: protecting your investment

UK law requires that our shareholder register is available for public inspection. We are unable to control the use of information obtained by persons inspecting the register. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website.

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. If you receive any unsolicited advice, make sure you get the correct name of the person and organisation and check that they are appropriately authorised by the FCA by visiting www.fca.org.uk. More information on protecting your investment can be found at http://www.fca.org.uk/consumers/scams/investment-scams/protect-yourself. If you do receive a fraudulent approach, please advise the FCA using the share fraud reporting form at www.fca.org.uk/scams or call the FCA Consumer Helpline on 0800 111 6768.

Tips on protecting your shares

- Keep any documentation that contains your shareholder reference number in a safe place and destroy any documentation you no longer require by shredding it
- Inform Equiniti promptly when you change your address
- Be aware of dividend payment dates and contact Equiniti if you do not receive your dividend cheque, or better still, make arrangements to have the dividend paid directly into your bank account
- Consider holding your shares electronically in a CREST account via a nominee.

Sharegift

Shareholders with a small number of shares, the value of which makes it uneconomic to sell them, may wish to consider donating them to charity through ShareGift, a registered charity administered by The Orr Mackintosh Foundation, registered charity number 1052686. The relevant share transfer form can be obtained from Equiniti. Further details can be obtained from www.sharegift.org or by calling +44(0) 20 7930 3737.

Financial calendar

3 March 2016
Ex dividend date for the ordinary final dividend for 2015 and the first preference dividend for 2016.

4 March 2016
Record date for the ordinary final dividend for 2015 and the first preference dividend 2016.

1 April 2016
Payment date for the first preference dividend for 2016.

5 May 2016
Q1 Interim Management Statement.

6 May 2016
Annual General Meeting.

13 May 2016
Payment date for the ordinary final dividend for 2015.

4 August 2016*
Announcement of the half-year results for the six months ended 30 June 2016.

11 August 2016*
Ex-dividend date for the second preference dividend for 2016.

12 August 2016*
Record date for the second preference dividend for 2016.

8 September 2016*
Ex-dividend date for the ordinary interim dividend for 2016.

9 September 2016*
Record date for the ordinary interim dividend for 2016.

3 October 2016*
Payment date for the second preference dividend for 2016.

14 October 2016*
Payment date of the ordinary interim dividend for 2016.

3 November 2016*
Q3 Interim Management Statement.

*** Provisional dates**

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

Jargon buster

Below is a simple explanation of some of the key technical terms used within this report.

Term	Definition
Affinity	· Selling insurance through a partner's distribution network, usually to a group of similar customers, e.g. store card holders, alumni groups, unions and utility company customers.
Capital	· The money invested in the Group. This includes the money invested by shareholders and profits retained within the Group.
Claims Frequency	· Average number of claims per policy over the year.
Claims Handling Expenses	· The administrative cost of processing a claim (salary costs, costs of running claims centres, etc. and allocated share of the costs of head office units). Not the cost of the claim itself.
Claims Ratio (Loss Ratio)	· Percentage of Net Earned Premiums which is paid out in claims and Claims Handling Expenses.
Claims Reserve (Provision for Losses and Loss Adjustment Expenses)	· Reserve established by the Group to reflect the estimated cost of claims payments and related expenses that we estimate we will ultimately be required to pay.
Claims Severity	· Average cost of claims incurred over the period.
Combined Operating Ratio (COR)	· The sum of the Claims Ratio, Expense Ratio and Commission Ratio. · Measures how much we pay out in claims and expenses for each unit of net premium received. · A COR of less than 100% indicates that we are writing profitable business. · Calculated as: $\frac{\text{Net Incurred Claims + Expenses + Commissions}}{\text{Net Earned Premiums}}\ \%$
Commission	· An amount paid to an intermediary such as a broker for generating business.
Commission Ratio	· Ratio of net commission costs to Net Earned Premiums.
Current Year Result	· The underwriting profit or loss earned from business for which protection has been provided in the current financial period.
Earned Premium	· The portion of an insurance premium for which we have already provided protection.
Economic Capital	· The Group's assessment of the capital we must hold to have a high confidence of meeting our obligations given our risk appetite.
Expense Ratio	· Percentage of Net Earned Premiums which is paid out in operating expenses e.g. salaries, premises costs, etc. The ratio does not include claims related expenses but can include or exclude commissions.
Exposure	· A measurement of risk we are exposed to through the premiums we have written. For example, in motor insurance one vehicle insured for one year is one unit of exposure.
Financial Conduct Authority (FCA)	· The regulatory authority for the conduct of the UK financial services industry.
Gross Written Premium (GWP)	· Total premium written or processed in the period, irrespective of whether it has been paid.
IBNR (Incurred but Not Reported)	· A reserve for accidents or incidents (which we have provided cover for) that have occurred but which have not yet been reported to us.
Large losses	· Single claims or events with a net cost of £500k or higher.
Net Earned Premium (NEP)	· The portion of Net Written Premiums for which we have already provided protection. This is included as income in the period.

Term	Definition
Net Incurred Claims (NIC)	· The total claims cost incurred in the period less any share to be paid by reinsurers. It includes both claims payments and movements in claims reserves in the period, as well as claims handling expenses.
Net Written Premium (NWP)	· Net Written Premium is premium written or processed in the period, irrespective of whether it has been paid, less the amount paid out in reinsurance premiums.
Prior Year Result	· Profit or loss generated by settling claims incurred in a previous year at a better or worse level than the previous estimated cost.
Property and Casualty (P&C) (Non Life Insurance or General Insurance)	· Property insurance covers loss or damage through fire, theft, floods, storms and other specified risks. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage to the property of others.
Prudential Regulation Authority (PRA)	· The regulatory authority with responsibility for the prudential regulation and supervision of the UK financial services industry.
Rate	· The price of a unit of insurance based on a standard risk for one year. Actual premium charged to the customer may differ from the rate due to individual risk characteristics and marketing discounts.
Reinsurance	· The practice whereby we transfer part or all of the risk we have accepted to another insurer (the reinsurer).
Run-off	· A situation where an insurer is no longer underwriting new business but continues to meet its liabilities under existing contracts.
Solvency II	· New capital adequacy regime for the European insurance industry. Establishes a revised set of EU wide capital requirements and risk management standards.
Scrip Dividend	· Where shareholders choose to receive the dividend in the form of additional shares rather than cash. The Group issues new shares to meet the scrip demand.
Tangible Net Asset Value (TNAV)	· The tangible value of the Group calculated by subtracting our total liabilities including loan capital from our total tangible assets (total assets less goodwill and intangibles).
Total Shareholder Return	· A measure of performance based on the overall value to shareholders of their investment in the Group over a period of time. Includes the movement in the share price and dividends paid, expressed as a percentage of the share price at the beginning of the period.
Underlying/attritional loss ratio	· Claims incurred during the period expressed as a percentage of earned premiums, including claims handling expenses but excluding claims incurred in respect of large losses, weather events and subsidence losses.
Underlying Return on Tangible Equity	· A measure of the underlying profits the Group earns, adjusted for profit/loss on disposal of subsidiaries, reorganisation and integration costs and acquisition costs, relative to opening tangible funds attributable to ordinary shareholders.
Underwriting Result	· This is a measure of how well the Group has done excluding its investment performance and is calculated as: NEP – Net Incurred Claims (including Claims Handling Expenses) – Expenses – Commissions
Unearned Premium	· The portion of a premium that relates to future periods, for which protection has not yet been provided, irrespective of whether the premium has been paid or not.
Weather losses	· Weather events with a net cost of £500k or higher.
Yield	· Rate of return on an investment in percentage terms. · The dividend payable on a share expressed as a percentage of the market price.

Notes

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