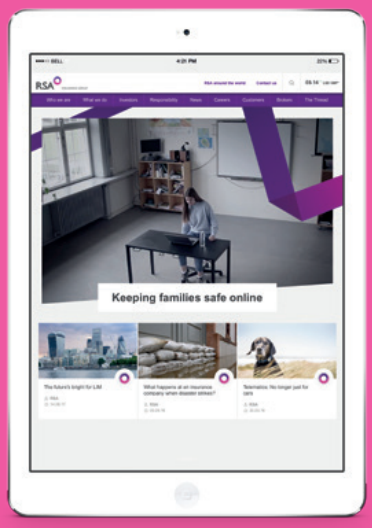
RSA Insurance Group plc

Annual Report and Accounts 2017

WE ARE MAKING THINGS BETTER, TOGETHER

With over 300 years' experience, we've learnt a thing or two about risk and uncertainty and the value of insurance to our customers. As the world evolves so do the needs of those we serve, and we must respond with an agile yet resilient business that always strives to do better.



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

◊ **Alternative performance measures**
RSA uses Alternative Performance Measures (APMs) including certain underlying measures, to help explain its business performance and financial position. Where not identified in the body of this report, further information is set out in the appendix on pages 190 to 197.

GREAT CUSTOMER EXPERIENCE

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

For more information
see pages **14–15**

DISCIPLINED AND EXPERT UNDERWRITING

Underwriting is our core discipline. It's what we do. We want to be the best we possibly can, and amongst the very best in our industry.

For more information
see pages **16–17**

MANAGING OUR COST BASE

Managing our cost base well is a necessity. To be competitive for customers, to invest in better capabilities and to properly deliver to shareholders, we need to permanently reduce costs.

For more information
see pages **18–19**

Financial highlights

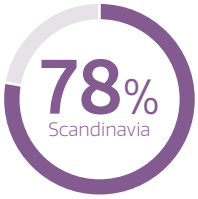
£6.7bn
Net written premiums

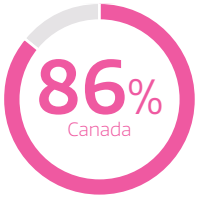
94%
Combined operating ratio ◊

43.5p
Underlying earnings per share ◊

£322m
Profit after tax

Customer retention





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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. The Strategic Report, set out on pages 4 to 41, and the Directors' and Corporate Governance Report, set out on pages 42 to 96, together represent the management report for the purpose of compliance with DTR 4.1.8R of the UK Listing Authority's Disclosure and Transparency Rules. Both the Strategic Report and the Directors' and Corporate Governance Report have 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 those reports shall be subject to the limitations and restrictions provided by such law.

WE ARE A LEADING INTERNATIONAL GENERAL INSURER, FOCUSED ON SELECTED REGIONAL MARKETS

Our vision is to better serve customers by making it easier than ever to insure the things they care about and to provide support when life doesn't go to plan.

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.

We use our capabilities to anticipate and exceed customer expectations and improve outcomes for customers via our direct channel, our broker relationships or partner organisations.

For more information see pages **10–13**

Where we operate

We have established leadership positions in Scandinavia, Canada, and the UK & International (which includes Ireland and Middle East).

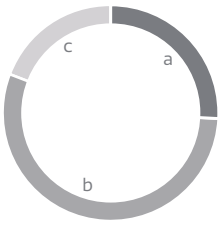
For more information see pages **26–32**

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

For more information see pages **14–15**

2017 Net written premiums



a. Direct	26%
b. Broker	55%
c. Agent/affinity	19%

Distribution and brands

We have developed trusted and recognisable brands in our markets.

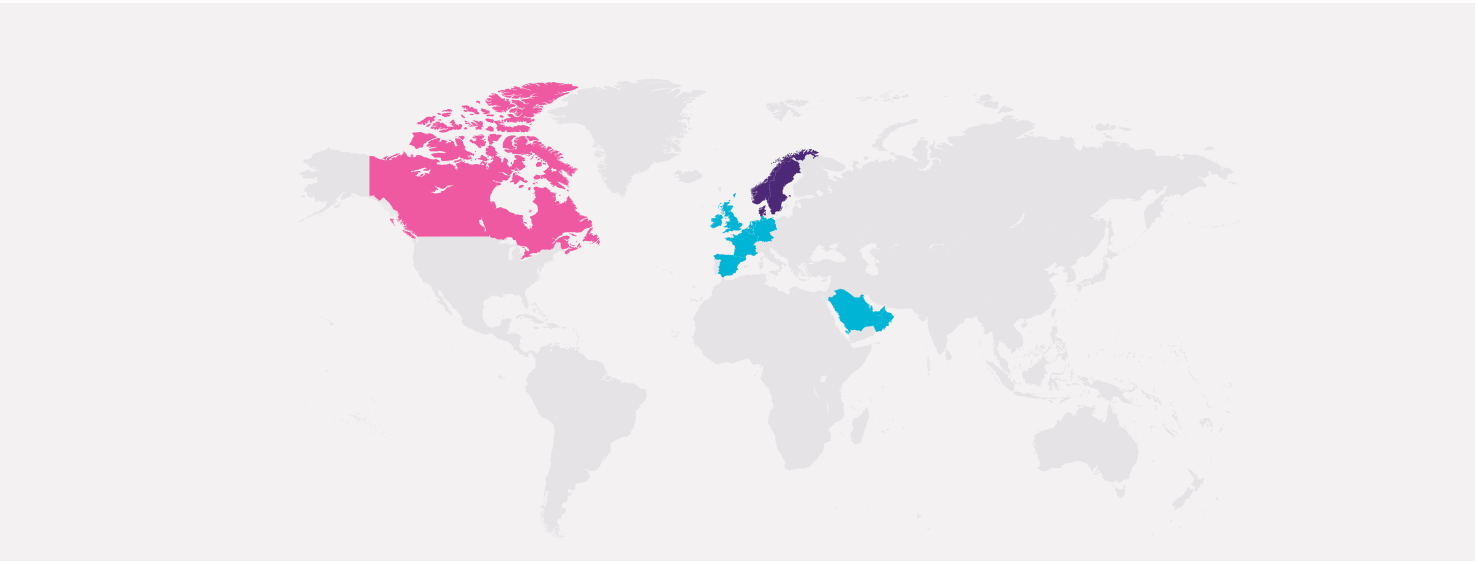
In Scandinavia, we operate in Sweden as Trygg-Hansa and in Denmark and Norway as Codan.

In Canada, our main brands are Johnson, RSA, Canadian Northern Shield, and Western Assurance.

In the UK, we operate through our MORE TH>N and RSA brands and in Ireland through our 123.ie and RSA brands. In the Middle East we operate through Al Alamiya in Saudi Arabia and Al Ahlia in Oman.

For more information see pages **26–32**

MORE TH>N®
TRYGG HANSA
123.ie
WA
CODAN
CNS
JOHNSON
العالمية AL ALAMIYA
الأهلية AL AHLIA



RSA Group[1]

£6.7bn

Net written premiums in 2017

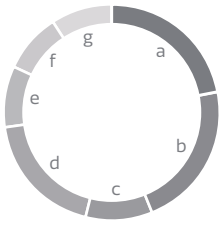
94.0%

Combined operating ratio ◊ in 2017

12,600

Employees

2017 Net written premiums by product



a. Household	22%
b. Motor	22%
c. Other	10%
d. Property	19%
e. Liability	9%
f. Commercial motor	9%
g. Marine & other	9%

Scandinavia

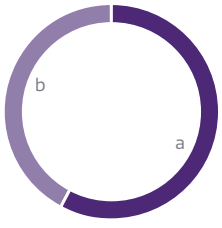
£1.8bn

Net written premiums in 2017

82.9%

Combined operating ratio ◊ in 2017

2017 Net written premiums



a. Personal	58%
b. Commercial	42%

For more information see pages **26–27**

Canada

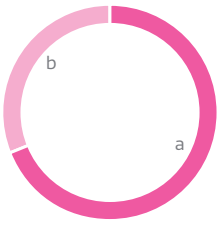
£1.6bn

Net written premiums in 2017

93.9%

Combined operating ratio ◊ in 2017

2017 Net written premiums



a. Personal	69%
b. Commercial	31%

For more information see pages **28–29**

UK & International

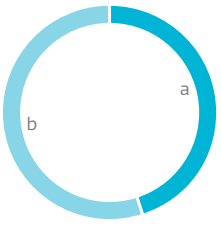
£3.2bn

Net written premiums in 2017

100.5[2]%

Combined operating ratio ◊ in 2017

2017 Net written premiums



a. Personal	45%
b. Commercial	55%

For more information see pages **30–32**

Notes:
1. Includes central functions.
2. Proforma for share of aggregate reinsurance recoveries and excludes the impact of the Ogden rate change. For more information see page 197.

ANOTHER YEAR OF STRONG PROGRESS

Dear shareholders,

2017 has been another year of excellent progress for RSA. Our twin goals are to deliver for customers and for shareholders. In 2017 RSA achieved both, though we are determined to do better again in future years.

Premium income rose 4 percent, as more customers both stayed with RSA and brought their business to us. We delivered record underwriting results and a profit after tax of £322m (2016: £20m). At the same time, we increased underlying earnings per share by 10 percent and we delivered a 23 percent dividend increase for shareholders.

As I reflect on your Company's progress since 2013, it is gratifying to be able to report on a transformed RSA. Our financial performance has gone from losses to very strong levels of profitability. Our capital strength and resilience has built equally strongly. And behind these measures sits huge progress in capability, culture and competitiveness which I believe can drive our performance for customers and shareholders still further in the years to come.

RSA has some 300 years of rich history, serving our customers in good times and bad. Today RSA looks forward to continuing and building on this record.

Our focus as a Company is on the pursuit of outperformance. In each of our three regions – the UK & International, Scandinavia and Canada – we are seeing many advances in customer service, underwriting and cost efficiency. We know that there is much more that we can do, and we are dedicated in our efforts to drive RSA towards best-in-class capabilities and results.

Managing volatility

The purpose of insurers in society is to help our customers – individuals and businesses – to better manage the threats and uncertainties that life produces. To do that, we need to be strong and resilient ourselves, and to harness that strength in sustaining support for our customers – many of whom have been with us for decades.

In 2017, our industry supported customers through many challenges. These included some of the worst natural disasters on record in the US and the Caribbean, as well as more prosaic threats to property, transport and personal injury across our international business.

Around 70 percent of RSA operates outside the UK, and the Group is relatively insulated from the potential impact of Brexit, with separate, locally regulated, European subsidiaries. We have created a subsidiary in Luxembourg as the headquarters of our European Union (EU) branch business, thereby allowing our businesses to concentrate on their core offering without experiencing any disruption from the UK's exit from the EU.

Societal changes

Across society the pace of change is high. This can be seen in the ways technology is revolutionising information flows. It manifests in challenges relating to an aging population and growing life expectancy, as well as in the challenges from uneven intergenerational and other forms of wealth distribution. We see it too in changing social attitudes across many aspects of society.

In many ways insurers are on the 'front line' of these changes. We are deeply engaged in harnessing technology and deeper access to data to serve customers better and more conveniently. We can become more and more accurate in pricing risk and so offering better value products to customers. RSA's market leading presence in the UK telematics market for young drivers is a fine case in point. We seek to work closely with government and others on a range of social questions – such as greater apprenticeship training and opportunities for young people – road safety campaigns and codes of practice in data usage.

Board governance and composition

This has been a year in which the topic of corporate governance has rarely been out of the headlines. In April, the Business, Energy and Industrial Strategy Committee published its recommendations on corporate governance, remuneration and boardroom diversity, and in parallel, the Government published its green paper, leading to proposed legislation to strengthen standards. In December, the Financial Reporting Council proposed a number of changes to the UK Corporate Governance Code, bringing it up to date and promoting continued improvement in the quality of governance.

Your Board is largely supportive of the underlying objectives of the proposed reforms, particularly around strengthening accountability, diversity and promoting meaningful dialogue with investors and the workforce. I am pleased to report that RSA was recently ranked as one of the top 10 companies in the 2017 Institute of Directors' Good Governance Index, underlining our commitment in this area. As we progress these proposals, we are mindful that effective governance will still require companies to make decisions in the context of their own individual businesses. Competitiveness of the UK as a place to do business should not be eroded as an unintended consequence of significant and important governance reforms.

> Our focus as a Company is on the pursuit of outperformance.
>
> **Martin Scicluna**
> Chairman

After six years on the Board, Hugh Mitchell will retire as a Non-Executive Director with effect from the Company's AGM in May 2018. Kath Cates, who has served as a Non-Executive Director of the Group since 2013, has succeeded Hugh as chair of the Remuneration Committee, with Martin Strobel taking over from Kath as chair of the Board Risk Committee. On behalf of the Board, I would like to thank Hugh for his contribution to the Group and to welcome Kath and Martin to their new roles.

Recognising the importance of diversity

We see diversity, not only in the Boardroom, but across our entire company as an important business issue. RSA is committed to promoting diversity of all types across all levels of our workforce, and to creating an inclusive environment that engages all of our colleagues effectively.

We are, for the first time, reporting on our gender pay gap. Whilst this gap is predominantly driven by the structure of our workforce, we have programmes and initiatives in place designed to improve it over time. RSA is a signatory of the Women in Finance Charter, and as such, we have made a public commitment to achieving 33 percent representation of women in our Management Group by 2020. Across our business, we continue to support the promotion of talented colleagues, and have recently appointed a Group Head of Diversity and Inclusion to drive and implement our plans. We are active participants in mentoring schemes such as the 30% Club in the UK, and our Group Technical Academy delivered over 7,000 training hours in 2017. We are confident that men and women are paid equally for equivalent work across our business, and we undertake regular equal pay audits in line with ACAS Guidance.

Continued progressive dividend

We know that one measure of the results we produce for shareholders is the dividend they enable us to pay. In that context, we are pleased to propose a final dividend of 13 pence per share making a total of 19.6 pence for the year. This is a 23 percent increase versus 2016, and reflects the strong advances we have made and the Board's ongoing confidence in the Group's prospects.

Board Thanks

On behalf of the Board, I would like to thank our more than 12,600 colleagues around the world. RSA's results and continuing progress would not be possible without their dedication, professionalism and commitment to the Group. In particular, I would like to thank Stephen Hester for his continued outstanding leadership in transforming our Company. The focus on serving our customers, the pride in our work and the desire to improve, gives me great optimism for the future of our business.

Your Board is confident in RSA's ability to deliver on its strategic objectives and to drive further value for customers and for shareholders. I would also like to thank all our shareholders for the continued support you have shown, and look forward to welcoming you to our Annual General Meeting on 11 May.

Martin Scicluna
Chairman
21 February 2018

RESPONDING TO CHANGING MARKET DYNAMICS AND INSURANCE THEMES

As global markets respond to changing macro and insurance drivers, RSA is well placed to deliver against customer and industry needs now and in the future

GLOBAL MACRO THEMES

ECONOMIC

Growth in global economies is evident, though with underlying challenges.

The global economy has returned to good growth following the financial crisis, although there are some doubts about sustainability and latent inflationary pressures.

Continuing concerns over the occurrence of asset bubbles, levels of debt and the interconnected nature of economies requires caution.

Globalisation and trade agreements have faced criticism, amid some protectionist reactions in established economies.

RSA point of view

- Global insurance volumes are relatively insensitive to normal fluctuations in GDP growth
- Our focused footprint in established markets and low risk and well-matched approach to investments provides some resilience against negative economic shocks
- While focused on a small number of core markets, our long-standing global network platform enables us to write global risks in a controlled fashion through locally established insurers.

POLITICAL

New phase of unsettled geopolitical activity fuelled by protectionism.

G20 economies are introducing new protectionist trade measures at a faster pace.

This introduces new political tensions, which is complicated by existing longer term tensions in Russia, Middle East and Asia.

These rising tensions could impact on global economic growth, introduce sudden shocks and fuel social unrest.

RSA point of view

- Our regional footprint enables us to be resilient to macro-political risks, and most of our business is local and locally incorporated
- At an operational level, our Brexit preparation plans are progressing well, notwithstanding some uncertainty
- Our international Commercial Lines are only modestly exposed to trade volumes.

SOCIAL

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

Polarising social views, including some reaction against inequality.

Aging population.

Litigious culture, higher ongoing compensation awards and more expensive vehicle parts have all contributed to the rising cost of driving, particularly for young people.

RSA point of view

- For over 300 years, RSA's core values and social purpose has been to be there for our customers in a crisis
- Development of programmes to train staff in new skills
- Care taken in policies for vulnerable customers
- Business focused on mainstream customer needs and product areas of value across the age spectrum
- Telematics proposition provides affordable insurance for young drivers.

TECHNOLOGICAL & DIGITAL

Digitisation and new technologies are creating opportunities and threats for incumbents.

Digitisation is enabling significant shifts in customer expectations and demands.

Traditional products and business models are being challenged with a greater focus on ease and simplicity, and changing views on consumer wants and needs.

Previous technological breakthroughs have disrupted the job pattern although ultimately created growth and new jobs. It is unclear whether the introduction of robotics and artificial intelligence will follow a similar trend.

RSA point of view

- We are continuing to invest for our customers, be that through better customer journeys, new products or digital interfaces
- We can be more competitive through harnessing big data and advanced modelling capability to assess and price risk more efficiently
- We are also evolving our technical capability strategy and staff development programmes in the light of the changing mix of skills needed.

INSURANCE THEMES

NEW TECHNOLOGY

Technology is affecting the insurance value chain:

- Fintech investment has been high for a number of years and arguably UK Personal Lines have already been disrupted by aggregators over the last 10 years. High distribution costs may continue to be a target for disruption
- Automation technologies have become common practice, driving efficiency and supporting better customer experience
- RSA is continuously investing in the technological agenda, including Telematics, pricing sophistication, claims automation and digitisation of distribution and customer service.

CLIMATE CHANGE & EXTREME WEATHER

Climate change poses risks to people, property and the natural environment:

- Catastrophic event weather insured losses have increased fourfold over the past 30 years
- RSA's reinsurance treaties ensure that our exposure is within our risk appetite, but we also promote prevention, investment in civil defences and risk pooling schemes to preserve access to insurance
- As well as responding to specific events for our customers, RSA is committed to reducing carbon emissions and achieved a 4.3 percent reduction in carbon emissions per full time equivalent employee in 2017. Our targets are achieved through a range of measures, including reducing business travel and improving operational efficiency
- We also partner with pioneers in the low-carbon agenda as the leading insurer of off-shore wind farms and insurer of the world's largest single-site solar plant.

BREXIT

In relation to Brexit, we are in the process of setting up a new operation in Luxembourg as the headquarters of our existing European Union (EU) Commercial Lines branches in Belgium, France, Germany, Spain and the Netherlands:

- While Brexit is not a major issue for RSA, the move allows the sensible configuration of the European branch network in light of the UK's exit from the EU
- The project is proceeding well and is scheduled to complete in 2018.

INFLATION

Several of our markets are observing claims inflation trends:

- Our businesses are alert to inflationary pressures, in terms of both claims and operational costs
- We seek to reflect emerging inflation quickly in pricing or management of claims supply chain
- The disposal of 'long tail' UK legacy liabilities early in the year has reduced exposure to inflation risk.

CYBER RISK

The cyber insurance market is rapidly expanding as the frequency, severity and sophistication of attacks increases:

- RSA has developed a number of cyber specific products and continues to engage with customer demand
- More broadly, the European General Data Protection Regulation (GDPR) comes into effect in May 2018 and requires all companies to follow a clear framework on how personal data is handled. RSA has programmes in progress in each of our affected territories to ensure that we comply from the effective date.

ECONOMIC

Markets have seen significant volatility with yields around historic lows, although expected to increase moderately, and Sterling materially weakened:

- The continuation of the low yield environment mandates a higher focus on underwriting discipline and cost management for all insurers
- Weaker Sterling benefits our income statement, while balance sheet and capital exposure to FX is well-matched.

OUR BUSINESS MODEL PROVIDES THE FRAMEWORK TO DELIVER VALUE FOR ALL OF OUR STAKEHOLDERS

WHAT MAKES RSA DIFFERENT

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 that our business remains responsive and relevant to our customers and markets.

Balance of scale and focus
Our unique mix of scale and focus across our three regions enables agility and brings intense performance discipline. Operating in market-leading positions, we also benefit from diversification of capital and stable returns.

THE RESOURCES WE USE

Financial
£4.5bn of capital (equity and debt) is employed within RSA to support customers and generates shareholder returns.

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

People
RSA is a people-centred business. Over 12,600 employees across our business ensure that our operations run smoothly.

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 55 percent of our business. Relationships with our supply chain enable us to provide an efficient claims service.

Data and technology
RSA is harnessing the power of technology through e-enabled distribution and customer service, increased operational efficiency in policy and claims administration, enhanced data and pricing analytics that support greater customer responsiveness and market competitiveness.

THE WAY WE MANAGE

Strategy

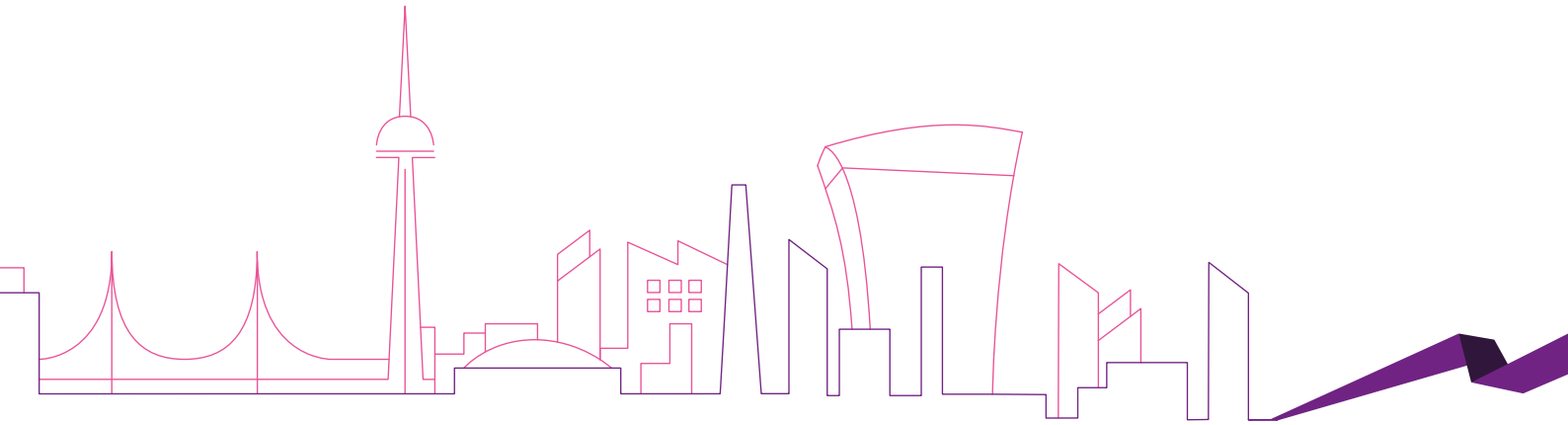
Focused
A leading general insurer, focused on the UK & International, Canadian and Scandinavian regions.

Stronger
Operate with capital strength and quality.

Better
Our ambition is to operate at best-in-class levels in our markets.

We aim to improve performance with key levers across the areas of customers, underwriting and costs.

Our strategy is executed within a robust risk management (see pages 33 to 37) and governance framework (see pages 42 to 96).



OUR SUSTAINABILITY PRIORITIES

Responsible business
Acting responsibly in everything that we do, helping to build trust in our business.

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
Supporting our customers in responding to a changing climate and encouraging sustainable working practices.

See more on our corporate website rsagroup.com/responsibility

HOW WE CREATE VALUE

Understanding risk and pricing effectively
We are in the business of risk management. We strive hard to understand the risks our customers want us to insure and make sure that we price our products appropriately.

Global expertise and geographic diversification
As an international business, we seek to maximise the benefits of our reach without losing touch with the differing needs of the markets we operate in.

Serving customers well and proactively managing claims
The expectations of our customers are increasing. We aim to constantly improve the service and experience that we offer throughout the customer journey, paying claims quickly and efficiently.

Effective product distribution
We distribute our products through many different channels, directly and through partners. Efficient access to customers is key if we are to continue to develop our business.

Prudent investments that protect policyholders and capital
Our business generates significant assets which are prudently invested so as to be available to pay claims when they are due.

OUR IMPACT IN 2017

Financial value

£663m
Operating profit ◊

15.5%
Underlying return on tangible equity ◊

Social value

£1.9m
Value of communities contributions[1]

9,000
Volunteer hours in our local communities

Environmental value

4.3%
Reduction in our carbon emissions per person[2]

Customer value

c.80%
Customer retention

Note:
1. Payments to charities, employee fundraising, value of volunteering and gifts in kind.
2. For information on our methodology please see page 96.

GROUP CHIEF EXECUTIVE'S STATEMENT

In a tough period for insurance markets, we are delighted to produce another year of growing profits, dividends and return on equity for shareholders. Higher premium income also highlights the positive customer response to what we are offering.

> The Group's performance ambitions remain high and we target further improvement in 2018 and thereafter.

Stephen Hester
Group Chief Executive

In 2017, RSA delivered growth in premiums, profits and dividends and an improved 15.5 percent return on tangible equity[1] – all compared to an extremely strong 2016 result.

We are pleased to report record underwriting profits. However, the year also had some disappointment relative to our ambitions. Excellent underwriting results in Scandinavia, Canada, Middle East and Ireland were partly offset by poor UK (and related London market) results. It is our task in 2018 to deliver a bounce-back in the latter whilst sustaining underlying progress across the Group as a whole.

Strategy and focus

RSA is a focused international insurer. We have complementary leadership positions in the major general insurance markets of the UK, Scandinavia and Canada, together with supporting 'London market' and international business. The Group is well balanced between personal and business customers, across our geographies, product lines and distribution channels.

Our business strategy is to sustain a disciplined focus on RSA's existing areas of market leadership, whilst driving intense operating improvement in pursuit of best-in-class performance levels.

External conditions

General insurance markets are relatively mature, consolidated and stable, though with some inevitable underwriting volatility. Attractive performance can be achieved through intense operational focus within a disciplined strategic framework.

For the insurance industry, 2017 was a year with some major external underwriting challenges. At a global level, it seems likely to have been one of the worst loss years in recent times due particularly to three major US/Caribbean hurricanes and Mexico earthquakes. On a lesser scale, UK market losses around the Ogden discount rate change and Household insurance 'escape of water' inflation also dented domestic insurance results. Notwithstanding these factors, market capacity remains high, and there are limited signs of price inflation more broadly.

Conversely, financial markets during 2017 were more stable, at least as impacting RSA. Bond yields are off their lows and global central bank action to wean markets off Quantitative Easing (QE) give some optimism that coming years might offer return upside for insurers' portfolios. However, tight credit spreads continue to hurt, especially on UK pension accounting. RSA makes a majority of profit outside the UK, so FX rates versus sterling are also important. During 2017 impacts were limited despite swings, although the Brexit process continues to have the potential to deliver volatility.

2017 actions

2017 was another year of intense activity at RSA. The great majority of our efforts were focused on operational improvement in pursuit of our best-in-class ambitions. We also delivered the final pieces of RSA's balance sheet restructuring successfully. We look forward to 2018 as the first clean 'business as usual' year since 2012.

Financial strength: RSA's 'A' grade credit ratings are where we want them. The Solvency II capital ratio at 163[2] percent (2016: 158 percent) is in a good place. The £834m disposal in February of our UK Legacy insurance liabilities removed a source of long-tail risk whilst funding

a £640m retirement of high cost subordinated debt capital. This was the final piece of balance sheet work on our agenda. While we aspire to grow 'core tier 1' capital coverage further, the active phase of balance sheet repair is now complete.

Business improvement: Our goal is to systematically and determinedly hunt down performance improvement opportunities across the business to move RSA's capabilities and then outcomes towards best-in-class levels. This involves particular focus on improving three areas; service to customers, underlying underwriting results and cost efficiency.

Personal Lines policy count rose at RSA in 2017 for the first time in four years as customers reacted positively to the many improvements we are putting through. The important home partnership with Nationwide commenced business in December. Operational initiatives also contributed, spanning service improvements via digital capabilities in claims and policy servicing, through to capability and proposition uplifts across our business lines. RSA will not chase unprofitable growth. We prize quality of customer relationship over quantity. But nevertheless, serving customers well remains at the heart of all we seek to achieve.

RSA's most important capability lies in our underwriting judgement. Across the Group multiple improvements continued in areas like portfolio discipline, data and model improvement, machine learning and skills enhancement. Attritional loss ratios improved in every business except the UK. Here our attritional results experienced significant setback, largely through Household 'escape of water' claims, which we expect to rectify for 2018/ 2019. The Group attritional loss ratio was slightly better than prior year as a result, not quite as good as hoped for although still substantially better than historically achieved.

Cost efficiency remains a critical performance lever. We have now achieved £395m annual gross savings and are able to raise our savings targets for a fourth time to over £450m by 2019. Digitisation, lean operations, site consolidation, enhanced purchasing, robotics, zero based budgeting – all the tools in modern corporate armouries to boost people productivity – are being deployed effectively across our regions.

Financial results 2017

Underlying earnings per share rose 10 percent to 43.5p. This produced a return on tangible equity[1] of 15.5 percent (2016: 14.2 percent), versus our target range of 13-17 percent.

At a statutory level, net profit before tax rose to £448m (2016: £91m) reflecting a lower level (though still significant) of restructuring charges. It remains our ambition that 2017 be the last year of such charges.

Premium income was up 4 percent, in line with our plan, featuring modest policy count increases together with price and FX benefits.

Underwriting profits posted a new record at £394m, up 4 percent versus our record year in 2016. The combined ratio of 94.0 percent was also a new record for RSA. Underlying pre-tax profits rose 12 percent, benefiting from resilient investment income and lower interest expense.

Excellent underwriting results were achieved in absolute and relative terms across many of our businesses. Scandinavia led the way with a combined ratio of 82.9 percent. Canada also improved, in a challenging market, to a combined ratio of 93.9 percent. Middle East had record results (COR 87.7 percent) and the Irish turnaround delivered its first profits since 2012 (COR 97.0 percent).

The disappointment was our UK business (including its European branches and London market Commercial Lines business). A COR of 102.0[3] percent reflected three major loss items; £72m of losses from US/Caribbean hurricanes and Mexican earthquakes (net of Group aggregate cover recovery), elevated Household 'escape of water' inflation and significant adverse large loss volatility versus long-term averages. Underwriting action is well underway to improve results in 2018.

▲ +10%

43.5p

Underlying earnings per share ◊

▲ +23%

19.6p

Total dividend per share

For more information
see Financial Review on pages **22–25**

> RSA's entire focus is on the drive for outperformance in our markets. In that context, our many performance improvement initiatives continue to deliver progress.

Stephen Hester
Group Chief Executive

Reflecting RSA's overall progress in 2017, a final dividend of 13.0p per share is proposed, making 19.6p per share total for 2017, up 23 percent. This represents a 45 percent payout of underlying EPS (higher than 2016 but in line with stated policy). RSA's focused business strategy is designed to generate attractive levels of free cash flow, after meeting organic growth needs. With rising earnings targeted, no more restructuring costs and as bond pull-to-par impacts recede in coming years, RSA should have the potential for attractive further growth in shareholder distributions.

Looking forward

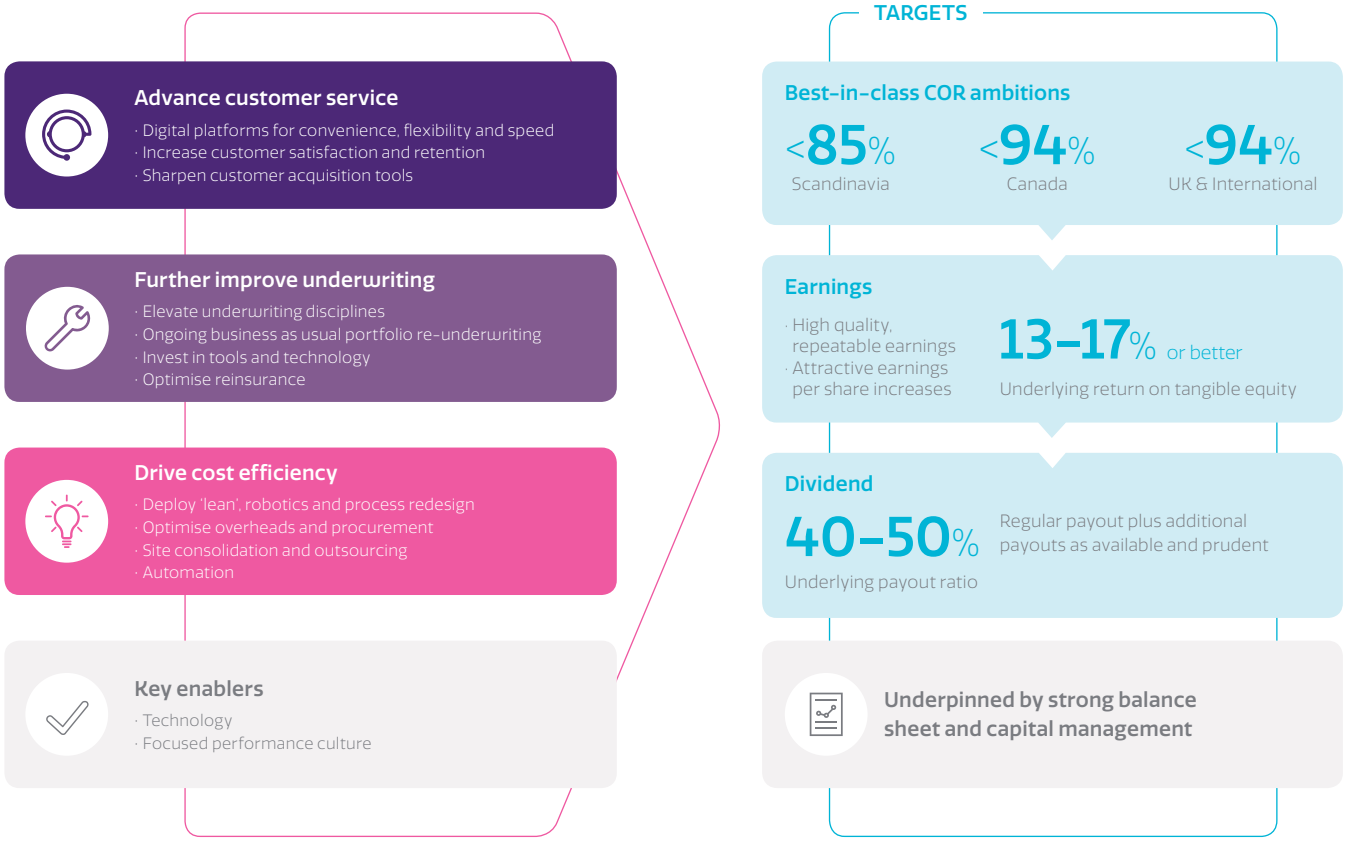
Our performance target of 13-17 percent return on tangible equity represents attractive shareholder return both relative to cost of capital and insurance industry norms. To the extent that RSA's underwriting performance progresses well towards our best-in-class combined ratio ambitions, even better returns are possible. We will try to achieve just that. For 2018, the key tasks are to re-establish respectable performance in our UK business whilst continuing underlying progress in our overseas markets where the majority of the Group trades.

Thanks

RSA made good progress with customers and for shareholders in 2017, despite significant external challenges. In achieving this, we owe thanks to all stakeholders for their support. But most particularly to my colleagues at RSA, who have embraced our best-in-class ambition so effectively, go my sincere thanks and appreciation.

Stephen Hester
Group Chief Executive
21 February 2018

PERFORMANCE IMPROVEMENT LEVERS



Our 2017 Strategic Report, on pages 1 to 41, has been reviewed and approved by the Board of Directors on 21 February 2018 and signed on its behalf by Stephen Hester, Group Chief Executive.

Notes:
1. Underlying measure.
2. The Solvency II capital position at 31 December 2017 is estimated.
3. Proforma for share of aggregate reinsurance recoveries and excludes the impact of the Ogden rate change. For more information see page 197.

GREAT CUSTOMER EXPERIENCE

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

Our focus

- Digital platforms for customer convenience, flexibility and speed
- High service standards
- Increase customer satisfaction and retention
- Sharpen customer acquisition tools.

Our progress

- Returned to growth across all divisions in Canada. Strong retention of 92.5 percent contributing to 4 percent growth in Johnson Affinity
- Highest EPSI[1] score amongst peers in Codan Personal Lines. Top line trends improved due to retention focus and sales efficiency improvements
- More Th>n brand relaunch generating uplifts in sales
- Johnson digital success: Over 200,000 'self-service transactions' in 2017, up 47 percent, and 86 percent 'very satisfied' with online chat experience
- Improving claims efficiency through automated claims handling in Sweden: 108,000 automatic SMS status sent continuing to reduce incoming calls
- Market leaders in novice drivers in the UK
- Customer service portal in Denmark showing early indication of improving customer satisfaction metrics: +16 points NPS[2] increase in Liability and +6 points NPS[2] increase in Workers Compensation
- Industry leading same-day service at 96 percent in small or medium-sized enterprise (SME) in Commercial Lines Canada
- Nationwide: Simple, easy to understand modular product; 85 percent retention at renewal and +65 NPS in sales and services.

Ongoing initiatives

- Significant activity planned in digital sales, servicing and claims journeys, self-service and data analytics.

Note:
1. Customer satisfaction index measured on industry level.
2. Net promoter score.

WE ARE ENHANCING CUSTOMER OFFERINGS IN ALL OF OUR MARKETS. IN 2017 WE ACHIEVED AN AVERAGE RETENTION ACROSS THE GROUP OF 80 PERCENT.

Agile and digital claims processing:
An effortless customer experience is a key loyalty driver. By implementing digital claims tools, such as our new customer service portal in Denmark and automatic claims handling for simple, low value motor claims in Sweden, we can provide a smoother, quicker and more effortless claims experience for our customers.

Johnson's digital platform:
As customers increasingly move online, we need to serve them there, as well as maintaining excellence in our other channels. In Canada, our Johnson's business is focused on delivering an effortless experience at every interaction. This is accelerating our digital capability development and is driving growth whilst improving customer satisfaction.

16%

Increase in online quotes in Johnson Home/Auto insurance year-on-year

EXCELLENT PROGRESS IN PRICE SOPHISTICATION

Pricing tools have been greatly enhanced in Personal Lines. 'Radar Live' and 'Earnix' (advanced point of sale pricing engines) continue to be rolled out across our businesses. Significant benefits have been observed when the new tools have gone live: in Canada Household, new business increased 71 percent year-on-year.

Early results in Swedish Personal Motor show increased 'hit rate' within target segments and new business starting to pick up.

USE OF DATA AND ANALYTICS

Data science advances:
Competitions in data science and predictive modelling have been run across the Group. The first machine learning competition generated 29 new approaches to price modelling and estimated loss ratio benefits of up to 3 percent.

Underwriting automation in Trygg-Hansa:
New SME underwriting framework based on deep analysis of customer data and introduced automated case handling approach to handle high volume, low value cases.

51%
of manually written cases automated in Trygg-Hansa

MACHINE LEARNING

Postcode classification:
Machine learning techniques and advanced analytics tools can rapidly process large datasets and through the use of algorithms, identify patterns and generate predictions and insights on structured data. Using traditional techniques, a typical postcode classification would take c.2 months to complete. Using machine learning, a new postcode classification is possible within four days and a refresh is possible in ½ day.

DISCIPLINED AND EXPERT UNDERWRITING

Underwriting is our core discipline. It's what we do. We want to be the best we possibly can, and amongst the very best in our industry.

Our focus

- Elevate underwriting disciplines
- Ongoing portfolio re-underwriting
- Invest in tools and technology
- Optimise reinsurance.

Our progress

- Attritional loss ratio 55.3 percent in 2017, improved from 58.3[1] in 2014
- £394m – record underwriting profits in 2017
- Canada COR of 93.9 percent best amongst peers
- First release of 'ClaimCenter' in Canada fully developed and live, enabling end-to-end claims lifecycle management
- Addressing key vulnerability and learnings from adverse 2017 large loss experience across the Group
- Successful execution of remediation plan based on decile and large loss propensity analytics in Commercial Lines in Canada
- Quartile analysis/triage performed on all large NatCat and property losses in the UK. Where required, immediate underwriting actions have already been taken
- Policy administration platform projects in Denmark and Norway planned to go live during first half of 2018
- Two robotics interventions now live in UK Home and Motor claims
- Automatic claims handling in Swedish Motor: end-to-end automated process with no human intervention (where appropriate)
- Auto-to-home cross-sell models implemented in direct and broker Auto (Canada)
- Claims cost models have been enhanced by the use of machine learning techniques.

Our initiatives

Activities in progress to improve all dimensions of underwriting and claims processes, capabilities and technology.

Notes:
1. Group excluding disposals at constant FX.

MANAGING OUR COST BASE

Driving cost efficiency will always be a key requirement for the business. To be competitive for customers, to invest in better capabilities and to properly deliver for shareholders, we need to permanently reduce costs.

Our focus

- Simplify and automate end-to-end processes
- Optimise procurement
- Streamline spans and layers
- 'Lean' working and site consolidation
- Selective outsourcing
- Technology change, a key enabler in reducing costs.

Our progress

- Group written total controllable costs of £1,425m were 6 percent lower in 2017 (2016: £1,512m[1])
- £395m gross costs savings to date, against upgraded cost savings target of > £450m by 2019
- 21.5 percent earned controllable cost ratio, down 4.4[1] points since the start of 2014
- Group FTE down 23 percent (excluding disposals) since the start of 2014 and 6 percent during 2017
- Footprint optimisation and site consolidation continue: 50 percent less office space in Toronto, 60 percent in Stockholm, and 25 percent in London. Swedish call centre consolidation to Malmö announced and will be in full effect mid year 2018
- Selective outsourcing (BPO): Outsourced voice calls in UK Motor; BPO projects underway in Scandinavia and Canada
- 'Lean' practices (streamlining of our processes) across the Group showing great improvements in efficiency
- First process automation portal delivered in More Th>n Pet and Motor, reducing call wrap times from three minutes to 40 seconds through the use of robotics. Initial findings suggest that 30–40 percent of our processes could be semi or fully automated by 2020.

Ongoing initiatives

- Future efficiency gains will be largely driven by technology, outsourcing and new analytical and cultural tools
- Continuous focus on increasing efficiency metrics (e.g. revenue per FTE) to best-in-class levels.

Note:
1. Group excluding disposals at constant FX.

ZERO-BASED BUDGETING

In 2017, our UK business adopted zero-based budgeting (ZBB) to help drive towards best-in-class cost performance. ZBB is a structured and software-enabled approach to costs which facilitates forensic insight and drives a cost management culture, where every pound budgeted is rigorously challenged to minimise excess in budgets. It creates room for investing in agreed strategic priorities in the pursuit of best-in-class. Planned roll outs across the rest of the Group in 2018 and beyond.

CANADA 'LEAN'

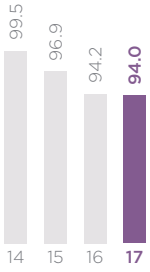
Deepening 'lean' capability across Canada to embed a continuous improvement mindset. At the end of 2017, 60 percent of RSA Canada has 'lean' practices in place. Over 20 percent of efficiencies have been achieved in some cases and approximately 500 'waste items' have been identified in finance and human resources processes. The average Personal Lines policies underwritten per person and per day more than doubled. Our ambition is to have 'lean' in place across all of RSA Canada by the end of 2018.

KEY PERFORMANCE INDICATORS

The following nine key performance indicators are important in measuring the delivery of our strategic priorities.

KPIs are 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 pages 190 to 197.

Combined operating ratio ◊



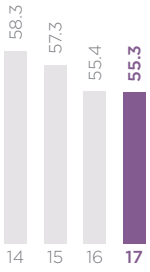
94.0%
0.2 points better

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
We target further improvements in combined ratio.

Group attritional loss ratio[1] ◊



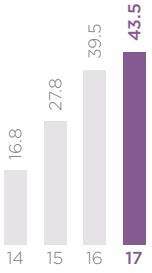
55.3%
0.1 points better

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 development.

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 best-in-class performance.

Underlying earnings per share ◊



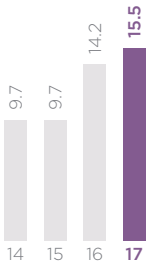
43.5p
Up 10%

Definition
Operating profit less interest cost, tax, non-controlling interests and preference dividends, per share.

Commentary
A key measure of the underlying earnings power of the Group as it excludes shorter-term and temporary changes, such as restructuring costs, which we expect to cease after 2017.

Outlook
We target continued growth in underlying EPS as performance improvement actions take effect.

Underlying return on tangible equity ◊



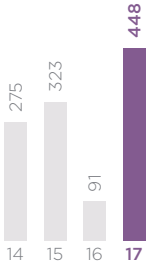
15.5%
1.3 points better

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 13-17 percent in the medium term.

Profit before tax



£448m
Up 392%

Definition
The net profit generated before taxes have been deducted.

Commentary
This is a key statutory measure of the overall earnings performance of the Group that can be retained or distributed.

Outlook
We target continued growth as performance actions take further effect.

Note:
For the executive remuneration an underlying measure of profit before tax is used. See page 197 for further detail.

Solvency II coverage ratio[2]

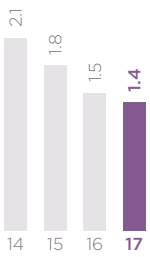
163%
5 points better

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

Commentary
The Solvency II coverage ratio 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 percent.

Controllable expenses ◊



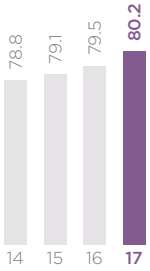
£1.4bn
6% decrease

Definition
A measure of operating expenses incurred by the Group, mainly comprising underwriting administrative costs and claims handling costs.

Commentary
Reduction of controllable expenses is a key element of the Group's turnaround strategy. We monitor both the absolute level of expense and the expense ratio as part of the turnaround and ongoing performance focus.

Outlook
We have upgraded our target to >£450m reduction in gross controllable expenses by 2019 and aim to improve expense ratios in the medium term, in line with our ambition of best-in-class performance.

Customer retention



80%
Improving

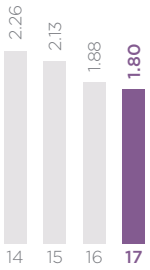
Definition
A measure of the amount of business that is renewed with us each year.

Commentary
Strong customer satisfaction translates to high retention levels and improved underwriting results.

By ensuring customers are at the heart of everything we do, we can optimise business performance.

Outlook
We target improving retention over time.

Carbon emissions per FTE



1.80t
4.3% lower

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

Commentary
We endeavour to reduce our emissions as far as possible by operating efficiently, procuring sustainable alternatives and promoting sustainable business practices.

Outlook
In 2016 we surpassed our Group carbon reduction target of 12 percent reduction per FTE from a 2015 baseline. We set a new target of 4 percent per FTE year on year in 2017, which was also achieved, and aim to reduce our emissions by a further 4 percent per FTE in 2018.

Notes:
1. Group excluding disposals, at constant FX.
2. Coverage ratio under Solvency II introduced in 2015.

APMs are referenced using ◊

CHIEF FINANCIAL OFFICER'S REVIEW

> Our entire focus is on continuing to drive for outperformance across the Group.

Scott Egan
Group Chief Financial Officer

+4%

£394m

Underwriting result ◊

+10%

43.5p

Underlying earnings per share ◊

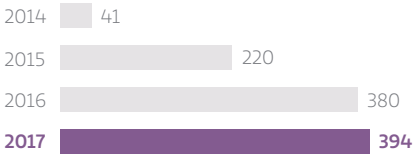
I am pleased to report that 2017 has been another year of strong performance at RSA, building on our record underwriting profits in 2016. Excellent results in our overseas divisions have been partly offset by a disappointing result in the UK caused by adverse weather events (US/Caribbean storms and Mexico earthquakes), adverse large loss volatility and higher Household claims inflation. Lower interest and restructuring costs have also improved profitability. The strength of our franchise, the investments we have now made in our operating capabilities, and the significant work we have done to strengthen capital and the balance sheet, mean that RSA is now better equipped to withstand volatility. This is good for customers, staff and our shareholders.

A year ago I reported that our 2016 results had been impacted by a significant number of accounting adjustments as we divested of non-core operations, de-risked our balance sheet and invested heavily in the business. For this reason, we believe that underlying measures provide a clearer way of fully understanding the performance and progress of RSA in 2017 whilst the Group's turnaround continues to impact comparative measures. The number and quantum of these adjustments have decreased in 2017 and it is targeted to be the last year of below the line restructuring costs. The use of underlying measures will therefore reduce significantly in 2018. For further information on these measures and their reconciliation to IFRS statutory measures please refer to pages 190 to 197.

2017 financial highlights

- **Profit after tax of £322m, up from £20m in 2016.** Underlying earnings per share of 43.5p, up 10 percent (2016: 39.5p)
- **A new record level of underwriting profits** for RSA at £394m, up 4 percent (2016: £380m). The combined ratio of 94.0 percent, also a record (2016: 94.2 percent)
- **Strong underwriting improvements** in Scandinavia, Canada, Ireland and Middle East. Disappointing performance in the UK impacted by US/Caribbean storms, large losses and higher attritional claims
- **Premiums returned to growth** (up 2 percent at constant FX and excluding disposals), with policy count and retention improving in many of our businesses
- **Continued progress on cost reduction and efficiency.** We have now achieved total cumulative savings to date of £395m, and have increased our target for a fourth time to over £450m gross savings by 2019
- 2017 restructuring costs were £155m (2016: £168m), and support the improved cost reduction targets above. It remains our ambition that 2017 will be the last year of such 'below the line' charges
- **Investment income was resilient**, despite the continuing market uncertainty and low yield environment
- **Significant further de-risking of RSA's balance sheet.** We disposed of £834m[1] of UK legacy liabilities at the beginning of the year, by way of a reinsurance arrangement prior to a part VII transfer, improving capital and further focusing the business onto its core units. These liabilities relate to business written in

Group underwriting result ◊ (£m)



2005 & prior. Around 75 percent of these liabilities relate to asbestos, with the balance mainly comprising abuse, deafness, marine and aviation liabilities

- **Overall debt levels significantly reduced** (from £1.1bn down to £0.7bn), and some existing debt successfully refinanced. This has halved interest costs in 2017 and will more than halve them from 2018 onwards (versus 2016)
- **Capital levels remain strong** with a Solvency II ratio of 163[2] percent (31 December 2016: 158 percent) and tangible equity of £2.8bn (31 December 2016: £2.9bn)
- Reflecting these results and our confidence in our future, the Board of Directors has proposed a 23 percent increase in our total dividend per ordinary share of 19.6p (interim dividend 6.6p; final dividend 13.0p), (2016: 5.0p; 11.0p). This represents a 45 percent pay out of underlying earnings.

Premiums

Group net written premiums of £6.7bn were up 6[3] percent at reported FX and up 2[3] percent at constant FX.

We have seen a strengthening of underlying customer activity as capability improvements take effect. Customer retention trends have improved to 80.2 percent (2016: 79.5 percent). Our goal remains to serve our customers well.

Scandinavian premiums were up 7 percent at reported FX and up 0.3 percent at constant FX. Growth in Sweden and Norway was partly offset by a small contraction in Denmark. Personal Lines policy counts were up 1 percent, while Commercial Lines volumes were down 3 percent.

Canada premiums were up 12 percent at reported FX and 5 percent at constant FX. The region reported the fourth quarter of consecutive growth in Q4, with Personal Lines policy counts up 3 percent and Commercial Lines volumes up 1 percent. There was good growth in our broker channel (policy count up 4 percent in Personal broker) and our direct channel, Johnson, returned to organic growth in 2017.

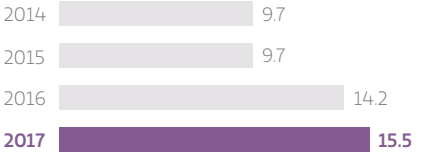
UK & International premiums were up 4 percent at reported FX and up 2 percent at constant FX. UK premiums were up 3 percent, with Personal up 7 percent (policy counts up 2 percent) and Commercial flat (volumes up 1 percent). Premiums in Ireland were down 7 percent at constant FX, while Middle East premiums were up 6 percent.

Underwriting result

Group underwriting profit of £394m was up 4 percent and a new record for RSA (2016: £380m). The combined ratio of 94.0 percent is also a record for RSA.

Current underwriting profit was £237m (2016: £271m). There were good improvements in the attritional loss ratio in Scandinavia (1.6 points better) and Canada (1 point better), offset by a higher ratio in UK & International due to the UK Household segment.

Underlying return on tangible equity ◊ (%)



Weather, large losses and prior year development

Group weather costs were £168m or 2.6 percent of net earned premiums (2016: 2.6[3] percent at constant FX). Three major US/Caribbean hurricanes and Mexico earthquakes cost £72m net of reinsurance in 2017 (£115m gross). 2016 was also a year of elevated natural catastrophe losses with Alberta wildfires, UK & European floods and a US hurricane.

Group large losses were £713m or 10.8 percent of net earned premiums (2016: 9.1[3] percent at constant FX). This elevated large loss experience was driven by the UK and Canada. While substantial elements of this is volatility, underwriting interventions have also been made to target recovery in 2018 and beyond.

Prior year underwriting profits were £157m, with prior year development providing a 2.8 point benefit (2016: 2.2[3] points at constant FX) to the Group combined ratio. This included positive development from each region.

The 2017 underwriting result included a £23m net charge (after release of 2016 margin build) relating to the change in Ogden discount rate. £20m related to our UK business and £3m to Ireland. This also reflected the benefit of net settlement gains in H2 versus H1 revised case reserves.

Our assessment of the margin in reserves for the Group (the difference between our actuarial indication and the booked reserves in the financial statements) returned to its target level of 5 percent of booked claims reserves.

Underwriting expenses and commissions

The Group underwriting expense ratio of 14.4 percent was 0.6 points better than a year ago at constant FX (2016: 15.0[3] percent). Pleasingly, all regions contributed to this improvement. The Group commission ratio in 2017 of 13.7 percent was flat[3] at constant exchange.

Controllable costs

Our cost reduction programme has now delivered total gross cost reductions of £395m. We have now raised our target for a fourth time to over £450m gross annualised savings by the end of 2019.

Group written controllable costs were down 6[3] percent at constant FX to £1,425m.

Canada delivered year-on-year 'real' cost reductions of 9 percent, with 6 percent in the UK and 5 percent in Scandinavia.

Group FTE[4] is down 23 percent (excluding disposals) since the start of 2014 to 12,636 at 31 December 2017. It decreased by 6 percent during the course of 2017.

Investment result

The investment result of £284m (2016: £298m) with investment income of £331m (2016: £369m), investment expenses of £13m (2016: £12m) and the liability discount unwind of £34m (2016: £59m).

Investment income was down 10 percent on the prior year, primarily reflecting the impact of the disposal of Latin America and the UK Legacy book, together with ongoing reinvestment at lower yields. The average book yield across our major bond portfolios was down slightly to 2.5 percent (2016: 2.6 percent). At current market forward rates, we expect investment income of c.£285-310m in 2018.

Non-operating items

Non-operating items primarily relate to management action to de-risk the balance sheet as well as restructuring investment to reach cost saving targets by the end of 2019.

The £834m[1] disposal in February of our UK Legacy insurance liabilities removed a source of long-tail risk whilst funding a £636m retirement of high cost subordinated debt capital. Debt restructuring over the past 12 months has significantly reduced interest costs in 2017 to £43m (£54m including the new tier 1 issuance), down from £99m in 2016.

2017 also included a charge of £59m relating to the premium paid on the debt buybacks completed during the first half of the year.

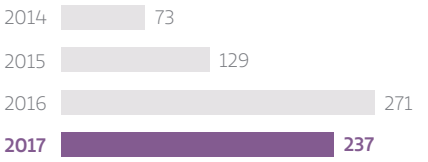
Net gains of £47m in 2017 include a £66m gain relating to the UK Legacy disposal (mainly relating to the realised gain on the mark-to market of the assets transferred to the buyer); a £22m charge relating to the commutation of the Group's adverse

Segmental income statement – Management basis

	Scandinavia £m	Canada £m	UK & International[1] £m	Central functions £m	**Group 2017 £m**	Group 2016 £m
Net written premiums	1,833	1,619	3,199	27	**6,678**	6,408
Net earned premiums	1,836	1,591	3,196	(18)	**6,605**	6,528
Underwriting result ◊	315	98	(82)	63	**394**	380
UK & International proforma[1]			(16)			
Investment result ◊	74	61	149	–	**284**	298
Central expenses	–	–	–	(15)	**(15)**	(23)
Operating result ◊	389	159	67	48	**663**	655
UK & International proforma[2]			133			
Interest					**(43)**	(99)
Adjustment for Legacy sale					**–**	(204)
Other non-operating charges					**(172)**	(261)
Profit before tax					**448**	91
Tax					**(126)**	(71)
Profit after tax					**322**	20
Non-controlling interest					**(33)**	7
Other equity costs[3]					**(20)**	(9)
Net attributable profit ◊					**269**	18
Underlying profit before tax ◊					**620**	556
Combined ratio (%) ◊	82.9	93.9	102.6	–	**94.0**	94.2
UK & International proforma[2]			100.5			
Tangible net asset value (£m) ◊					**2,765**	2,862
Underlying earnings per share (p) ◊					**43.5**	39.5
Underlying return on tangible equity (%) ◊					**15.5**	14.2

Notes to the table above:
1. UK & International comprises the UK (and European branches), Ireland and the Middle East.
2. Proforma for share of aggregate reinsurance recoveries and excludes the impact of the Ogden rate change.
3. Preference dividends of £9m and coupons of £11m paid on 2017 issued restricted tier 1 securities.

Current year underwriting result ◊ (£m)



development reinsurance cover, both as previously noted in 2016. Intangible software impairments of £23m relate to UK, Scandinavia and Ireland.

Restructuring costs of £155m, whilst higher than originally planned, mark the end of the 'below the line' restructuring charges and have enabled an increase in our annualised cost savings target to over £450m by the end of 2019.

Tax

The Group reported a tax charge of £126m, giving an effective tax rate (ETR) of 28 percent (2016: 78 percent). ETR is 23 percent excluding a one-off Canadian dividend paid as part of internal debt restructuring. The Group underlying tax rate was 22 percent (2016: 24 percent).

The carrying value of the Group's net deferred tax asset at 31 December 2017 is £220m (2016: £216m), of which £217m (2016: £212m) is in the UK. At current tax rates, a further c.£230m (2016: £183m) of deferred tax assets remain available for use but not recognised on balance sheet; these are predominantly in the UK and Ireland.

In 2018, we expect the Group's ETR and underlying tax rate to continue to trend towards 20 percent given the scale of the unrecognised UK tax assets.

Tax strategy and contribution

Our tax strategy supports our Group objective to be a responsible business with a positive impact on society. We pay and collect tax in the markets where we operate and comply with all statutory obligations. We understand the importance of transparency and seek to have an open relationship with the tax authorities.

The taxes borne by the Group in 2017 were a total of £391m for our four largest territories (UK £119m, Ireland £7m, Scandinavia £136m and Canada £129m). Taxes collected by the same territories were an additional £628m.

For more details please refer to our published Group tax strategy: http://www.rsagroup.com/media/2508/rsa-tax-strategy-22-11-17-final.pdf

Balance sheet and capital

RSA's balance sheet and capital position are strong and resilient. Tangible net assets were broadly unchanged at £2.8bn at 31 December 2017.

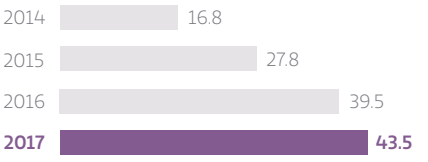
We maintain a measured approach to capital management, targeting a single 'A' credit rating (the Group's S&P rating is A 'stable outlook' and its Moody's rating is 'A2 stable'). This involves considering a range of indicators relating to capital, to operating results, and to qualitative factors.

RSA is a diversified, multi-channel, multi-product general insurer and its business mix reduces exposure to significant volatility. However, the UK pension scheme provides a degree of volatility under Solvency II. We consider a target Solvency II operating range of 130-160 percent capital coverage to be appropriate to the Group's risk profile.

Solvency II coverage ratio walk

	%
At 1 January 2017	**158**
Recurring:	
Underlying capital generation	25
IAS 19 movements, including annual update to mortality tables	4
Market movements excluding IAS 19, partly due to a slight weakening of Sterling	2
Net capital investment after amortisation	(2)
Pull-to-par on unrealised bond gains	(9)
2017 dividends	(11)
Non-recurring:	
Disposal of UK Legacy liabilities	18
Ogden rate change	(3)
Debt restructuring actions	(10)
Restructuring costs and other non-operating items	(9)
At 31 December 2017	**163**

Underlying earnings per share ◊ (p)



The Solvency II surplus remained flat at £1.1bn with a coverage ratio of 163[2] percent, up 5 points.

Pensions

The IAS 19 pension valuation generated a gain of £44m. The annual update to mortality tables more than offset negative movements, including narrower 'AA' corporate bond spreads. Further details on RSA's pension schemes and movements in the year can be found in Note 38 to the accounts.

Dividend

We are pleased to declare a final dividend of 13.0p per ordinary share, up 18 percent year-on-year (2016: 11.0p). Together with the interim dividend of 6.6p, this brings the total dividend for the year to 19.6p (up 23 percent), representing a 45 percent pay out of underlying EPS. Our medium term policy of ordinary dividend pay outs of between 40-50 percent of earnings remains, with additional distributions where justified.

Summary

2017 has been another year of growing profits at RSA, supported by a record underwriting performance. But we believe we can and will do better. We have ambitious plans for the business and 2017 represents another step along that journey. We will learn from the things we could have done better and build on those things that have gone well.

Our staff should feel proud of the progress we have made so far. Our customers should feel the benefit of our improvements again in 2018 and our shareholders can share in the improving performance. We look forward to continuing RSA's journey in 2018.

Scott Egan
Group Chief Financial Officer
21 February 2018

Notes:
1. £595m on a net discounted basis excluding claims handling provision and margin as disclosed in Note 6 of the financial statements.
2. The Solvency II capital position at 31 December 2017 is estimated.
3. Group excluding disposals for 2016.
4. Full time equivalent employees.

OUR OPERATIONS IN SCANDINAVIA

Net written premiums
£1.8bn

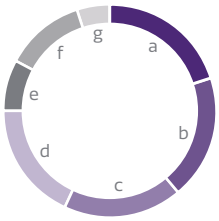
Combined ratio ◊
82.9%

OUR BRANDS IN SCANDINAVIA

TRYGG HANSA

CODAN
PART OF THE RSA GROUP

Type of business



a. Household 20%
b. Motor 19%
c. Personal other 18%
d. Comm. Property 18%
e. Liability 8%
f. Comm. Motor 12%
g. Marine & other 5%

Scandinavia financial summary

	2017 net written premiums		Underwriting result		COR
	£m	% change[1]	2017 (£m)	2016 (£m)	2017 (%)
Personal	1,054	1	240	175	77.0
Commercial	779	(1)	75	64	90.6
Total	1,833	–	315	239	82.9

Notes to the table above:
1. At constant FX.

Our operations in Scandinavia

RSA is the only international insurer operating within the top 5 in Scandinavia. In Sweden, we operate as Trygg-Hansa, and in Denmark and Norway as Codan. Our business is split approximately 58 percent Personal and 42 percent Commercial Lines. Key strengths include our Swedish Personal Lines and our Danish Commercial business, while our Norwegian business is developing. We distribute mainly direct to consumer, leveraging strong agency relationships, with a growing bancassurance channel.

Scandinavian market context

The Scandinavian economy is strong overall albeit with mixed experience across the region. There is good GDP growth in Sweden, whereas Denmark and Norway are set to pick up from relatively low growth levels. Against this backdrop, insurance markets remain broadly strong across the region with incumbents maintaining a competitive position against most market challengers.

Financial performance

Scandinavia delivered operating profit of £389m, up 25 percent at reported FX. Driving this was an excellent underwriting profit performance of £315m in 2017, up 24 percent (at constant FX), alongside an investment result of £74m (2016: £72m).

The combined ratio of 82.9 percent was within our <85 percent best-in-class ambition for the first time on record. Current and prior year profitability were strong, at £255m and £60m respectively.

Regional net written premiums of £1,833m were up 7 percent at reported FX and up 0.3 percent at constant FX (2016: £1,721m). The current year attritional loss ratio of 62.6 percent was 1.6 points better than 2016 reflecting underwriting discipline, ongoing capability improvements and lower claims handling costs.

Sweden generated an underwriting profit of £259m (2016: £184m[1])and a combined ratio of 75.3 percent (2016: 82.2[1] percent). While the current year combined ratio improved by 2.2 points, favourable prior year development contributed 4.7 points year-on-year, partly reflecting more benign Motor account development. Denmark produced a combined ratio of 90.3 percent; while this was 0.6 points higher than 2016, the current year combined ratio improved by 1.7 points.

Keeping people safe at home, at work and at play. We believe that part of our job is to prevent risks, as well as being there when things don't go as planned. Our Scandinavian operations go above and beyond to keep their customers safe, running regular awareness campaigns to minimise exposure to risks and developing innovative new approaches to improving public safety.

As part of its Alcobuoy campaign in 2017, Trygg-Hansa equipped 12 life buoys with breathalysers to enable people to assess their blood alcohol levels before swimming.

Around 50 percent of drowning victims in Sweden have alcohol in their blood. But by identifying locations popular for parties and outdoor swimming and installing breathalysers, Trygg-Hansa aims to reduce the number of alcohol-related drowning incidents in the country.

In Denmark, research conducted by Codan found that parents are much more likely to counsel their children on avoiding cyberbullying, than they are on the importance of measures to prevent their laptop or phone being hacked. In response, Codan developed a nationwide campaign to educate parents about the range of issues involved in keeping their families safe online, reaching 2 million people within the first five weeks. The campaign video was broadcast on Danish news stations and was used by corporations including Novo Nordisk and Santander Bank. Codan also designed a range of online security insurance products to further help tackle the issues raised by their research.

Trygg-Hansa equipped life buoys with breathalysers to improve water safety in Sweden

A customer focused business

Across Scandinavia, we benefit from brands with high public awareness and credibility. Our task is to ensure that our customer experience meets the expectations that come alongside this. We continue to adapt to our customers' changing preferences and needs, whilst ensuring we run our operations as efficiently as possible and continue to address our cost base.

We made a number of steps forward in 2017 to meet this challenge. Our new Codan claims handling system has brought our Personal Lines customers closer to the claims process and put them in control. Through an online portal, customers can now communicate with Codan employees and suppliers to track the progress of their claim and even choose replacement items. This increases the speed of resolution for our customers, and helps the business to manage indemnity spend more effectively.

Similarly, in underwriting we are making use of digital servicing and automation to support customer improvements and drive business benefit. In our Trygg-Hansa business, we have been able to move smaller, simpler requests for quotations to an automated system so that specialist underwriter time can be diverted to cases of higher value and complexity. We have seen benefits in renewal rates and customer experience, and reduced the manual workload associated with renewal by 65 percent.

We are also positioning the business to reflect the changing risks and trends we see in the market.

Codan is offering a new 'Websikring' (WebSafe) proposition, which gives customers guidance on how to prevent abuse or harassment on social media, assistance removing illegally shared material, and help regaining control over accounts that have been hacked. Our centre of excellence for wind energy in Denmark continues to thrive and support our strength in the insurance of renewables, as we evaluate the risks of new technologies and prototypes to expand our expertise. A new hub for claims processing in Malmo is building our customer service capability.

Growing premium and customer satisfaction scores demonstrate the impact of these programmes, and others, on our appeal. Region-wide, more customers are rating their experience with us as 'effortless'. Swedish Personal Lines policies-in-force grew steadily in 2017, and Commercial Lines new business in Q4 was 22 percent higher than the same quarter last year. Whereas Denmark Personal Lines policies-in-force had contracted between 2012 and 2016, this trend flattened in 2017.

Increasing productivity

Alongside these initiatives, the Scandinavian performance improvement programme has continued to deliver well, with particular focus on operational efficiency through process redesign, robotics and automation.

We have also pursued further site consolidation and IT cost reduction, and we launched an outsourcing programme for certain operational and support activities.

Total written controllable expenses were down 3 percent year-on-year[1], with 5 percent cost reductions absorbing 2 percent inflation.

Note:
1. At constant FX.

STRATEGY & OUTLOOK

Our strategy

Since 2015, Scandinavia has come a long way in 'fixing the basics'. Our current three-year plan focuses on moving from average to great, and is built on becoming best-in-class in areas that will drive further value improvement. At this stage, the key areas for development are digitisation and customer journey; strengthening claims and underwriting functions; increasing process efficiency; and securing technology uplifts. These are designed to future-proof RSA Scandinavia and enable us to pursue our best-in-class ambition.

Outlook

We continue to expect our Scandinavian markets to grow in line with local economies and our goal is to achieve medium-term growth broadly in line with the market, sustaining high quality in our underwriting and customer experience.

While our 2017 result is within the target combined ratio of <85 percent, we see scope for further progress as we build the appeal of our brand, customer service levels and underwriting skills.

Patrick Bergander
CEO, Scandinavia

OUR OPERATIONS IN CANADA

Net written premiums

£1.6bn

Combined ratio ◊

93.9%

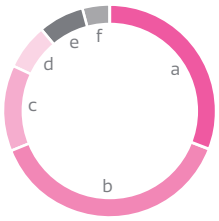
OUR BRANDS IN CANADA

JOHNSON

WA PART OF THE RSA GROUP

CNS PART OF THE RSA GROUP

Type of business



a. Household 31%
b. Motor 38%
c. Comm. Property 13%
d. Liability 7%
e. Comm. Motor 7%
f. Marine & other 4%

Canada financial summary

	2017 net written premiums		Underwriting result		COR
	£m	% change[1]	2017 (£m)	2016 (£m)	2017 (%)
Personal	1,120	5	75	91	93.2
Commercial	499	4	23	(17)	95.4
Total	1,619	5	98	74	93.9

Notes to the table above:
1. At constant FX.

Our operations in Canada

In Canada we are the sixth largest general insurer.

We operate across all provinces and provide a broad offering of products and channels to both Personal and Commercial customers. Our portfolio is balanced at around 70 percent Personal and 30 percent Commercial Lines. We have leading market positions in affinity distribution, and via our Johnson brand, and are proud of our leading positions in both travel and marine underwriting.

Canada market context

The Canadian market has remained competitive through a period of slowing economic growth. This has translated into tougher conditions for the insurance market and some consolidation trends in the sector.

Broker distribution remains the dominant channel in both our Personal and Commercial lines businesses. Alongside this, affinity partnerships and direct channels are gradually gaining market share in Personal lines.

Regulation in Canada tends to differ by region, and in Ontario, one of our larger regions, auto pricing is regulated. This drives a more challenging pricing environment in the segment. Industry disruptors looking to capitalise on developments in fintech also drive pricing pressures.

Personal Household has continued to respond to an increasing volume of severe weather events in recent years, though 2017 weather experience was slightly more favourable than 2016, which had seen the particularly severe Fort McMurray wildfire losses.

Financial performance

In 2017, our Canadian business worked through these challenges and delivered a strong year. In addition to increasing operating profit by 14 percent to £159m (2016: £140m), underwriting profit rose 32 percent to £98m, despite higher large losses and lower prior year releases than 2016. We were pleased to achieve our best-in-class ambition of a <94 percent combined ratio.

Net written premiums of £1,619m were up 12 percent at reported FX and 5 percent at constant FX (2016: £1,443m). Growth was particularly strong in the broker channel, with Personal broker up 10 percent – policy count up 4 percent – and Commercial broker up 4 percent, both at constant FX. Johnson, our direct business, also returned to volume growth in the year (policy count up 2 percent).

Partnering with our communities
Our Canadian business demonstrated its commitment to supporting local communities in 2017 through a number of initiatives to improve the local environment for their customers.

This year, RSA employees took part in Habitat for Humanity Canada's biggest ever building project – aiming to build 150 homes in celebration of Canada's 150th anniversary of Confederation, and supporting those affected by last year's wild fires in neighbouring Fort McMurray.

In July colleagues helped to build affordable homes in Edmonton, Alberta, a city which just a year earlier played host to many evacuees of the Fort McMurray wildfires.

Earlier in the year 187 RSA employees took part in the Group's first-ever Great Canadian Shoreline Clean-up campaign. Events took place in nine cities across the country where employees from RSA and Johnson's 11 main offices worked together to pick up rubbish from various locations where water meets land.

Employees in Canada helped construct new homes in Edmonton, Alberta.

Focusing on customer needs

We have continued to enhance our customer offer, improving our ways of working with partners and strengthening our direct channels. Combined, these measures have helped to deliver an improvement in customer retention to 85.8 percent from 84.3 percent a year ago, with particular successes in Personal Lines.

We have mapped customer journeys to identify areas for improvement in their experience, and that work is now influencing our investments. The implementation of our new Guidewire system is reducing processing time, and enabling faster claims settlement. Our direct to consumer business, Johnson, has improved its digital platform to support customers to manage their policies online. Net promoter scores continue to improve and outperform benchmarks as a result of these efforts.

We have introduced a number of initiatives to support our excellent relationships with intermediaries, including implementing RSA Pro, a new digital tool that enables brokers to service clients remotely and reduces our time to quote from hours to minutes. Improved on the spot communication between brokers and underwriters around pricing decisions is driving better underwriting and cost efficiencies, as well as a better customer service.

We also aim to be a helping partner to our customers. As a particularly cold winter approached, we launched a campaign to encourage Canadians to review 'What's in my bag?' This asked people to check they have what they need to survive being waylaid in extreme weather, and reflects how seriously we take our role in helping to educate about risk, in addition to offering support when things do go wrong.

A responsive business

Alongside customer improvements, our Canadian business is focused on ensuring its underlying systems and processes are fit for the future – whether by strengthening underwriting and pricing analysis, investing in new technology, or adapting our ways of working.

Our key risks to business performance continue to be weather volatility and large losses. In 2017, large loss experience was elevated at 7.7 percent, compared to 6.4 percent in 2016 and a five year average of 5.1 percent. We are working hard to return large loss ratios back towards long term averages, by recognising trends early and taking any underwriting or pricing action required.

For example, we have taken steps to improve our range of large loss volatility and exposure by developing insight tools that help front-line underwriters to evaluate large losses, and make better informed risk acceptance and pricing decisions for future risks.

We are also progressing our business improvement programme, simplifying processes, cutting back on waste and consolidating our office space. Our new claims system has reduced the environmental impact of our work by facilitating a paperless process.

In 2017, total written controllable expenses were down 7 percent year-on-year, with 9 percent cost reductions offset by 2 percent inflation.

STRATEGY & OUTLOOK

Our strategy
Our business in Canada is 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.

Our Canadian transformation programme has seen continued progress in 2017, with performance improvements right across the business, but there is more that can be done. Our major focus areas for 2018 include enhancing our customer experience through improved processes and digital tools, investing in technology to decrease the cost of delivering to our customers and continuing to invest in our core skills of underwriting, pricing and claims.

Outlook
Our target is to maintain the positive premium and underwriting trends we saw in 2017. As well as sustaining a combined ratio of <94 percent we will continue to look for further performance improvement opportunities, for our customers, and for our business.

Martin Thompson
President and CEO, RSA Canada

OUR OPERATIONS IN UK & INTERNATIONAL

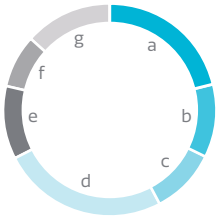
Net written premiums
£3.2bn

Combined ratio ◊
100.5[1]%

OUR BRANDS IN UK & INTERNATIONAL

MORE TH>N®
123.ie
RSA
الأهلية AL AHLIA
العالمية AL ALAMIYA

Type of business (UK only)



a. Household 21%
b. Motor 11%
c. Personal other 10%
d. Comm. Property 25%
e. Liability 11%
f. Comm. Motor 8%
g. Marine & other 13%

UK & International financial summary

	2017 net written premiums		Underwriting result		COR
	£m	% change[1]	2017 (£m)	2016 (£m)	2017 (%)
Personal	1,144	7	10	48	99.2
Commercial	1,544	–	(126)	75	108.1
UK Total	2,688	3	(116)	123	104.3
Ireland	303	(7)	9	(49)	97.0
Middle East	208	6	25	14	87.7
UK & International	3,199	2	(82)	88	102.6

Notes to the table above:
1. At constant FX.

Our operations in UK & International

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 customers. These global customers account for 53 percent of our UK Commercial Lines business, and include risks written through the 'London market' and our branches in France, Spain and Benelux.

We also have strong positions in UK Personal Lines, particularly Household and Pet insurance, with a growing presence in the Personal motor market which leverages a successful telematics offering aimed at young drivers. As well as our innovative direct insurance brand MORE TH>N , and a broker portfolio focused on profitable segments, we have affinity partnerships with some of the UK's major retailers, banks and building societies, underwriting insurance products for Nationwide Building Society, John Lewis and Marks & Spencer.

Stephen Lewis and former Nationwide CEO Graham Beale

We are a leading player in Ireland with particular strengths in household and motor insurance through our 123.ie direct-to-consumer business. In the Middle East, our operations cover the United Arab Emirates (UAE), Oman and Saudi Arabia, with headquarters in Bahrain. RSA owns 50 percent of its Middle East business.

Our portfolio is well balanced across all lines of business and distribution channels, with brokers a strong channel in all markets.

UK market context

The UK is a large, mature and stable market with high levels of competition. Personal Lines is particularly competitive with a strong focus on price as a result of the role of aggregators, and increasing pressure to improve digital capabilities in line with customer expectations and needs. Commercial Lines have experienced prolonged soft market conditions, increasing the importance of brand reputation and broker relationships for success.

The implications of the EU referendum have brought a level of uncertainty for the UK market that will take time to play out. RSA is well placed, with no significant structural or passporting challenges likely as a result of EU exit. In 2017, the UK market began to see inflationary trends in claims costs which are creating upward pressure on prices, reflected industry wide.

Challenges in our UK business

Our 2017 result in the UK was affected by a number of material market events, reflected in a higher combined ratio of 102.0[1] percent (2016: 95.4 percent).

Underwriting losses partly reflected the impact of a number of natural catastrophes in the third quarter, including earthquakes in Mexico and hurricanes in the US and Caribbean that cost £72m net of Group Volatility Cover recovery. We also saw adverse large loss volatility against long run trends, and high claims inflation in our Household book. We have been front-footed in our pricing and underwriting remediation for the challenges we saw in 2017, and expect to see the benefits of these actions from mid 2018 onwards.

In spite of these adverse market conditions, the underlying momentum of the UK business sustained through the year. Net written premiums increased 3 percent at constant exchange, including 7 percent growth in Personal Lines, underpinned by strength in motor telematics. Policy count rose 2 percent in Personal and Commercial net written premiums were flat at constant FX in a competitive market. We saw positive trends in net promoter scores. We anticipate that these positive trends will be sustained.

In achieving this, we continue to see the benefits of our emphasis on building strong relationships with partners. In December, we successfully launched our new distribution partnership with Nationwide Building Society, making us one of the largest writers of home insurance business in the UK. We also secured renewals with other key partners and signed new long term distribution relationships.

Notes:

1. Proforma for share of aggregate reinsurance recoveries and excludes the impact of the Ogden rate change. For more information see page 197.

STRATEGY & OUTLOOK

Our strategy

Our strategy in the UK market has been to invest in the business, develop 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.

Our improvement programme is on track and delivering the required capability to adapt and succeed in the evolving market. 2017 has been another year of significant delivery in terms of streamlining and automating processes, replacing our legacy technology, introducing new pricing and underwriting tools and developing a new operating model.

Outlook

Our business is building the agility it needs to meet the evolving needs of customers and a sustainable base from which to achieve best-in-class performance. For the UK & International region as a whole, we retain the performance ambition of a sustainable <94 percent combined ratio.

Stephen Lewis
CEO, UK and International

Leveraging our expertise to build a sustainable future
The unique insight we have built as a leading insurer in the renewable energies market enables us to anticipate and evaluate new technology and innovation in this area and, through this knowledge, reduce the risks and costs associated with renewable energies. We have developed sector specialisms around our renewable expertise, with a particular focus on wind and solar. This year we have been appointed as lead London insurer for the delivery of the 800MW Muhammed bin Rashid Al Maktoum – Phase III Solar Farm project. This project will support Dubai's ambition to generate 75 percent of its energy through renewable sources by 2050.

We also share our knowledge and expertise in other forums to support wider research and development of approaches to protecting against climate-related risks. Our Group Chief Financial Officer, Scott Egan, represents RSA on the ClimateWise Insurance Advisory Council, which this year has been leading research exploring how climate models can identify geographical concentrations of climate risk within real estate lending and investment portfolios.

For over 30 years, RSA has been a lead insurer of renewable energy

We bolstered this position through investment in our customer and digital capability, completing phase one of our new 'Digital Platform', a substantial IT infrastructure programme that will improve and simplify our customer experience across all our Personal Lines products. Internally, our digital improvement agenda has continued to deliver benefits by simplifying processes to free up employee time for higher value and specialist tasks, and enhancing our data analytics capabilities to give them the information they need to do the job well.

Increasingly, we are building improved customer insight in our product design and development. For example, our Nationwide partnership is built around a flexible policy that allows customers to 'pick and mix' their level of cover, after research indicated that only paying for the cover required was a primary factor in choosing a provider. In the Commercial space, our specialist knowledge of sectors such as property, marine and renewables gives us the capability to tailor our offer to meet business needs.

We recognise too the importance of contributing to the communities we are a part of. Our long standing partnership with the School for Social Entrepreneurs pairs its students with mentors from across RSA, helping them to gain the skills and knowledge to become successful social enterprise leaders. In the Commercial broker market, we've continued our support for these important partners through our Broker Leader Programme, which provides career development and training to up and coming talent.

We expect underlying positive premium trends to continue into 2018, and weather and large losses to return towards long term trend levels.

Ireland financial performance

Our Irish business has returned to profit, delivering an underwriting result of £9.5m and a combined ratio of 97 percent. Whilst there is more to do to ensure this result is sustained, we are seeing the benefit of coupling discipline in our underwriting with empathetic and high quality customer service.

For example, the year saw RSA supporting those hardest hit by Storm Ophelia – the strongest eastern Atlantic hurricane on record – by providing information and support via text message ahead of the worst of the damage. Our claims surge plan supported customers at speed, servicing some 1,200 related claims in the weeks following the storm, and maintaining the usual service levels in responding to calls.

Middle East financial performance

The Middle East delivered an underwriting result of £25m with an excellent combined ratio of 87.7 percent, despite challenging economic conditions. 2017 included a brand refresh of Al Ahlia, our direct-to-consumer brand, and several regional insurance awards for the business.

The medium term outlook is positive and work is underway to further develop capabilities, including underwriting and pricing sophistication.

PROMOTING AN EFFECTIVE RISK CULTURE WHICH SUPPORTS THE DELIVERY OF OUR STRATEGIC GOALS

Risk management approach

In a rapidly developing business environment we strive for best-in-class risk management in order to maximise shareholder risk adjusted returns and protect our customers from loss and poor outcomes. This includes leveraging our core expertise in being selective in the risks we wish to retain whilst ensuring that we manage, mitigate and avoid risks where we are not adequately rewarded. As a pure general insurer our key area of expertise is underwriting property and casualty insurance risks, which means we are able to provide our customers with competitive products that protect them against losses from uncertain future events whilst ensuring that the risks we accept are collectively managed to maximise our long-term risk-adjusted returns, and serve our customers well.

All insurance groups are faced with a number of different risks which for example can range from adverse movements in asset prices, external cyber-attacks or significant losses from catastrophic events (details of all the key risk categories are set out on page 36).

Our risk management and controls frameworks have been created to ensure that we are able to identify, measure and effectively manage these risks, both at Group level and in each entity and business unit, before they adversely impact the business. This information, together with the strength of the Group's capital position, allows the Board to set a risk strategy and appetite which sets out the level of risk the Board is prepared to take in the delivery of its strategic objectives. Achieving best-in-class risk management ensures we maximise long-term value by minimising the risks where our shareholders are not adequately rewarded and our customers are not well served e.g. vulnerability to cyber-attacks.

Operational planning cycle

1. Board sets the business strategy which is incorporated in the three-year operational plan. Risk provide robust challenge of validity and achievability of plan.
2. Risk Strategy creates the overarching principles for setting the Risk Appetite Indicators.
3. Comprehensive policy suite sets the required business processes and controls to deliver the operational plan within appetite. Robust control testing used to identify risks out of appetite.
4. Regional Risk and Control Committees track actions for risks outside of appetite, and escalate to local & Group boards.
5. Significant changes in risk assessments are considered by the Internal Model Governance Committee and where appropriate, the Group's internal model is updated.
6. Output from the model is sense checked against non-modelled stress and scenario events to ensure it provides a reliable basis for making business decisions, including capital planning, reinsurance purchase, performance analysis and pricing.
7. The internal model is run regularly throughout the year in order to assess the risks impacting the Group and determines how much capital the Group needs to hold to remain solvent even after a major stress event(s), which forms part of the ORSA process.
8. Validated output from the model is reported to the Board, so that changes can be made to the three-year operational plan to ensure the Group remains in appetite. Cycle will continue until the Board is satisfied with the future plan.

Keeping our focus on the road ahead

One of the key roles of the risk team is to ensure that we support the business by anticipating future risks which could impact the Group. This has become increasingly more important as the business environment continues to be impacted by rapid and dynamic technological advancements. At RSA we perform an annual deep-dive assessment of the emerging risks facing the business. The deep dive is informed through the use of subject matter experts, thematic brainstorming workshops and consulting a wide range of key external documentation.

This is supported by our participation in the CRO Forum's Emerging Risk Initiative Working Group, which RSA is chairing during 2018. The output of the deep dive is the emerging risks set out in the diagram opposite, which were presented to the Board Risk Committee for consideration, along with more detailed analysis on five selected risks. The more detailed analysis considers the appropriate responses and next steps.

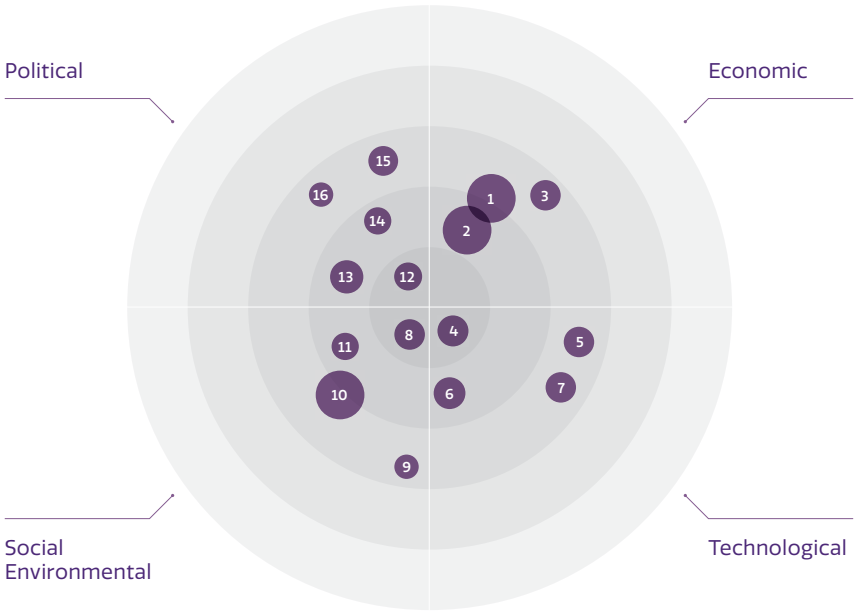
Against this evolving environment, we are further enhancing our focus on customer issues in each country, in the interest of long-term success.

The five selected risks covered:

1) Global socio-political uncertainty
2) Financial market uncertainty
3) Persistent or more extreme weather Patterns
4) Cyber-risk
5) Critical infrastructure – geomagnetic storms

The results from these reviews, coupled with the work performed in previous years, satisfied the Board Risk Committee that the Group's risks and controls frameworks were overall effective at managing future threats to the business.

Emerging risk analysis



Risk impact assessments

- Very high impact
- High impact
- Medium impact

Risk emergence proximity

- Emerged risk
- Near term risk <2 years
- Medium-term risk 2-5 years
- Long-term risk 5-10 years
- Far-term risk >10 years

Economic

1. Global economic slowdown
2. Financial market uncertainty
3. Interconnected nature of reinsurance market

Technological

4. Cyber risk
5. Data analytics changes underwriting
6. Critical infrastructure – solar storm
7. Technological advances

Social Environmental

8. Persistent or more extreme weather patterns
9. Scarcity of resources leads supply shocks
10. Longevity Risk
11. Pandemic

Political

12. Terrorist attack
13. Global socio-political uncertainty
14. Regulatory legislative change
15. Emerging stringent capital standards
16. Geopolitical tensions/conflict

RISK MANAGEMENT IN ACTION

The risk function provides significant real time support to the business for change programmes including outsourcing, automation and technology deployments, whose aim is more efficiency and better customer experiences. Our focus is ensuring risks arising through these initiatives, both for execution and for long-term benefits, remain transparent and well managed. We help ensure the programme considers a broad range of key risks early, learning from internal and external failures, and manages these successfully in an integrated way. A key step is to design and agree approval criteria well in advance that tie to these key risks. In addition, the Control Environment Impact Assessment process has been deployed to manage specific risks to the control environment from business change. This process continues to be developed to reflect the dynamic nature of our change agenda.

RISK MANAGEMENT IN ACTION

The risk function is closely involved in M&A and other major strategic initiatives. For example, in February 2017 RSA secured the disposal of UK Legacy business. The risk function participated actively in the transaction design and negotiations, including security assessment, asset and collateral arrangements and contractual safeguards for customers and shareholders. This involved both establishing the framework of considerations to satisfy and giving real-time advice, as well as providing an independent report to the Board. RSA's internal model was central to evaluate a range of aspects of the deal including overall value, capital implications, financial risks and the structure and limits for interim reinsurance and collateral. Given the extended and complex nature of the transfer, the risk function has continued to oversee and challenge on execution and operational matters.

Key risks and mitigants

Key risk and exposures	Solvency II SCR %	Key mitigants and controls	Commentary
Catastrophe risk Arises from the risk of large natural disasters with our main exposure being to European windstorms and Canadian earthquakes.	14	· Our reinsurance programme significantly reduces our exposure to catastrophe risks with losses arising from the 2017 Hurricane season being well covered by our programme. Programme is designed to cover at least 1 in 200 year events.	Consistent with our strategy and appetite of retaining risks that reside within our core expertise, where we are able to maximise risk-adjusted returns, our Solvency II Capital Requirement (SCR) is primarily comprised of insurance-related risks, including higher than anticipated underwriting losses, large retained catastrophe losses and deterioration in our stock of reserves for future claims. Whilst our investment strategy remains deliberately conservative we continue to look for opportunities to increase returns through the purchase of less liquid high-quality assets as we are able to match the cash flow profile against that of our liabilities. Another key SCR risk arises from the Group's defined benefit pension schemes. Although these schemes are well funded (95 percent per latest triennial review), under the Solvency II rules we are required to hold sufficient capital to withstand a 1 in 200 year event. For more information on the pension schemes see note 38 of the financial statements.
Reserving risk This is the risk that the Group's estimate of future claims is insufficient. Longer tail line of business present more uncertainty on the size and timing of payments, with our key exposure being the Swedish personal accident lines. Risk includes legislative changes e.g. Ogden rate change.	19	· Reserves are reviewed and challenged at the Group Reserving Committee which is attended by the Group Chief Actuary, the CRO, CFO and CEO · The Reserve assurance programme has independently verified >90 percent of the Group's net reserves over a three year period · Economic transfer of the UK legacy insurance liabilities, effective at 31 December 2016, reduced Group's exposure to Ogden rate change.	
Underwriting and claims risk This is the risk that underwritten business is less profitable than planned due to insufficient pricing and setting of claims case reserves. Key exposures arise from large portfolios where claims trends are slow to emerge such as UK Commercial and Marine.	12	· Controlled through well-defined risk appetite statements which are rigorously monitored at quarterly portfolio reviews, with remediation actions taken where deemed necessary · Claims case reserves are prudently set and reviewed at quarterly case reserving committees · Extensive control validation and assurance activities performed – with over 100 separate assurance reviews having been performed.	
Market, credit and currency risk This is the risk to our insurance funds arising from movements in macroeconomic variables including widening credit spreads, declining bond yields or currency fluctuations.	22	· RSA adopts a prudent investment strategy with the investment portfolio favouring high-quality fixed income bonds · Asset Liability Committee ensures assets are closely duration and currency matched with insurance liabilities to hedge volatility · Investment positions are regularly monitored to ensure limits remain within appetite.	
Pension risk We face longevity and in particular market related risks which arise from our defined benefit pension schemes. The largest exposures arise from credit spread and equity movements, although these are partly hedged by offsetting movements in the Insurance Investment Fund.	23	· Funding assets are well matched to liabilities in the pension schemes, including the use of swap arrangements · Reached an agreement to close the UK schemes to further accrual from 31 March 2017 · RSA continues to work with the pension trustees in order to further explore options to de-risk the pension funds.	
Operational risk These risks relate to customer and/or reputational damage arising from operational failures such as IT system failure.	10	· Extensive Line 2 and 3 challenge over the continued progress in executing the Group's transformation programme · Clearly articulated IT risk appetite supported by control testing and appropriate remediation plans · Extensive control review and testing with >1,000 control enhancement steps in the last two years.	

Risk culture

We consider the foundation for embedding an effective risk management framework is the cultivation of a risk culture which promotes accountability and openness (a willingness to admit mistakes and learn from the past), within an organisation built on respect, integrity and a clear focus on customer and employee outcomes. At RSA the senior management team have been instrumental in setting the right 'tone from the top', which is further underpinned by the Group's quarterly cultural health check and annual staff survey.

A key part of our culture is ensuring that our customers are at the heart of all we do, and our staff are passionate about providing brilliant service to our customers. We give considerable attention to ensuring our customer are treated fairly. In the UK we are reviewing and enhancing our Conduct Risk Framework to enhance oversight of how our customers receive good outcomes.

Risk developments in 2017

Delivery of General Data Protection Regulation (GDPR) – The UK, Ireland and Scandinavian businesses are taking the necessary steps to enhance their data protection capabilities in order to address the specific requirements of the GDPR legislation. The project continues into 2018 and remains on track to meet the May 2018 deadline.

Risk assessment of the operating plan – The Group's operating plan provides the platform for ensuring the business remains aligned with its strategic goals, including delivery of profitable growth whilst maintaining a robust capital base.

It is therefore essential the plan meets the right balance of achievable stretch targets with realistic assumptions and strategic actions for how this can be achieved. Risk take an active role in challenging the plan, including ensuring the validity of assumptions when compared to economic projections, peer reviews, past experience and current risk assessments, which also includes an assessment of the ability to deliver planned change activity.

Focus on best-in-class control framework – We continue to strive to deliver a best-in-class control framework. Across all our processes and territories, we have taken over 1,000 control enhancement steps in the last two years. This focus has ensured that our risks are well controlled within appetite whilst minimising unnecessary operational losses, which have reduced by around half in the aggregate view.

IT risk monitoring framework – The Group has enhanced the IT control validation programme, moving away from self-assessment to a more independent and transparent programme which is linked to the RSA risk monitoring framework (IT Risk Appetite). This provides management with feedback on the effectiveness of the IT control environment, which has been strengthened through the creation of business owned control testing teams.

Group Recovery and Resolution Plans – The risk team have engaged subject matter experts and external advisors to develop group recovery and resolution plans which provide valuable insights into how the Group would be able to effectively respond to an exceptional loss event with careful consideration of entities, particularly the top operating company.

Solvency II and Solvency Capital Requirement (SCR)

The Solvency II insurance regulatory regime became effective on 1 January 2016 and introduced the requirement to calculate 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.

Additionally, the Solvency II Directive impacts how RSA manages risk and how it reports to both regulators and shareholders:

Pillar one relates to the quantitative requirements including the calculation of the SCR.

Pillar two 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. This includes the need for the Group to perform its 'Own Risk and Solvency Assessment' (ORSA).

Pillar three relates to enhanced and standardised disclosure requirements, including increased transparency of the risk strategy and risk appetite of the business. Since 2017, RSA has annually published its 'Solvency and Financial Condition Report'; which contains extensive information on how RSA manages its risks and exposures and report on the financial position of the company using Solvency II valuation principles.

Brexit

Following earlier restructuring of the Group's operational entities the impact of Brexit on the Group has been relatively light. The main action for the Group is the Part VII transfer of its European branches into a newly created Luxembourg entity.

OUR CONTRIBUTION IN A CHANGING WORLD

We are committed to using RSA's business assets, expertise and knowledge to address the issues that our customers care about most, and to help make the difficult times a little bit easier. Our five year Corporate Responsibility strategy, Making Things Better, Together, was launched in 2014 and informed by the issues most material to the Company, its stakeholders and customers.

Making things better, together

Our strategy uses our business strengths and expertise to help build a safer world for our customers, support communities to thrive and contribute to addressing climate change, as well as ensuring we are managing the impact of our own business operations.

Safe, secure world

At RSA we believe we can play a meaningful and practical role in helping our customers to avoid risks.

In 2017, we reached millions of people through media and online campaigns focused on raising awareness of preventable risks across our markets. We use insight, data, communications and our product development expertise to help keep people safer in their homes, on the roads and in their businesses.

Our Danish business, Codan, is helping customers and their families stay safe online. In 2017, our educational seminars and practical advice on how to stay safe when connected to the Internet reached over two million people.

In the UK, our telematics and connected business is using the latest technology developments and behavioural sciences to help customers anticipate and avoid risks, particularly while driving. Our early trials have shown up to a 10 percent improvement in driving scores for the worst drivers, helping to improve road safety for everyone.

In Sweden, where outdoor swimming is a popular summer pastime, we're also pursuing innovations to tackle water safety. Around 50 percent of drowning victims in Sweden are found to have alcohol in their blood, so we've been developing technologies which allow swimmers to assess their blood-alcohol levels before swimming in open water.

Thriving communities

Our business cannot be successful unless the communities we operate in also flourish and thrive, and we see this as a core part of our role across our operations. We support and encourage our employees to contribute to the economic and social development of their local areas, by sharing their skills, offering their time, and fundraising for local causes.

Last year, employees in Canada contributed to building 150 new homes in Edmonton, Alberta, supporting those affected by last year's wild fires in neighbouring Fort McMurray. In the UK, our Ready, Set, Achieve programme helped young people develop the skills, knowledge and confidence they need to secure employment, through bespoke workshops hosted by our employees in communities close to our sites.

In 2017, we invested £1,893,600 in our communities. This included £265,900 raised for charitable causes by our employees, who also volunteered almost 9,000 hours of their time in their communities. Our community investment is guided by our Community and Charitable Policy and monitored through our Corporate Responsibility function to ensure compliance, including that no conflicts of interest exist, and no political donations are made by RSA Group.

Sustainable future

2017 reminded us of the devastating impact that extreme weather events can have on communities and businesses following the series of hurricanes in the Caribbean and the tragic earthquakes in Mexico. As an insurer, we feel the consequences of these events in our business particularly acutely through our interactions with affected customers. We support customers in the region to provide them with information and relief, and continue to do everything we can to get them back on their feet.

Our commitment to helping build a sustainable future encompasses supporting our customers to adapt and respond to climate change, managing the impact of our business on the environment, and insuring renewable energy projects to accelerate the transition to a low carbon economy. We manage our own operations efficiently, monitoring our energy consumption, water use and waste, in line with our Environmental Policy, and engage third parties to support us in assuring the quality of our information and identify improvement opportunities. This year, we reduced emissions from our operations by 4.3 percent per employee by limiting our business travel and increasing efficiency in our operations. Full emissions data can be found on page 96.

Recognising the shape and scope of our business operations and their limited environmental impacts, our efforts are focused on the role we play within the insurance sector. For example, we are contributing to the development of environmental, social and governance (ESG) guidance for underwriters through the UN Environment Programme Principles for Sustainable Insurance. We continue to be a leading insurer of renewable energy; through our Centre of Excellence for Wind in Denmark we have insured over 90 percent of the world's current offshore operational windfarm capacity. Last year we were appointed as lead London insurer in the Muhammed bin Rashid Al

Trygg-Hansa has supported 16,500 children to improve their confidence and ability in the water

Maktoum – Phase III Solar Farm project which is supporting Dubai's ambition to use 75 percent clean energy by 2050. Through our insight and knowledge of such projects we are reducing the risks and costs associated with their development.

Responsible business

We are committed to improving the way we operate, to ensure the positive impact of our business is maximised and the negative minimised. We engage with customers, employees and suppliers, being open and transparent in how we manage our operations and deliver our products and services, helping us build trust. We continually monitor the ESG risks associated with our operations and take action to manage those of material concern to our business, as outlined in the Risk Management section of this report.

As signatories of the UN Global Compact, we are committed to protecting human rights and eliminating discrimination, and our Human Rights Policy outlines the expectations placed on our employees, business partners and suppliers in this regard. To ensure we are taking appropriate steps to address the risk of modern slavery in our supply chains, we have updated our Third Party Contracts Policy and Supplier Code of Conduct to set a clear expectation of compliance. In addition, we have updated our due diligence processes to enable us to assess a supplier's position on human rights and ESG issues more effectively. In the UK in 2017 we assessed 138 suppliers deemed as most high risk to our business to ensure they meet these expectations.

In 2017 we made significant progress to enhance the support we offer to colleagues and customers. In the UK we have been focusing on our training programmes for frontline staff and others to help them consider, recognise and support customers according to their individual circumstances. Across the Group we have invested in improving workplace health and wellbeing, with a specific focus on mental health in Canada and the UK. We have also strengthened our actions to promote diversity and inclusion in our business, outlined in the People section of this report.

Anti-bribery and corruption

We take our commitments to preventing bribery and corruption risk very seriously. Bribery and corruption are not tolerated anywhere in our business and this standard, led by our Board and Group Executive, applies globally.

Our Anti-Corruption, Conflicts of Interest, Gifts and Hospitality Policies apply Group-wide and are supported by extensive resources and guidance, including our anti-bribery toolkit, which is available to all our businesses. Our mandatory Group-wide Anti-bribery and Corruption (ABC) training is supplemented by targeted training for staff in higher risk roles, and all employees are required to complete training on whistleblowing. As a result, our employees are equipped to identify and escalate issues and behaviours which may constitute corruption. We seek to maintain the right culture by regular reminders of our expectations.

All operating countries must complete regular anti-corruption risk assessments covering all aspects of their businesses, including procedures and HR matters and the high expectations we have of our partners. Our operating countries are all given guidance to support them to continuously improve their anti-corruption controls.

We strongly encourage our people to speak out if they have concerns about ABC. Our annually-reviewed Group-wide Whistleblowing Policy, available on our intranet, sets out the procedure for colleagues to confidentially raise concerns about suspected wrongdoing and malpractice.

Information on policy compliance is escalated to management. Our Board receives updates on our anti-corruption controls at least annually. Where a breach is material or not in compliance with regulations, we will report externally.

Looking forward

Our Making Things Better Together strategy runs from 2013-2018. Over the course of this year, we will be taking the opportunity to reflect on the impact delivered over the past five years and to review our approach to corporate responsibility, to ensure it continues to maximise our potential to generate positive impacts on society and the environment.

We are committed to continuing to harness our business's strengths and expertise to make the difficult times a little easier for our customers, and help to keep them and their communities safe.

Note:
The information required to be contained in the non-financial reporting statement under section 414CA Companies Act 2006 is set out on pages 33 to 41 of this Strategic Report. The relevant information contained in the sections on the Group's business model and key performance indicators is also incorporated into the statement.

BUILDING THE RIGHT WORKING ENVIRONMENT

In 2017, we continued building a company with high standards of leadership, effective ways of working, great technical know-how and an inclusive, sustainable culture.

The 30% Club cross company mentoring programme has been invaluable. As a mentee it has provided me with a 'personalised' development opportunity with access to an independent and objective perspective. My mentor encouraged me to explore outside the 'obvious' career enhancements and more importantly, to focus on developing as a person and not just a leader.

Gurjinder Rai
Finance Transformation Lead, Scandinavia

Total number of employees[1] at the end of 2017

	Employees	% of Group Total
UK & International	6,503	51%
Canada	3,126	25%
Scandinavia	2,770	22%
GCC	160	1%
Other	78	1%
	12,636	

Notes:
1. Full-time, including non-permanent resource.

RSA leaders are driven and determined

We expect our leaders to be role models for what it means to be best-in-class. That means that they need to win for our customers and shareholders and be determined in the pursuit of high performance, resilient and willing to innovate.

To build this capability, there has been a focus on defining and building our leadership skills at all levels to support us to win in each of our markets. In the UK for example, we have developed our new leadership development curriculum, including 'Licence to Lead', which equips our leaders with the foundation skills to drive performance and bring out the best in their teams. Similarly in Scandinavia, over 250 new leaders and functional heads will have attended a tailored leadership development programme by April 2018. In Canada, a new framework of Leader Expectations is underpinning assessment of leadership capability and a range of new development programmes will be designed to grow this critical capability. Senior leaders across the Group have continued to participate in a programme of 360 feedback and coaching to ensure that they continue to develop the style and capabilities which are aligned with the priorities of their businesses.

RSA leaders channel ambition into good outcomes

Our success depends on delivering our promises to customers while creating value for our shareholders. We expect our people to be customer-focused and to do the right thing by customers – this is embedded into our pursuit of outperformance. Delivering for our customers also means equipping our people to perform their roles by providing them with the tools they need.

In a lean organisation, collaboration and best-practice sharing is vital. In November, we held our annual Group Senior Leaders event bringing together the community of our most senior leaders, enabling them to create new connections, learn about challenges and trends in the market and contribute to determining our future priorities. Use of our internal digital collaboration platforms continues to grow, enabling our employees to connect across multiple locations in more agile and innovative ways, and provide real-time feedback.

Over and above the right tools and ways of working, the cultural health of the organisation is critical to creating a sustainable business, and we have continued to monitor this on a quarterly basis. This involves co-ordinating input from HR, Risk and Audit to monitor any potential cultural risk factors such as employee engagement, employee turnover and succession coverage for critical roles. This means that we can spot any potential problem areas which need to be addressed before any serious issues occur.

RSA has great technical know-how

Technical capability is naturally at the heart of our business. We aim to be best in class in underwriting, claims, pricing, portfolio management and risk engineering to ensure that our people can deliver the best outcomes for both our customers and our shareholders.

In 2017, our Group Technical Academy supported our Regions with face-to-face development of over 150 people (totalling over 7000 training hours), and assisted with a number of continuing technical development events. We continue to develop and deliver a range of technical

Gaelle Tortuyaux, managing director of our French operations, at the Group Senior Leaders event

capability development programmes to make us best-in-class, sustaining our technical advantage and providing a stimulating working environment for those with technical talent.

RSA is a place where fulfilling careers can be made

We believe that RSA should be as diverse as the customers it serves. To attract and retain diverse and talented people who will thrive, we aim to offer exciting and meaningful careers at RSA. We are maintaining our focus on developing our internal emerging talent: the UK and Scandinavia's talent programmes – Accelerate and Fast Track – for example, support the transition of talented people at various levels of the business through to more senior roles.

These talent programmes have been successful in developing new leaders at RSA for a number of years. For example, in 2017 in the UK, female and male employees were promoted in broadly equal proportions into our senior leadership population. However like many financial services organisations, change is needed to 'shift the dial' on gender diversity in the senior management population at RSA. We have appointed a new Group Head of Diversity & Inclusion (D&I) to develop and implement the Group's D&I strategy and take responsibility for the Group D&I Council action plan. And individual regions continue to make this a priority issue. In the UK, we are committed to actions which over time will reduce our gender pay gap. For example, when recruiting for senior roles, we require diverse shortlists of candidates and monitor the conversion rates of shortlisted candidates from under-represented groups to job offer. We were also very pleased in November 2017 to become a signatory to HM Treasury's Women in Finance Charter which commits us to achieving a 33 percent representation of women in our Management Group by 2020.

To meet these commitments, developing women leaders who are already in the business is critical, and in 2018 we will further increase the number of female delegates attending our talent development programmes. In Canada we are funding attendance on Rotman Business School's 'Initiative for Women in Business' and in the UK we have continued with our participation in the 30% Club cross-company mentoring programme This highly regarded programme is designed specifically to support female progression and during 2017 we were able to offer mentoring to women in RSA at the emerging leader level.

As part of our engagement of employees in shaping and giving feedback on our ongoing D&I agenda, we have begun to establish employee resource groups. To date in the UK we have groups which focus on gender and on LGBT+ issues and we will continue to support the growth and success of these groups, as well as the establishment of similar groups in other regions. Of course, feedback from all employees about what it's like to work in RSA is important to us, and in 2017, we ran another 'YOURSAY' employee opinion survey. Our colleagues confirmed that RSA is a workplace with a strong performance culture, where there are opportunities to learn and grow, and where teams collaborate well. They also told us what more we need to do to achieve our Best in Class ambitions. We have listened, and as a consequence increased our senior leader communication of key business messages to all employees, including globally streamed Results town halls, face-to-face 'Buzz' sessions, and online, open discussions – #YamJams – on our internal social collaboration tool, Yammer.

Diversity of thought, background and experience enables us to innovate and create better solutions for our customers and to build a sustainable, modern business.

In 2017, we continued to focus on building the people capabilities and culture which will help us to achieve our best in class ambition for customers and shareholders and we intend to sustain this effort into 2018 and beyond.

Employee headcount by gender end 2017

Year end 2017 headcount	Male	Female
Group Board of Directors	8	2
Group Executive Committee	8	2
Senior management	417	209
Group overall[1]	5,845	6,895

Notes:

1. Based on Group permanent and non-permanent headcount.

   Senior management reflects the same group reported in Women in Finance Charter goals. 2016 adjusted comparison group: M: 427, F: 198. As at 31 December 2017 there were 131 males and 43 females who were directors of undertakings included in the consolidation. This includes dormant companies. It is not a reference group that RSA uses and we do not believe it is an accurate indicator of diversity; however it is disclosed to comply with regulatory requirements.

CHAIRMAN'S GOVERNANCE LETTER

The Board is accountable to stakeholders for establishing and delivering strong sustainable performance and the creation of long-term shareholder value.

DIRECTORS' AND CORPORATE GOVERNANCE REPORT

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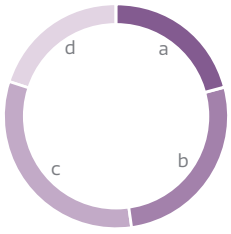
Breakdown of time spent on four key focus areas by the Board and Committees during 2017



a. Strategy and growth including business transformation 21%
b. Risk management and internal control 27%
c. Financial performance and reporting 32%
d. Governance 20%

The Group have continued to work towards the ambition of delivering improvements and efficiencies across customer service, underwriting effectiveness and controllable expenses. The Board's role in the delivery of this ambition is oversight and challenge with responsibility for the overall strategy of the Group and the commitment to 'best- in-class' with careful consideration of the interests of customers.

There are a number of changes to the Board to highlight. Johanna Waterous retired as a director and Isabel Hudson succeeded Johanna as Senior Independent Director in May 2017. Kath Cates succeeded Hugh Mitchell as Chair of the Remuneration Committee and Martin Strobel succeeded Kath as Chair of the Board Risk Committee with effect from 1 December 2017. Hugh will retire as a director with effect from the Company's Annual General Meeting (AGM) on 11 May 2018. I would like to thank Hugh for his contribution to the Board over the past six years and I would also like to thank Kath for her leadership and oversight of the Board Risk Committee. I wish Martin and Kath success in their new roles as Chair of the Board Risk Committee and Chair of the Remuneration Committee respectively.

Throughout the year, the Board and its committees have focused on four key areas:

1. strategy and growth, including business transformation
2. risk management and internal control
3. financial performance and reporting
4. governance

ensuring that a broad range of matters are considered and sufficient time is spent on these areas with deep dives into certain business processes as required. More information in respect of each of these areas is available in this report.

The Board continually challenges management to ensure that the flow and quality of information to the Board is of a high standard.

The Board has also spent time in the business both collectively and as individuals, exploring specific business areas through presentations, meetings and dialogue with management.

The effectiveness of the Board and its Committees was evaluated internally during 2017. The results of the evaluation concluded that the Board continues to operate in a cohesive and effective way.

I would like to thank the Board and employees for their contribution and commitment throughout the year, which is fundamental in ensuring the Board delivers for its shareholders, customers and wider stakeholder group.

Martin A Scicluna
Chairman
21 February 2018

Compliance with the UK Corporate Governance Code

The primary responsibility of the Board is to provide effective, entrepreneurial leadership to ensure that it promotes the long-term success of the Company for the benefit of its members as a whole.

The Financial Reporting Council (FRC) is responsible for the publication and periodic review of the UK Corporate Governance Code (the Code) which sets out standards and expectations on corporate governance matters for UK companies.

The Group Nomination and Governance Committee monitors compliance with the Code. Throughout the year, the Company has complied with the Code. Key features of the Group's compliance are set out below. There is more detail throughout the Directors' and Corporate Governance report, the reports from each of the Board committees and in the Strategic Report, demonstrating how the Principles and Provisions of the Code have been applied.

The Board is aware of the proposals to change the UK Corporate Governance Code and the Group have contributed to the FRC's consultation process about those proposed changes. Once the revised Code has been published, the Group will conduct a full review of the Company's governance processes in light of the Code's new Principles and Provisions.

References

- The current version of the Code, published in 2016 can be found at www.frc.org.uk.
- RSA Board Committee Terms of Reference are available to view at www.rsagroup.com/termsofreference.

LEADERSHIP

- A balanced Board with a broad range of skills, diverse experience and knowledge,demonstrating independence and constructive challenge
- Role statements define the split of responsibilities between the Chairman and Group Chief Executive and provide a mandate to independent non-executive directors to challenge performance and bring an independent, objective opinion. No individual or small group of directors can dominate the Board's decision-making
- The Senior Independent Director, through the annual Board effectiveness process, evaluates the performance of the Chairman in the leadership of a cohesive, effective Board
- Through regular review of the Board's rolling agenda and previews of each Board meeting's agenda, the Chairman ensures sufficient time is allowed for discussion and debate and he encourages constructive challenge during Board meetings.

EFFECTIVENESS

- Programme of scheduled Board and committee meetings throughout the year includes annual site visits, a two-day strategy meeting and in-depth management presentations to enable directors to discharge their duties effectively
- Letters of appointment set out the anticipated time commitment, which is reviewed annually by the Group Nomination and Governance Committee
- Detailed induction programme established for new directors upon appointment
- Annual review of training undertaken for each non-executive director by the Chairman
- Board, committee and director evaluation undertaken annually with an in-depth external evaluation undertaken every three years (last external evaluation undertaken in 2016). The evaluations undertaken include an assessment of Board composition, expertise, time management and oversight of material provided to the Board.

ACCOUNTABILITY

- The Board sets annual business objectives in line with the current Group strategy and monitors achievement against these objectives through regular functional reports
- A schedule of matters reserved for the Board and committee Terms of Reference are reviewed annually
- Rolling agendas for the Board and committees are continually refreshed in line with the needs of the business
- Certain responsibilities are delegated to Board committees to ensure detailed and focused consideration
- The Board, supported by its committees, operates within a framework of prudent and effective controls in the interests of shareholders and customers
- The Board believes it provides information necessary for shareholders to assess the Company's position and performance, business model and strategy
- Viability assessed over a three-year period which is aligned to the operational planning process and short-tail nature of the insurance contracts that the business underwrites
- The Board, through the Board Risk Committee, ensures that material risks are identified and ensures these risks are mitigated and managed.

KEY FEATURES OF COMPLIANCE WITH UK CORPORATE GOVERNANCE CODE

REMUNERATION

- Remuneration Committee established with oversight of remuneration decisions
- Directors' Remuneration Policy, approved by shareholders, supports operational plans, business strategy and short and long-term performance
- Performance measures are aligned to business strategy and have stretching targets
- Remuneration framework is designed to promote sound and effective risk management in line with the Company's risk profile
- Shareholding requirements, malus and clawback provisions are in place
- Remuneration Committee members receive background information on the remuneration of the Group's employees in general to provide context when considering Executive Directors' remuneration
- Remuneration Committee comprised of independent Non-Executive Directors with responsibility for executive reward decisions.

ENGAGEMENT

- Importance of stakeholder engagement is key to the Board: shareholders, customers, employees, regulators and rating agencies
- Performance and expertise of the Group's employees are key to the successful delivery of the Group's strategy. The Board regularly engage with senior leaders in the business to gain a greater understanding of specific business areas
- Meetings with institutional shareholders took place throughout 2017. The Board receives regular updates in relation to institutional shareholder views
- One of the Group's strategic goals is the ambition of delivering improvements in customer service. The Board receive regular updates on customer metrics as it moves towards realising this ambition
- The Board is committed to dealing with regulators in an open, co-operative and transparent manner and takes its regulatory responsibilities seriously
- The Group Chief Executive presents an update on the Company's performance at the AGM. Shareholders are encouraged to attend and ask questions.

BOARD OF DIRECTORS

MARTIN SCICLUNA
Chairman

Appointment date: January 2013
Nationality: British
Committee membership: N I

Skills and experience:
Martin has considerable knowledge and understanding of the financial services sector and Board experience. Previous roles include Senior Independent Director and Chairman of the Audit Committee of Worldpay Group plc, 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 membership of the Financial Services Trade and Investment Board from 2013 to 2015.

Board Contribution:
Martin has held board positions for over 20 years. He brings valuable experience in developing strategy and evaluating business opportunities along with understanding of the financial services sector and how it operates. He ensures the Board operates effectively, promoting constructive engagement with shareholders and other stakeholders.

External appointments:
Chairman of Great Portland Estates plc.

STEPHEN HESTER
Group Chief Executive

Appointment date: February 2014
Nationality: British

Skills and experience:
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 at British Land plc from 2004 to 2008, Chief Operating Officer of 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.

Board Contribution:
Stephen has over 30 years' experience in financial services and FTSE100 companies and brings extensive leadership experience contributing towards the Company's forward looking strategy and policy. He is responsible for the executive management team, along with leading strategy and business plan development and execution for the Company and its major operating subsidiaries having regard to the requirements of shareholders and investors.

External appointments:
Senior Independent Director of Centrica plc.

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

Board of directors as at 21 February 2018

SCOTT EGAN
Group Chief Financial Officer

Appointment date: October 2015
Nationality: British

Skills and experience:
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 and Aviva. Scott is a qualified accountant (ACMA), has an MBA from Cranfield University and is a member of the ClimateWise Insurance Advisory Council.

Board Contribution:
Scott has substantial financial services experience and understanding of the financial sector which he brings to the Board when overseeing financial operations of the Group and setting the financial strategy.

External appointments:
None

ISABEL HUDSON
Senior Independent Non-Executive Director

Appointment date: August 2016
Nationality: British
Committee membership: B R N

Skills and experience:
Isabel has significant experience in general insurance, both as an executive and non-executive director, along with a wealth of relevant board experience having served as committee member and committee Chairman of a number of listed companies including Standard Life plc and QBE Insurance Group Ltd, as well as The Pension Regulator. Her previous roles include Executive Director of Prudential's UK business and Chairman of Prudential International Assurance between 2002 and 2006, Chief Executive of specialised pension buyout firm Synesis Life, Chief Financial Officer of Eureko and International Development Director for GE Insurance Holdings Limited.

Board Contribution:
Isabel brings wide ranging commercial, corporate finance and business development experience to the Board from the UK and internationally, especially Europe, focused on the insurance sector, spanning life and general insurance as well as pensions. Isabel's previous experience chairing a remuneration committee contributes and adds value to the Group Remuneration Committee.

External appointments:
Chairman of National House Building Council and Non-Executive Director of BT plc.

ALASTAIR BARBOUR
Independent Non-Executive Director

Appointment date: October 2011
Nationality: British
Committee membership: A N I B

Skills and experience:
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.

Board Contribution:
Alastair's extensive experience in advising on accounting and financial reporting, corporate governance and management issues in the financial sector adds value to his role on the Board. He brings in-depth knowledge and understanding of global governance, which is particularly useful in his role as Chairman of the Group Audit Committee as he leads the Committee to challenge the internal control and risk management systems to mitigate financial risks.

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

KATH CATES
Independent Non-Executive Director

Appointment date: September 2013
Nationality: British
Committee membership: R A B N

Skills and experience:
Kath has over 25 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.

Board Contribution:
Kath's broad experience within the financial sector brings an insight into the businesses in the UK and globally, adding valuable contribution to the committees of which she is a member. Her in-depth knowledge, understanding of governance, and her experience in working across different sectors and markets are particularly useful in her role as Chair of the Group Remuneration Committee.

External appointments:
Non-Executive Director of Brewin Dolphin Holdings plc, Non-Executive Director of Threadneedle Investment Services Limited, Threadneedle Pensions Limited and Threadneedle Asset Management Holdings Sarl.

ENRICO CUCCHIANI
Independent Non-Executive Director

Appointment date: December 2014
Nationality: Italian
Committee membership: R

Skills and experience:
Enrico has over 35 years' global executive and non-executive experience across financial services including banking and insurance: he was Group CEO at Intesa Sanpaolo and, prior to that, member of the Executive Board of Allianz where he was responsible for companies in Europe, Africa and Latin America and, globally, for P&C. He also served on the boards of, among others, Unicredit and Pirelli.

Board Contribution:
Enrico's long-standing experience in the financial and insurance sector provides the Group with innovative ways to grow the business and contributes towards the successful operation of the Board.

External appointments:
Founding Partner of TGI-Think Global Investments; Non-Executive Director of Piraeus Bank; Member of the Board and of the Executive Committee of Bocconi University.

HUGH MITCHELL*
Independent Non-Executive Director

Appointment date: September 2012
Nationality: British
Committee membership: R B

Skills and experience:
Until 31 December 2015, Chief Human Resources and Corporate Officer of Royal Dutch Shell plc, and a member of the Shell Executive Committee. Formerly a Director of Shell International Limited, Shell Aircraft Limited and the Shell Foundation. Advisory roles previously held at The Centre for Advanced Human Resources at Cornell University Advisory Board, IMD Business School Advisory Board in Lausanne, an Honorary Vice- President for the CIPD (UK) and Advisory Board Member of the National College for School Leadership (England and Wales).

Board Contribution:
Hugh's previous roles provide him with extensive experience and the understanding of remuneration and reward systems and capabilities for his role as former Chair and current member of the Remuneration Committee and his work towards attracting and retaining new talent.

External appointments:
Currently a Fellow of the National Academy of Human Resources in the USA and a Board Member of Edinburgh Business School.

* Hugh will retire as a director with effect from 11 May 2018

Role statements

Chairman
The Chairman is responsible for the leadership and effectiveness of the Board including the conduct at Board meetings. He promotes a culture of openness and debate ensuring effective decision-making and the provision of timely, accurate and clear information. The Chairman ensures that relevant objectives are established for the Group Chief Executive and his executive team, reviewing the overall management performance of the Company and senior management with the Group Chief Executive. The Chairman takes on the role of ambassador for the Company, participating in the engagement of and effective communication with the Company's stakeholders.

Group Chief Executive
The Group Chief Executive is responsible for identifying and developing business opportunities, recommending actions to the Board with particular attention on strategic plans, risk appetite and risk exposure for the business, monitoring the performance of the Group and overseeing the delivery of objectives and business plans within agreed timescales and budget. The Group Chief Executive develops targets and goals for his executive team and ensures succession plans for senior management are in place. He represents the Company at industry events and develops the Company's communications strategy to meet the needs of, and engage with, all internal and external stakeholders.

Senior Independent Director
The Senior Independent Director supports the Chairman in the delivery of his responsibilities as required, ensuring the views of each of the non-executive directors are given due consideration and facilitating communication between the non-executive directors and the Chairman. The Senior Independent Director holds meetings with the non-executive directors without the Chairman being present to review the Chairman's performance as part of the internal Board evaluation process and chairs the Group Nomination and Governance Committee when considering matters relating to the Chairman of the Board.

JOSEPH STREPPEL
Independent Non-Executive Director

Appointment date: October 2011
Nationality: Dutch
Committee membership: I A R

Skills and experience:
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 and Chairman of the Monitoring Committee of the Dutch Corporate Governance Code.

Board Contribution:
Joseph's comprehensive understanding of the insurance market and extensive financial services experience, along with his commercial experience in emerging and international markets adds value to the development of strategy and how the business is run in the UK and globally.

External appointments:
Chairman of Duisenberg School of Finance, Chairman of the Advisory Board of the Royal Dutch Society of Actuaries, Chairman of Leaseplan Corporation and Chairman of Stichting Continuïteit Philips Lightning (Foundation Continuity Philips Lightning), a non-listed Company.

MARTIN STROBEL
Independent Non-Executive Director

Appointment date: May 2016
Nationality: Swiss
Committee membership: B I A R N

Skills and experience:
Most recently Chief Executive Officer of Baloise Group, a position he held for seven years to 2015. He joined Baloise Group in 1999 as the Head of IT at Basler Switzerland and, within Baloise Group, was responsible for major cross-functional insurance and finance projects. From 2003 to 2008, he was a member of the Corporate Executive Committee with responsibility for the Corporate Division Switzerland. From 1993 to 1999, Martin performed various roles at Boston Consulting Group, Düsseldorf, advising business in the banking and the insurance sectors.

Board Contribution:
Martin has over 25 years' insurance and financial services experience, which provides the skillset required to be a member of the Audit, the Remuneration and Investment Committee and encourages constructive challenge of matters discussed. His understanding of the insurance market adds value to his role as Chairman of the Board Risk Committee.

External appointments:
Non-Executive Director of Anivo 360 AG.

CHARLOTTE HEISS
Group Chief Legal Officer and Company Secretary

Appointment date: March 2016
Nationality: British

Skills and experience:
Charlotte joined RSA in February 2010 as Legal Counsel becoming Head of Group Legal in October 2011. Prior to joining RSA, Charlotte worked at law firm Linklaters LLP where she acted for a variety of corporates and banks, specialising in corporate advisory, public and private M&A and equity capital market transactions.

Charlotte is a member of the Executive Committee.

Non-Executive Directors
The role of the non-executive director is to challenge and approve the Group's strategy and to assess and challenge performance against business plans, bringing an independent, objective view to the discussion. Each of the non-executive directors is a member of one or more committees for which they have the skills, knowledge and expertise required to consider topics delegated for in-depth assessment. They meet with the Chairman without the executive directors being present and meet with the Senior Independent Director without the Chairman being present to review the Chairman's performance and discuss other matters. Each committee is chaired by a non-executive director who has the specialism and experience in the relevant field and with the applicable external stakeholders.

Company Secretary
The role of the Company Secretary is to support the Chairman and the Board. This includes bringing all governance matters to the attention of the Board and delivering a programme of Board and committee meetings, training, induction programmes and senior management presentations to ensure that each director has the information required to discharge his or her statutory duties.
The Company Secretary ensures that papers are produced to a high standard and in a timely manner which are circulated to directors a week in advance of any meeting. The directors have access to the services and advice of the Company Secretary, and may take independent professional advice at the expense of the Company in the furtherance of their duties.

EXECUTIVE COMMITTEE

The Executive Committee comprises Stephen Hester and Scott Egan, Executive Directors of the Group Board, Chief Executive Officers of the UK & International, Canadian and Scandinavian regional businesses and senior management in key functional roles.

PATRICK BERGANDER
CEO RSA Scandinavia

RALPH DAALS
Group Chief Auditor

CHARLOTTE HEISS
Group Chief Legal Officer and Company Secretary

CATHY LEWIS
Group HR Director

STEPHEN LEWIS
Chief Executive UK & International

WILLIAM McDONNELL
Group Chief Risk Officer

MARTIN THOMPSON
President and CEO RSA Canada

NATHAN WILLIAMS
Group Underwriting Director

Biographical details for the individuals fulfilling these roles can be found at www.rsagroup.com/thegroupexecutive

BOARD ACTIVITIES DURING 2017

Summary of Matters Reserved for the Board

- Responsibility for and approval of the overall management of the Group: business strategy, long-term objectives, Group risk appetite, delegation of authority, significant changes in Group and capital structure
- Review of progress against strategic goals, long-term objectives and performance against the three year operational plan
- Oversight and challenge of the Group's operations, performance and strategic planning
- Ensure the effectiveness of the Group's systems of risk management and internal controls
- Ensure compliance of the Group's statutory and regulatory requirements
- Approval of new business lines
- Review of Board, committee and management effectiveness
- Ensure the adequacy of accounting records, financial controls, accounting policies and financial reporting
- Approval of all significant capital or other expenditure
- Review of Board Governance: Board composition, succession planning, role statements, Board effectiveness and committee responsibilities and effectiveness with the support of the Group Nomination and Governance Committee
- Following the recommendation from the Remuneration Committee, review of remuneration policies and share incentive plans for recommendation to shareholders for approval.

Key activities of the Board during 2017

Throughout the year, the Board and its committees have focused on four key areas: strategy and growth (including business transformation); risk management and internal control; financial performance and reporting; and governance matters. A rolling agenda of topics is kept under constant review and updated to make sure that sufficient time is spent on these focus areas and that across the year an appropriately broad range of topics are considered.

The Board annually host a two-day strategy meeting to which senior management are invited to attend to present on business issues, market trends and various innovations in support of the long-term strategy and vision of the Group. This year, the presentations included a detailed focus on underwriting, pricing and claims and digital capabilities.

During 2017, the Board met with each of the regional businesses to discuss progress against transformation, cost reduction and developing trends and emerging risks. The Board also spent time in the business both collectively and as individuals, to gain a greater understanding of the operational side of the business including:

Group Board visit to Scandinavia

- a two-day visit to Stockholm to meet with the Scandinavian team to discuss competitor trends, Scandinavian risks, underwriting and pricing
- attendance at the annual Senior Leaders' Conference, which focused on key priorities and challenges facing the Group
- hosting a variety of presentations and meetings with senior management from the Group's Top 50 management and key businesses, in Ireland and the UK, focusing on specific business initiatives.

The Board reviewed Executive and senior management succession planning and spent time analysing and discussing with management the 'YOURSAY' employee engagement survey results and the proposed actions arising from it. The Board also looked at policies in place to ensure that a diverse and inclusive culture is provided across the Group offering advancement and progression. The Board values its workforce and the culture in which they work. Regular reviews will continue through 2018 in Board, committee and executive management forums, with diversity and inclusion presentations scheduled on the rolling agenda.

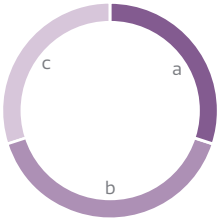
In addition, the Chairman and non-executive directors, together with senior members of the management team, have hosted meetings with external stakeholders: regulators, shareholders and other external advisers.

The Board are supported by the activities of each of the Board Committees and details of committee highlights for the year are contained in the various committee reports in this Report.

LEADERSHIP

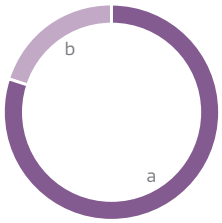
Through the annual Board evaluation process, the Board has confirmed it has the appropriate balance of skills, experience, independence and knowledge to enable it and its committees to discharge their duties and responsibilities effectively, and continues to work towards achieving external diversity recommendations.

Board Tenure as at 31 December 2017



a. 0 to 3 years	30%
b. 3 to 6 years	40%
c. 6 to 9 years	30%

Diversity of the Board as at 31 December 2017



a. Male	80%
b. Female	20%

One of the key responsibilities of the Group Nomination and Governance Committee is to keep under review Board membership, succession planning and diversity to ensure the skills, experience and balance of the Board remains appropriate.

The names of the directors, together with their biographical details, committee membership and role statements are set out on pages 44 to 47. No one individual has unfettered powers of decision making and the roles of the Chairman and Group Chief Executive are separate and clearly differentiated through role statements, which are approved by the Board annually, along with role statements for the Senior Independent Director and Non-Executive Directors.

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. 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 68 to 92 and are incorporated into this Report by reference.

Service agreements and letters of appointment, for all the executive and non-executive directors, are available for inspection at the Company's registered office and at the AGM.

Diversity

The Group is committed to diversity and the promotion of equal opportunities. During the year, the Board approved a formal 'Diversity, Inclusion and Equal Opportunities Group Policy'. The Board is aware of external diversity guidance issued by industry bodies from time to time, and considers the findings and recommendations of, for example, 'Women on Boards' (Davies' Review); 'FTSE Women Leaders' (Hampton-Alexander Review); and 'Ethnic diversity of UK Boards' (Parker Review). The importance of diversity of gender, social and ethnic backgrounds, and of cognitive and personal strengths is recognised by the Board as a matter of Group Board policy. The Board values the breadth of perspective that such diversity can bring and the beneficial impact it can have on Board effectiveness and throughout the Group more broadly; and remains committed to maintaining a diverse Board and overseeing the development of a diverse workforce. All appointments to the Board are made on merit against an agreed selection criteria to ensure a balance of skills, experience, independence and knowledge.

The Board receives updates on the development of diversity, inclusion and equal opportunities, within the business and is supportive of an agreed programme of actions that focus on improving Group-wide diversity.

The Company signed the 'Women in Finance Charter' in November 2017 through which the Group are committed to achieving a 33% representation of women in our management group by 2020. The Group continues to invest in strengthening its pipeline of female employees for senior leadership positions to ensure progress towards this target and has developed a framework of initiatives designed to help retain, develop and promote female employees and improve diversity and inclusion more broadly.

The Board is aware of the proposals of the Parker Report on ethnic diversity and of the Davies Review recommendation of a minimum of 25 percent representation of females on the Board rising to 33 percent by 2020. Following Hugh Mitchell's retirement there will be two women and seven men on the Board. The Board values the breadth of perspective that diversity brings and is committed to maintaining a Board that is diverse (in its widest sense, encompassing not just gender and ethnicity).

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. In addition directors are required to allocate sufficient time to meet the expectations of the role, including attending Board and committee meetings, ad hoc meetings, spending time in the business, training and briefings with senior management as part of their induction and ongoing development programme, and attendance at the Annual General Meeting.

The Group Nomination and Governance Committee undertakes a review of directors' time commitment annually and, following a review in 2017, concluded that the commitment remained appropriate, with additional time to be spent in the business as required. During 2017, each of the directors has demonstrated flexibility and commitment by not only attending Board and committee meetings, and making themselves available to meet with the Prudential Regulatory Authority (PRA) as required, but also spending additional time in the business.

Martin Scicluna is the Chairman of Great Portland Estates plc and Stephen Hester is Senior Independent Director of Centrica plc. These appointments were considered by the Group Nomination and Governance Committee when considering Martin and Stephen's time commitment and capacity to discharge their duties. The Board is satisfied that both Martin and Stephen's external appointments are not a constraint on their time or ability to carry out their duties. Scott Egan is not currently a director of any other listed company but would be allowed to have one such appointment, subject to approval.

Appointment, Induction, Training and Development

When appointing new directors, regard is given to the size of the Board, the balance of executive and non-executive directors and the benefits of diversity, including gender.

A role specification is agreed and provided to the external adviser appointed to assist with the recruitment. The Group Nomination and Governance Committee has responsibility for reviewing a shortlist of candidates and its recommendation is presented to the Board. The Board considers the skills, experience, independence and knowledge already represented when making decisions on new appointments.

Upon appointment to the Board, directors undertake a tailored induction programme, receiving a broad range of information about the Group. This includes information on the operational performance and business of the Group, including the Group's approach to corporate responsibility, and details of Board procedures, corporate governance and directors' responsibilities. Directors attend a series of meetings with senior management covering all aspects of the business including Capital, Claims, Company Secretarial and Legal, External Auditor, HR, Internal Audit, Investments, IT and e-business, Regulatory Compliance, Reserving, Risk and Underwriting. Each new director is invited to attend each Board committee as part of their induction programme to familiarise themselves with the remit of each committee and the matters discussed. Additional training is provided when committee membership changes occur.

The Chairman, assisted by the Company Secretary, has responsibility for the induction programme, training schedules and professional development of the directors. Directors have attended training sessions and seminars during the course of the year on topics such as Solvency II and Audit and Risk updates to keep their knowledge current and enhance their experience. Each director has an individual training plan, which is reviewed annually by the Chairman.

EFFECTIVENESS

The Board sets annual objectives for the business in line with the current Group strategy and monitors achievement against these objectives through regular reports.

Updates to the Board from the Group Chief Executive, the Group Chief Financial Officer and other members of senior management are scheduled in respect of all material business matters to ensure that progress against strategy is monitored.

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. If a director were to be unavailable to attend a meeting, their views would be canvassed by the Chairman prior to the relevant meeting, and the Board informed of their opinions and observations.

Each year, the Board spends time on site visits, giving them the opportunity to meet with and challenge senior management, while also deepening their knowledge of specific business areas. More information on the Board's activities during 2017 is detailed on page 49.

Board Evaluation

To ensure the Board, its committees and individual directors remain effective, a performance evaluation is carried out annually, in compliance with the Code.

During the year, an internal evaluation was led by the Chairman and Senior Independent Director. Isabel Hudson who was well placed to carry out the Board evaluation given her wide-ranging commercial, business development and Board experience. The evaluation was carried out via an on-line questionnaire and interviews, canvassing the views of each director and regular attendees of Board and committee meetings. Key themes identified for focus in 2018 included a refreshed customer/digital focus, further improvement in the quality and balance of presentations, and a review of the split between strategic and performance metrics provided to the Board, including non-financial information.

The results of the evaluation were presented to the Board and actions agreed against the key themes. The evaluation concluded that the Board is working well and that its effectiveness continues to improve, with a good quality of challenge and debate. There were no points expressed during the evaluation process that had not previously been discussed over the course of the year, demonstrating the Board's collaborative working style, supporting an ethos of continuous improvement throughout the year.

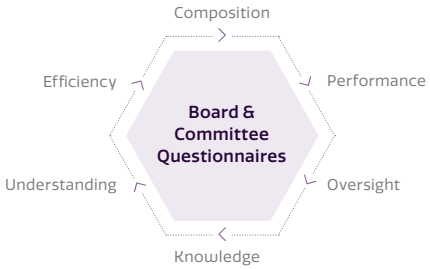
Each year, actions identified are monitored for development. During 2017, progress has been made against the key themes identified in the 2016 evaluation, with a clear focus on longer-term strategy and actions to embed the 'best-in-class' culture. Executive succession planning, was reviewed and there was a renewed focus on technology, with the launch of a new customer platform to improve the overall customer experience and pricing sophistication.

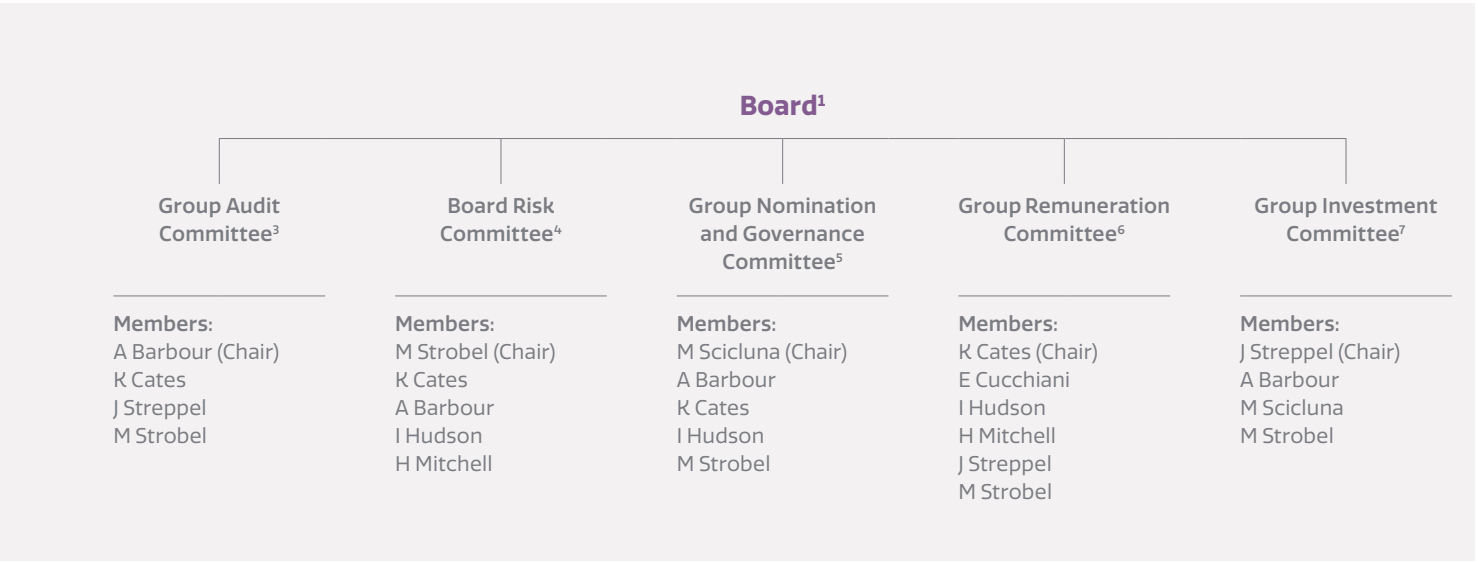
Board Committee Structure and Membership

The following diagram sets out the composition of the Board Committees as at 21 February 2018.

The Board is supported by its committees to which it delegates certain duties. The key functions of Risk, Actuarial, Compliance and Internal Audit all report directly to a Board committee providing expert advice on their remits to the relevant committee and senior management.

Internal Evaluation





Details of each of the committee's activities and priorities during 2017 are contained in the committee reports on pages 57 to 92, which are incorporated into this Report by reference. Following each committee meeting, a verbal update is presented to the Board ensuring that all directors are aware of relevant topics and specific matters. The composition of each committee is reviewed by the Group Nomination and Governance Committee annually and when there is a change to the Board. Consideration is given to each individual's expertise and experience. All committees have some members in common to ensure cross-committee awareness of matters discussed. For example, the Nomination and Governance Committee members are chairs of other Board committees, the chair of the Group Audit Committee is a member of the Board Risk Committee, the chair of the Board Risk Committee is a member of the Group Audit Committee, and the chair of the Group Remuneration Committee is a member of the Group Audit Committee and Board Risk Committee. Full details of committee membership are set out above.

Attendance at Board and committee meetings

The table below shows the attendance at the Board and committee meetings

	Scheduled Group Boards[1]	Group Audit Committee[3]	Board Risk Committee[4]	Group Nomination and Governance Committee[5]	Group Remuneration Committee[6]	Group Investment Committee[7]
Martin Scicluna	8/9			3/4		2/2
Stephen Hester	9/9					0/1
Scott Egan	9/9					1/1
Alastair Barbour	9/9	6/6	4/4	4/4		2/2
Kath Cates	9/9	6/6	4/4	4/4	1/1	
Enrico Cucchiani	8/9				5/5	
Isabel Hudson	8/9		4/4	3/3	5/5	
Hugh Mitchell	9/9		3/4	3/3	5/5	
Joseph Streppel	8/9	4/6			3/5	2/2
Martin Strobel	9/9	6/6	1/1	1/1	5/5	2/2
Johanna Waterous[2]	4/4	2/2		1/1	3/3	

Notes:

1. For the composition of the Board, please refer to pages 44 to 47.
2. Johanna Waterous resigned as a director with effect from 5 May 2017.
3. Group Audit Committee: Johanna Waterous ceased to be a member of the Committee on 5 May 2017. Regular attendees: Group CFO, Group Chief Auditor, Group & UK Regulatory Compliance Director, Group Chief Risk Officer, Group Chief Legal Officer and Company Secretary and representatives from the External Auditor. The Chairman and the Senior Independent Director attend ahead of RSA's full and half-year results.
4. Board Risk Committee: Kath Cates chaired the Committee throughout the year until Martin Strobel was appointed as member and chair on 1 December 2017. Regular attendees: Chairman, Group CFO, Group Chief Legal Officer and Company Secretary, Group & UK Regulatory Compliance Director and Group Underwriting Director.
5. Group Nomination & Governance Committee: Johanna Waterous and Hugh Mitchell ceased to be members of the Committee on 5 May 2017 and 1 December 2017 respectively. Isabel Hudson became a member of the Committee on 5 May 2017 and Martin Strobel became a member of the Committee on 1 December 2017. Regular attendees: Group CEO and Group Chief Legal Officer and Company Secretary.
6. Group Remuneration Committee: Johanna Waterous ceased to be a member of the Committee on 5 May 2017. Hugh Mitchell chaired the Committee throughout the year until Kath Cates was appointed as member and chair on 1 December 2017. Kath previously served as a member of the Committee from May 2014 to June 2016. Regular attendees: Chairman, Group CEO, Group Chief Legal Officer and Company Secretary, Group HR Director, Executive Compensation and Benefits Director and PWC as independent advisers to the Committee. Additional input was provided by the Group Chief Risk Officer.
7. Group Investment Committee: Stephen Hester and Scott Egan ceased to be members on 28 March 2017. Regular attendees: Group Investments Director, Group CEO, Group CFO and Group Chief Legal Officer and Company Secretary.
8. Absences at scheduled Board or committee meetings during the year were due to commitments predating joining the Board, an external Board commitment, ill health and a family bereavement.

ACCOUNTABILITY

The Board is accountable to shareholders for the creation and delivery of strong sustainable performance and the creation of long-term shareholder value.

The Board meets frequently and is responsible for organising and directing the affairs of the Group in a manner that will promote the long-term success of the Company and its key subsidiaries and is consistent with good corporate governance practice, ensuring that the Group is carrying out its duties and continues to meet legal and regulatory requirements.

System of Governance

The Group functions within a robust governance structure to operate a well-managed business, ensuring that the Group and its legal entities comply with all relevant legislation and regulation in each of the jurisdictions in which it has a business operation. The Group's System of Governance comprises three elements:

1. Corporate Governance Framework: how the business is managed
2. Risk Management System: how risks are identified, measured, managed, monitored and reported
3. Internal Control System: the controls behind the Corporate Governance Framework and the Risk Management Framework.

The purpose of the System of Governance is to ensure the safety and soundness of the Group and its key entities. Through the Corporate Governance Framework, effective decision-making, good procedures and strong internal reporting are embedded into the business processes, which align to the Group's strategy of 'focused, stronger and better.'

The Board is responsible for ensuring the effectiveness of the Group's System of Governance, which is approved on an annual basis.

The Board Risk Committee has responsibility for reviewing and recommending the System of Governance to the Board and has specific responsibilities for the Group's Risk Management System, including the Internal Model and Solvency II capital ratios, setting the Group's overall risk strategy and risk appetite, and for approving the risk management policies. For further details, refer to the Board Risk Committee report on pages 60 to 61.

The Group Audit Committee reviews the effectiveness of the Internal Control System on an annual basis. The Group has an effective Internal Control System in place which sets out the processes and frameworks required to ensure effective and efficient delivery of the Group's strategic objectives, including reliability and availability of information to identify and mitigate any potential risk of failure to achieve business objectives but it does not eliminate risk. In addition, assurance of the Financial Control Framework is carried out on a quarterly basis by the Group Audit Committee. For further details refer to the Group Audit Committee Report on pages 62 to 67.

SYSTEM OF GOVERNANCE

Corporate Governance Framework

- Provides a framework which supports the realisation of its business strategy and supports long-term success
- Provides effective and efficient decision-making by the Board and its committees
- Ensures that both directors and employees act within a chain of delegated authority and specified powers
- Safeguards compliance with applicable laws and regulations.

Risk Management System

- A common framework through which risk management and control is embedded
- Consistent approach throughout the Group to identify, measure, manage, monitor and report risks
- Consistent and comprehensive set of policies are maintained
- Risk Management Policy establishes a framework of standard risk management processes
- Risk Management System is underpinned by the 'Three Lines of Defence' model:
  - **First line of defence:** activities undertaken to ensure that risks are identified and controlled to bring them within appetite
  - **Second line of defence:** independent review and challenge of the first line activities, providing assurance that controls and validation are properly designed and operating effectively
  - **Third line of defence:** evaluation of the effectiveness of our risk management, control and governance processes.

Internal Control System

The Internal Control System comprises three key elements:

1. Internal Control Framework

- Policies establish standard controls, which are implemented and operated by the business
- Supplemented by objective first line validation and independent second line assurance processes
- The Group Controllership Policy sets out the standard control processes to mitigate against material financial reporting misstatement and financial loss. Assurance is provided through the Financial Control Framework.

2. Delegated Authority Framework

- Authority delegated from the Board to the Group CEO through the Delegated Authority Framework
- Onward delegation to senior management through 'Executive Licences' which set out specific limits of authority to ensure all employees execute their responsibilities within clearly defined limits in compliance with relevant regulatory and statutory requirements
- Day-to-day management is undertaken by the Group Chief Executive and Executive Committee supported by executive level committees
- Each executive is responsible for ensuring a similar process of delegation is in place within his or her area of responsibility
- Mitigates risk of the Group being exposed or committed to material financial, operational, legal, reputational, regulatory risk and/or loss and provides clarity on who can make what type and level of decisions.

3. Regulatory Compliance Framework

- Regulatory Compliance Policy sets out the standard control processes to minimise and/or prevent the risk of material loss, reputational damage or liability arising from the failure to comply with regulatory requirements
- Ensures that the Group deals with regulators in an open and co-operative manner
- Keeps regulators fully and promptly informed of all matters.

ENGAGEMENT

The Board is committed to transparent disclosure and engagement with the Group's stakeholders.

Stakeholders
Throughout the year, senior management have actively engaged with shareholders, employees, regulators and other stakeholders on relevant matters. The Board has attended internal leadership events, overseas visits, presentations and dinners hosted by senior management to gain a deeper understanding of certain business areas.

Shareholders
During the year, the Group met with 355 institutional investors. In addition, a shareholder consultation was undertaken to understand the views of shareholders when reviewing the Remuneration Policy for adoption at the 2017 Annual General Meeting.

The Group remains committed to maintaining high levels of transparency and disclosure to investors to aid understanding of the Company's investment case. The Group continually monitors and evaluates its disclosures to ensure they remain informative and relevant.

At each Annual General Meeting, the opportunity is taken to update shareholders on the Group's performance and activities during the year. The Chairman and each Board committee Chair make themselves available to take questions from shareholders.

More information on shareholders can be found on pages **95**, **186** and **187**

Customers
The Group knows that customer focus is key to the success of the business. One of the Group's main strategic goals is the ambition of delivering improvements in customer service.

More information on customers can be found on pages **14–15**

Employees
The Board recognises the key role of the Group's employees in delivering the Group's strategy and values the time spent with them. Members of the Executive Committee and senior management host regular 'Town Hall' meetings to update employees on topical issues, including giving updates on company performance each quarter following the announcement of results or a trading update.

More information on employees can be found on pages **40–41** and page **95**.

Regulators
The Board is committed to dealing with regulators in an open, co-operative and transparent manner and both collectively and individually take its regulatory responsibilities seriously. During the year the PRA and FCA conducted routine meetings with several members of the Board and executive management. Similar meetings take place with regulators in other jurisdictions. Regular management information is provided to assist the regulators with the supervision of the Group.

Rating Agencies
The Group is rated on an interactive basis by Standard & Poor's and Moody's. Their insurance financial strength ratings as at 21 February 2018 are A (stable outlook) and A2 (stable outlook) respectively. These ratings were affirmed following the 2017 half-year results, and reflect the continued positive trend in operating performance and completion of balance sheet actions undertaken. In addition, both agencies have spent a day with senior management discussing Group strategy, financial plans, capital and risk management.

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, the Association of British Insurers and the Confederation of British Industry. The Group engages with policymakers to improve understanding of the broad role the insurance industry plays in society and the economy, as well as offering views and insights on specific issues such as data protection, fraud, compensation, and financial regulation. Employees apply the principles of openness, transparency, honesty and integrity to all of their activities with policymakers. The Group 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.

GROUP INVESTMENT COMMITTEE REPORT

I am pleased to present the Group Investment Committee Report for 2017. Details of the Committee members and their attendance at meetings are shown on page 53.

The Committee's main areas of responsibility are:

Investment strategy

- Review and approve investment strategy framework for Group's investment portfolios
- Review, challenge and approve major investment strategy proposals
- Oversight of Group Asset Management Committee

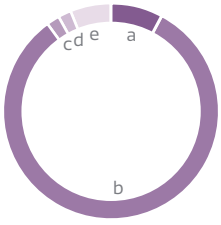
Market and Portfolio review

- Review of portfolio dispositions to ensure consistency with strategy framework and risk appetite
- Review operational framework of global investment portfolios
- Review performance of investment assets

Oversight of Defined Benefit Pension schemes

- Challenge and approve changes to Pension Investment strategy
- Review of disposition and performance of Pension Scheme investment portfolios.

Total assets as at 31 December 2017: £13.01bn



a. Cash	8%
b. Fixed Income	82%
c. Property Investments	2%
d. Equities	2%
e. Alternatives and Other	6%

Details of the Group's investments can be found on pages **118–152**

The 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. 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, an overview of performance and to seek approval of any proposed changes required to investment strategy.

As Committee Chairman, I report to the Board on the outcome of Committee meetings and the Board also receives the minutes of Committee meetings.

Key activities during 2017

The global economy saw a largely encouraging year of growth in 2017. Outside the UK, GDP levels in Europe were generally above expectations and within North America conditions were sufficiently positive for central banks to undertake further modest interest rate increases to dampen any build of inflationary pressures.

This economic backdrop continued to support strong asset valuations with the US stock market hitting new highs and corporate bonds remaining underpinned by strong demand. Although remaining close to historic highs, government bonds saw some declines in price as the stronger growth environment fuelled expectations of future interest rate rises.

Against this background there were no substantial changes to the core disposition of the Group's investment portfolios. Bonds and cash continued to represent the substantial majority of assets (90 percent) while equities and property represent just 4 percent. The Group has also maintained its commitment to high quality assets with 70 percent of bonds having credit ratings of AA or higher and just 2 percent rated lower than BBB.

Similarly, the Group's pension investment exposures maintained a broadly unchanged conservative disposition with approximately 85 percent in bonds and other low risk assets and the remainder held in a diversified range of higher return strategies including equities.

Over the last few years, the Group's investment portfolios have been gradually building an exposure to less liquid bond and loan instruments. These investments, which include infrastructure loans, loans backed by property and trade receivables have been targeted to take advantage of the additional yield offered for illiquidity relative to traditional quoted bonds. Investment into these instruments continues to be very carefully managed and has been targeted so that it maintains the strong underlying credit quality of the Group's investment portfolios. In total, the Group now has committed allocations to these assets of approximately £1.6bn with around £1.3bn of this invested at the year end.

The Committee reviewed and approved the increased allocation to illiquid credit. In addition, the progress on implementation of allocations and the performance of invested assets has been subject to ongoing review to ensure performance continues to be in line with expectations.

Joseph Streppel
Non-Executive Director and Chairman of the Group Investment Committee
21 February 2018

GROUP NOMINATION AND GOVERNANCE COMMITTEE REPORT

I am pleased to present the Group Nomination and Governance Committee Report for 2017. The Committee members and their attendance at meetings are shown on page 53.

The Committee has four main areas of responsibility:

1. Board and committee composition:
   - Leadership and Diversity: balance of skills and experience, recommendations from Davies Review
   - Identify and recommend suitable Board candidates to the Group Board
   - Recommendation of re-appointment and annual re-election of directors to the Board
   - Recommendation of membership of the Audit, Remuneration, Investment and Board Risk Committees in consultation with the Chair of those committees.
2. Succession planning:
   - Ensure appropriate succession plans are in place for members of the Board
   - Review of executive succession planning
   - Diversity and inclusion.
3. Governance:
   - Review and approval of the Committee's disclosures in the Annual Report
   - Monitor the Group's compliance with the UK Corporate Governance Code
   - Review of the Committee's Terms of Reference.
4. Effectiveness:
   - Evaluate Board and committee performance
   - Review of Board rolling agenda and scheduling
   - Review of time commitment of the non-executive directors.

The Committee has delegated authority from the Board to focus on Board effectiveness and good governance as well as Board and committee composition and succession planning.

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

Key activities during 2017

Board and committee composition

The Committee keeps Board and committee membership under review to ensure that the Board and each of its committees have the appropriate balance of skills, knowledge, diversity and experience.

During the year, the Committee made a number of recommendations to the Board:

- Kath Cates succeeded Hugh Mitchell as Chair of the Group Remuneration Committee with effect from 1 December 2017
- Martin Strobel succeeded Kath as Chair of the Board Risk Committee with effect from 1 December 2017
- Joseph Streppel was re-appointed for a third three-year term on 3 October 2017
- Alastair Barbour was re-appointed for a third three-year term on 10 October 2017
- Enrico Cucchiani was re-appointed for a second three-year term on 1 December 2017.

In making these recommendations, the Committee considered the directors' independent contribution to the Board and committees and the balance of their skills, knowledge and experience with those of the other directors.

Particular attention is given to directors being appointed for a third three-year term. The Committee gave detailed consideration to the expertise that Alastair and Joseph bring to the Group Audit Committee and Group Investment Committee respectively when considering their re-appointment.

Directors do not participate in any debate or decision about their own re-appointment.

In addition, an assessment of the criteria set out in the Code is undertaken in relation to independence. Isabel Hudson has a pre-existing entitlement to a deferred pension from one of the Group's defined benefit pension schemes relating to a previous employment with Royal Insurance, which ended in 1993. Taking into account a number of factors, including the size of the pension benefit and its relative immateriality to her overall retirement planning, it remains the Committee's view that Isabel's pension entitlement in no way compromises her independence of character and judgement.

The Committee has concluded that all Directors proposed for re-election continue to be effective members of the Board and that each Non-Executive Director remains independent. Therefore, the Board are proposing the re-elections as set out in the 2018 Notice of Annual General Meeting.

Succession planning

During the year, the Committee undertook a detailed review of Board and committee composition for the next 10 years, from both a short and long-term succession planning perspective, ensuring that the Board has individuals with a diverse yet relevant set of skills, knowledge and experience who will work well together to lead the Group, whilst ensuring statutory requirements are met.

As part of the Board succession planning process the tenure of each director is considered as well as the applicable statutory requirements.

Executive and senior management succession planning is regularly reviewed by the Committee to ensure that any individuals identified as possible future candidates to join the Executive Committee/senior management team have tailored development plans. This approach develops a pipeline of talented individuals across the Group.

Diversity

The Committee periodically monitors diversity through the lens of gender as well as considering the balance of skills, experience, independence and knowledge on the Board. As at the date of this report, the Board comprises 80 percent male and 20 percent female directors, however the Company remains committed to Lord Davies' target for female board composition. All appointments are made on merit against agreed selection criteria to ensure a balance of skills, experience, independence and knowledge. As a matter of Group Board policy, the importance of diversity of gender, social and ethnic backgrounds, and of cognitive and personal strengths is recognised by the Board. Further information relating to diversity is included on pages 40, 41 and 50.

Governance

The Committee monitors the Group's compliance with the Code ensuring that there are clear governance processes in place to aid effective, efficient and risk-aware decision-making at a Group level. A formal assessment of compliance against the Code is carried out by the Company Secretary twice a year and reviewed by the Committee. 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, an explanation is agreed. The Company has complied with the Principles and Provisions of the Code throughout the year.

The Committee has also undertaken a review of board governance of the regulated subsidiaries of the Group. During 2018, the Committee will focus on subsidiary Board governance matters such as subsidiary Board composition, governance and oversight.

During 2017, the Committee undertook a review of the Committee's disclosures in the Annual Report and reviewed its Terms of Reference.

Effectiveness

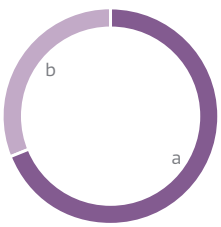
The Committee has reviewed the time commitment of Non-Executive Directors and considers that each Non-Executive Director devotes sufficient time to discharging their duties. The Committee considers new external appointments to ensure that they do not give rise to conflicts of interests and do not impact the director's time commitment to the Company. In each case considered in the year, the Committee was satisfied that external appointments could be approved.

During the year, an evaluation of the Board and its committees has taken place. The Committee reviewed and discussed the results of the evaluation prior to the Senior Independent Director presenting the results to the Board. Further information relating to the Board evaluation process and results is included on page 52.

The Committee reviews the Board rolling agenda at least twice a year to ensure that the focus and balance of presentations scheduled for discussion at the Board is in line with business requirements. At the Committee meeting in December 2017, some additions were suggested to reflect some of the emerging themes in the FRC's proposed revisions to the Code issued for consultation in December 2017.

Martin A Scicluna
Chairman and Chair of Group Nomination and Governance Committee
21 February 2018

Breakdown of topics discussed at Committee meetings held during 2017



a. Governance 69%
b. Succession Planning, Diversity and Recruitment 31%

BOARD RISK COMMITTEE REPORT

I am pleased to present the Board Risk Committee Report for 2017. The Committee members, their attendance at meetings and regular meeting attendees are shown on page 53.

Role and responsibilities

The Committee's main duties are to:

- Review and recommend to the Board the Group's System of Governance, which includes the Group's Risk Management System
- Approve and monitor the outputs from the Annual Risk Management Plan and assurance activities within the risk functions
- Consider, approve and recommend to the Board, the Group risk strategy, risk appetite framework and risk limits
- Through regular monitoring and reporting, ensure the Group remains within appetite and risk limits or appropriate actions are taken
- Ensure material risks have been identified, understood, are managed and appropriately reported, with reference to known control weaknesses, incidents or events, and breaches in policies or procedures
- Review results of stress and scenario testing and implement actions to mitigate identified risk
- Review outputs of the Internal Model (Model), including Solvency II capital ratios
- Maintenance of the Model with reference to assumptions, changes in the business and/or risk profile and Model validation. This work includes a review of the capital adequacy assessments to ensure capital remains within appetite
- Review the Group's Own Risk and Solvency Assessment (ORSA) approach and report, including the performance of associated stress and scenario tests
- Review and approve revisions to the Group's Risk Policies
- Review and monitor management's responsiveness to findings and recommendations of Group Chief Risk Officer
- In conjunction with the Group Remuneration Committee, ensure risk is properly considered within the Group's Remuneration Policy
- Provide advice to the Board on strategic transactions identifying risk and the impact on the Group's risk appetite and risk tolerance.

Throughout 2017, the Committee operated under the leadership of Kath Cates as Chair until 1 December 2017 and I thank her for her exemplary stewardship and efficient handover.

The Committee has a pivotal role in ensuring the key risks to the Group are understood, are effectively managed within risk appetite and appropriately reflected in the Internal Model, in the interests of shareholders and policyholders alike.

The Committee's effectiveness has been assessed through a formal evaluation, which concluded that the Committee was effective.

Private meetings are held ahead of each Committee meeting to discuss any concerns and agree areas of focus. The Group Chief Risk Officer was asked to attend one private meeting so the Committee could share risk insights and committee enhancements.

Business risk review

The Group Chief Risk Officer provides a quarterly update on the key risks and themes that potentially impact the Group, including an assessment of whether risks are within appetite and any actions necessary to ensure the Group remains within agreed risk appetite thresholds. Subject matter experts supplement this view providing more granular insight into specific risk areas and the remediating actions.

The Committee conducted its annual review of the Group's risk strategy and appetite, recommending minor changes to the Board. In addition, emerging risk analysis was used to anticipate future risk issues that might arise and to support development of stress and scenario testing plans.

Key activities during 2017

The Committee met with regional Chief Risk Officers from Scandinavia, UK & International and Canada during the year. This enables the Committee to better understand the risks present in each region, to explore specific regional topics in more depth, and relay the insights and best practice considerations of the Committee. During 2017, the Board visited Scandinavia, spending time with the regional management to gain greater insight into the regional business, its activities, and local risk and governance matters.

Pensions and investment risk has been considered during the year, given their importance to the financial stability of the Group and the dependence on market conditions. Whilst the risks remain inside risk appetite there is significant exposure, which the Committee wished to explore in order to confirm they are appropriately understood and managed. This exploration included a detailed report on pensions risk by the Group Chief Risk Officer. Based on this analysis the Committee is satisfied the right steps are being taken and there is sufficient prudence in the approach.

Effective management of insurance risk is key to the Group's performance and longer-term success. Every agenda of the Committee includes a general update with a focus on specific topics. Deep dives selected for 2017 have included Canada earthquake exposure, skills and capabilities, external delegation of authority, cyber underwriting and large losses.

Following on from 2016, IT has remained an area of focus as the Committee continues to monitor progress in responding to the revised risk appetite framework and execution of priority remediation steps committed to in 2016. Given the range of external security threats and the complexity of mitigating these risks, IT will remain a focus for 2018 as these priority remediation steps continue to be delivered and any new steps required are responded to.

In addition, compliance with General Data Protection Regulation (GDPR) has received attention in 2017 ahead of the May 2018 deadline.

During 2017, a Resolution Plan was developed as requested by the regulator, following the creation of the Recovery Plan in 2016, which the Committee reviewed and recommended to the Board for approval. The plans were developed using subject matter experts with the support of external specialists.

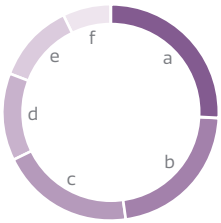
The Committee continues to maintain a focus on capital sensitivities and buffers, and how capital levels have responded to developments during the year.

Risk and governance matters

The Committee oversees the System of Governance and Group's Risk Management System to ensure they remain robust and operate effectively. Further information can be found in the risk management section of the Strategic Report on pages 33 to 37.

Martin Strobel
Non-Executive Director and Chairman of the Board Risk Committee
21 February 2018

Breakdown of topics discussed at Committee meetings held during 2017



a. ORSA/ Risk and Compliance Overall	26%
b. Insurance Risk	22%
c. Capital and Financial Risk	20%
d. Specific Risk Topics / Deep Dives	13%
e. Governance	12%
f. Regional CRO Dialogue	7%

GROUP AUDIT COMMITTEE REPORT

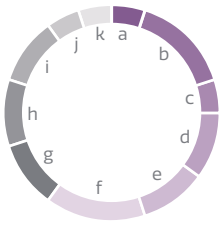
I am pleased to present the Group Audit Committee Report for 2017. The Committee oversees and as appropriate challenges the integrity of the Company's financial statements and the robustness of the Group's systems of internal control and financial and regulatory risk management.

Role and responsibilities

The Committee's main duties are 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.

Breakdown of topics discussed at Committee meetings held during 2017



a. Accounting policies, methodologies and practices	5%
b. Reserves	15%
c. Other balance sheet valautions	5%
d. Pension assumptions	10%
e. Financial results	10%
f. Internal Controls	15%
g. Governance and compliance	10%
h. IT Matters	10%
i. Solvency II	10%
j. Internal Audit	5%
k. External Audit	5%

The Committee is responsible for overseeing and monitoring the objectivity and operation of both external audit and internal audit.

The Committee's key activities during the year are described later in this report. The role of the Committee with regard to the oversight and challenge of Solvency II judgements and reporting is now fully embedded in the Committee's annual process and reflected in the terms of reference, which were reviewed in October 2017.

During the year, the Committee received training or separate briefings on a number of items including Solvency II governance and disclosures, the potential impact of the Lord Chancellor's review of the Ogden discount rate and the impact of forthcoming financial reporting standards. I am confident that the Committee is well briefed and continues to fulfil its duties to shareholders and other stakeholders, through an enquiring approach and high quality management challenge throughout the year, covering issues as diverse as:

- The duration for risk remediation, associated resourcing requirements and subsequent assurance assessments, particularly where IT and information security are concerned
- Ensuring satisfactory risk management where continued Group finance transformation is concerned
- Actuarial estimates in reserving for large loss events
- Solvency II technical provisions and disclosures to ensure compliance with regulatory requirements
- The robustness of evidence to support internal audit control environment assessments
- Sufficient resourcing to support internal audit and Group regulatory compliance plans
- Satisfactory levels of training and awareness concerning the prevention of financial crime
- Financial results narrative to confirm satisfactory balance and objectivity
- Planning concerning non-audit services to ensure the widest pool of audit firms remains available should there be a need to put the audit to tender in future.

The Committee was subject to internal evaluation as part of the wider review of the Board and its Committees during 2017. Further details are available in the Effectiveness section on page 52.

Committee composition, skills and experience

Details of membership and attendance at Committee meetings are shown on page 53.

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 UK Corporate Governance Code. The members possess diverse experience, knowledge and skills, which enables them collectively to act as an effective Committee. Members' biographies are available on pages 44 to 47.

In addition, Martin Strobel is Chair and Kath Cates and Alastair Barbour 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 and UK Regulatory Compliance Director, the Group Chief Financial Officer, the external auditor and the Group Chief Actuary 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 subsequent Committee meeting.

The Group Chief Financial Officer, the Group Chief Auditor, the Group and UK Regulatory Compliance Director, the Group Chief Risk Officer, the Group Chief Legal Officer and Company Secretary and representatives of the external auditor, KPMG, are regular attendees at Committee meetings. The Group Chairman and the Senior Independent Director are invited to attend the meetings where the interim and final results are considered. Other members of management and external advisers may attend at the invitation of the Committee.

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

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 2017 in order to discharge those duties.

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:

- 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 quarterly Solvency II balance sheets and technical provisions produced by management and monitored the Group's ongoing development of the Solvency and Financial Condition Report providing appropriate challenge to key judgement areas and the adequacy of disclosures
- Monitored the Group's compliance with anti-money laundering requirements and anti-bribery and corruption laws. In May 2017, the Committee approved the approach to the independent assurance plan concerning the Group's Financial Crime Framework for 2017/2018
- Monitored the integrity of the control environment during transformation and considered the appropriateness of the design of key initiatives in relation to their impact on the Group's control environment
- Considered whether it was appropriate to adopt the 'going concern' basis of accounting for the 2017 Annual Report and Accounts and the basis on which the viability statement is made, recommending to the Board that both were appropriate.

Financial reporting and significant financial issues

Management reports key accounting matters, financial controls assurance and financial results to the Committee at least quarterly.

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

The principal interactions with KPMG during the year in relation to financial reporting 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 KPMG's wider comments on governance, financial reporting processes and efficiencies as well as information systems and 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; and

- Reporting on the Solvency II balance sheet, annual Solvency and Financial Condition Report and reviewing key areas of judgement in relation to Solvency II.

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 and control in estimating insurance contract liabilities including assessing the impact of claims trends and other influencing factors consistent with previous years.

During the year, 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 impact of the changes to the Ogden discount rate announced during 2017
- Trends emerging in the UK household business from escape of water claims
- Reserve estimates for catastrophe losses in 2017 where estimates are inherently uncertain given the timing and nature of these losses
- Trends in Canadian Accident Benefit Auto reserves
- Favourable emergence in Swedish motor third party liability business.

The Committee satisfied itself that management reflected available and reliable information when setting the reserves and that an appropriate margin for uncertainties was maintained.

The results of independent internal reviews carried out in the year with regard to all short-tail lines in Ireland, Canadian long-tail lines and Scandinavian business (excluding Danish Workers Compensation) were considered by the Committee.

The Committee also confirmed that the planned programme of future reviews provided adequate coverage.

The Committee received quarterly reports on the Solvency II Technical Provisions and reviewed the bridge from IFRS results as well as quarterly and annual movements. The Committee satisfied itself that the calculations had been conducted according to the Group's Basis of Preparation.

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 105.

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 and the control environment in which they operate. This is a key area of focus for both Audit and Risk Committees and during the year they received updates from management on progress to enhance IT general controls, the oversight of IT testing processes and improvements in documentation and standards, together with regular reporting from internal audit on the results of their reviews and testing.

In light of the ongoing transformation activity, the Committee closely monitored IT and information security to ensure the control environment was maintained.

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 therefore 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 were appropriate and reliable.

Pension and post-retirement obligations

During the year, 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 benchmark data, where appropriate, and reported their findings to the Committee. Any non-standard changes in assumptions and judgements were also reviewed by the Committee, which included a proposal to update the discount rate and inflation assumption methodology to better reflect the full term structure of the pension scheme liabilities. The Committee concluded that the proposed changes were appropriate and supported the conclusion that the assumptions used overall were reasonable and within an acceptable range of other companies with schemes of a similar duration.

Valuation of deferred tax assets

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

Review of 2017 Annual Report and Accounts

At the request of the Board, the Committee considered whether the 2017 Annual Report and Accounts were 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 relevant accounting standards that could impact the financial statements. The Group has not made any significant changes to its accounting policies during 2017 and has complied with updates to IFRS as required during the year.

The Group's position with regard to adopting new accounting standards due to come into force in the future is disclosed. This highlights no significant change to revenue recognition under IFRS 15 and the election to defer the implementation of IFRS 9, Financial Instruments, until the effective date of implementation of IFRS 17, Insurance Contracts.

In August 2017, the Group received comments from the Financial Reporting Council (FRC) following their review of the 2016 Annual Report and Accounts. Such reviews are intended to support continuous improvement in the quality of corporate reporting and not to verify statements or provide assurance that they comply with the legal and accounting framework. In response, the Committee reviewed and approved options for enhancing the quality and clarity of disclosures, reflected in this year's Annual Report and Accounts, which includes expanded labelling of Alternative Performance Measures (APMs) and additional reconciliation of the same to the reported financial statements.

Separately, the FRC issued three thematic reviews in 2017, including one concerning APMs. The FRC's Financial Reporting Lab also issued their project report on 'Risk and viability reporting'. The Committee reviewed this material and, where considered appropriate, recommended changes to support high quality financial reporting disclosure.

Taken as a whole, the Committee is satisfied that the 2017 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 (the Framework) aims to deliver a consistent approach to finance-related controls across the Group and embed a control culture that strengthens the Group's finance environment by ensuring that 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 primary focus of the Framework is the production of information for the Group Annual Report and Accounts. In addition, the Framework mitigates material risks at the local operational level. Local teams carry out control validation work and a Group Controllership Team provides assurance over this work and reports on findings and actions to the Committee quarterly.

During the year, the Committee received quarterly updates on the assessment and testing of controls including any control deficiencies and the action taken as a result.

Internal control

The Internal Control System forms part of the System of Governance, full details of which can be found in the Accountability section on pages 54 to 55.

The Board has overall responsibility for the effectiveness of the Group's Internal Control System, which is 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.

Implementation and maintenance of the Internal Control System is delegated to the Executive Directors and senior management.

The Committee receives regular reports from the Group Chief Auditor, external auditor and Group Chief Risk Officer on the integrity of the control environment and also received regular reports on the Regulatory Compliance Framework, which is described in greater detail below. These reports enable the Committee to continually assess the effectiveness of the Internal Control System. The Committee discussed findings and recommendations from these reports, together with any control improvements recommended.

In February 2018, the Committee reviewed the effectiveness of the Internal Control System during 2017 and concluded that it was appropriate and operated effectively during the year.

The Committee 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 2017 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 33 to 37 and 54 to 55.

Whistleblowing

The Group takes whistleblowing extremely seriously and the Committee has taken responsibility for oversight of the Group's whistleblowing arrangements. In addition, Alastair Barbour has nominated responsibility for oversight of whistleblowing arrangements in compliance with the PRA's Senior Insurance Managers Regime. A senior manager in Group Human Resources has also been appointed as the FCA Whistleblowing Champion.

The aim of the policy is to encourage and enable employees to raise any malpractice or wrongdoing at RSA in a controlled environment, offering safeguards and support as may be necessary to protect employees' personal integrity and, where reasonably possible, identity. Concerns can be raised by contacting local or Group senior management, including the Group Chief Auditor and Group Human Resources Director, or via an externally provided website and helpline, which allows employees to remain anonymous throughout the process.

All employees are required to complete online training every two years, to ensure they are aware of how and when to report concerns under the policy and the Committee has requested an analysis of cultural differences across the Group that may discourage some employees from reporting concerns to identify how these could be addressed.

A summary of all whistleblowing incidents, underlying investigations and actions undertaken is provided to the Committee on an annual basis. Any material incident would be reported to the Committee immediately.

The policy's effectiveness during the year has been assessed and the Committee is satisfied that it is appropriate, fit for purpose and effective and is sufficiently embedded across the Group.

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. The function is an influencer in ensuring a strong regulatory compliance culture and ensure mechanisms are in place to monitor the regulatory environment, identify and analyse key changes impacting the business, identify, report and resolve regulatory 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 and UK Regulatory team leads and develops the relationship between the PRA, FCA, Group and businesses to achieve a mutually beneficial relationship.

During the year, the Committee has monitored progress towards delivery of regulatory requests, the outcome of on-site visits and received updates on regulatory developments and issues.

The function's annual Compliance Plan sets out the work to be undertaken in the upcoming year to ensure:

- Compliance with regulatory requirements
- Maintenance of an open, constructive and cooperative relationship with the Group's regulators
- That the Board and employees understand their regulatory responsibilities; and
- To provide assurance, advice and guidance to the Board and the business.

The Committee reviewed and approved the 2018 Compliance Plan, including the role of the Regulatory Risk and Compliance function, in December 2017.

Group Internal Audit

Group Internal Audit's (GIA) primary purpose is to 'keep RSA safe and improving'. Specifically, GIA helps the Board and Executive Management to protect the assets, reputation and sustainability of the Group. GIA does this by assessing whether all significant risks are identified and appropriately reported by management and the second line of defence to the Board and Executive Management; assessing whether they are adequately controlled and by challenging Executive Management to improve the effectiveness of governance, risks management and internal controls.

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 reporting line to the Group Chief Executive. Regional Chief Auditors report directly to the Group Chief Auditor, whilst recognising local regulation.

GIA's scope of activities 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. GIA operates a six-monthly rolling audit plan, allowing for a frequent and dynamic risk assessment and the Committee may request additional audits throughout the year as required. Rolling plans were approved by the Group Audit Committee in May and December 2017.

In addition, the Group Chief Auditor attended all the Committee meetings during 2017. On an annual basis, GIA hosts a half-day informal meeting briefing for the Committee, providing further opportunity for detailed discussion concerning GIA plans for the forthcoming year. The Group Chairman and members of the Committee together with the chairmen of the regional audit committees in Canada, Scandinavia and Ireland attended the 2017 meeting in November.

On a semi-annual basis, the Group Chief Auditor provides the Group Audit Committee with an assessment of the effectiveness of the governance, risk and control framework in each Region. Quarterly, GIA reports on the outcome of its work and management's progress in mitigating current issues as well as identifying any thematic issues arising together with underlying causes.

On an annual basis, the Group Chief Auditor provides the Group Audit Committee with an assessment of the skills and capabilities required to conduct the work needed, and whether budget is sufficient to allow the function to recruit and retain staff with the expertise and experience necessary to provide effective challenge throughout the Group.

The results of the latest assessment were reviewed by the Committee in December 2017 and the Committee was satisfied that GIA was operating effectively, sufficiently resourced and that the risk to their independence and objectivity was low.

Compliance with professional standards is monitored within GIA through a quality assurance process, outsourced to Deloitte and operated on a continuous basis. GIA is governed by an Internal Audit Charter which sets out the function's role, mandate and authority, and includes independence and objectivity criteria. An updated Charter was approved by the Committee in July 2017. The charter is available upon request.

In October 2017, GIA was presented with two Audit & Risk Awards by the Chartered Institute of Internal Auditors; 'Winner Outstanding Team Financial Services Sector' and 'Winner Best Innovation in Learning and Development'.

External auditor

Appointment, tenure, independence and objectivity

KPMG was appointed as the Group's external auditor in 2013 following a formal competitive tender process and has been reappointed at each subsequent AGM.

The current audit partner is Stuart Crisp who has been the Group's audit engagement partner since KPMG's appointment. In line with FRC standards, Stuart will rotate off the audit engagement following completion of the 31 December 2017 audit and Daniel Cazeaux will assume responsibility. The Committee is satisfied that Daniel has the appropriate experience to lead the audit. 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 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 KPMG's 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 met with KPMG twice during the year without management present to ensure that they were given the opportunity to raise any concerns they may have and to ensure they remain independent and objective.

In October 2017, the Committee discussed the findings of the FRC's Audit Quality Review team, which as part of its annual inspection of audit firms reviewed KPMG's audit of the 2016 RSA Insurance Group plc financial statements. The FRC review found no significant areas requiring improvement and indeed noted that the work of the pensions and actuarial teams was of a high standard. KPMG's UK Head of Audit was requested to meet with the Committee to discuss plans and progress concerning improvements to audit quality. The limited improvements that were suggested by the FRC have been implemented and the Committee remains satisfied that there is no impact on the appointment of KPMG.

The Company 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.

It is the intention of the Committee that the Company will tender the external auditor appointment at least every 10 years and in accordance with the FRC's best practice notes concerning the conduct of such tenders.

Fees and non-audit services

The audit fee for the 2017 Annual Report and Accounts was discussed between the Committee and the external auditor and approved by the Committee on behalf of the Board.

The Group's non-audit services policy has been revised following review against the requirements of the FRC's Revised Ethical Standard. The policy continues to assist in maintaining the independence of the external auditor. All permitted activity must be authorised in advance and approved by the Committee with the Committee Chairman, Group Chief Financial Officer or Group Financial Controller able to sign off lower value engagements.

The total value of non-audit fees incurred by the external auditor is capped at 70 percent of the average of the audit fees paid over the last three consecutive financial years, calculated in line with FRC guidance.

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.

Details of KPMG's remuneration during 2017, including that for provision of non-audit services, are provided in the notes to the financial statements on page 136.

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. The review is compliant with the UK Corporate Governance Code, covering the mind-set, culture, skills and knowledge, quality control and judgement of the external auditor through an assessment of their perceived quality, effectiveness, objectivity and independence.

The review was conducted by both a questionnaire distributed to and completed by the Committee, senior management and members of the Group financial reporting team, seeking opinions against set criteria and the performance of the external auditor against those criteria and through Audit Committee meetings with the external auditor whereby 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 objective and independent. Accordingly the Committee has recommended to the Board that a resolution be put to the 2018 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 the Group Audit Committee
21 February 2018

DIRECTORS' REMUNERATION REPORT

REMUNERATION COMMITTEE CHAIRMAN'S LETTER

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On behalf of the Group Remuneration Committee, I am pleased to introduce this year's report.

Business performance in 2017

The Group delivered strong results in 2017, and particularly so in a year when the global insurance market experienced elevated loss challenges. Progress is more fully described in the Strategic Report on pages 4 to 41.

Underlying Earnings per share (EPS) is up 10% compared to the Company's record performance in 2016. RSA's share price increased by 8%, slightly outpacing the FTSE 100 Index and the European Insurance Index (SXIP). Dividends were increased by 23%.

Key performance indicators include Group underlying Return on Tangible Equity at 15.5% (2016: 14.2%) in the upper half of the target 13–17% range, Combined Operating Ratio at 94.0% (2016: 94.2%), a new record for RSA, and underlying pre-tax profit up 12% at £620 million, as detailed on pages 20 to 25.

RSA's capital position has been further strengthened, reporting a Solvency II coverage ratio of 163% at the top of the targeted range.

The strong underwriting headline results were supported by outperformance on cost targets. Underwriting profit of £394 million set a new record for the Group. While underwriting performance overall was strong and better than prior year, it did fall short of the still higher ambitions we held. This was due to disappointing results in the Company's UK & International division offset by excellent results in our overseas divisions which form the majority of our business.

Linking remuneration to performance

The Committee seeks to maintain a strong linkage between business performance, shareholder outcomes, risk management and reward.

As well as risk being part of the incentive measures, the Committee considered a report from the Group Chief Risk Officer as part of its overall incentive decision-making. On this occasion, additional adjustments were not considered necessary to award outcomes and the malus/clawback provisions were not exercised in the year.

Based on the Committee's assessment of performance:

- The Group Chief Executive and Group Chief Financial Officer will receive bonus awards for 2017 at 63% of the maximum, of which half is deferred into shares for three years.
- The long-term incentive awards from the 2015–17 cycle will partially vest at 58% of the maximum.

As outlined above, while Group profits and shareholder returns increased during the year, underwriting results undershot our ambitions which were set even further ahead of 2016's record level. As a result, the Chief Executive's bonus award was 35% lower than in 2016, despite the Board's continuing strong appreciation of his contribution to the Group. His total remuneration 'single figure' shown on page 73 increased in 2017 due to the outcome of the 2015–17 long-term incentive, the value of which benefitted from strong share price appreciation during that period, reflecting the successful turnaround of RSA. The incentive targets are set out on pages 73 to 76.

The conditional long-term incentive awards granted during 2017 are subject to stretching performance conditions. Awards which vest will do so after three years, with a further two year retention period applying to Executive Directors.

Plans for 2018

Our Directors' Remuneration Policy was renewed and approved by shareholders at the 2017 AGM, and no changes are proposed this time.

For the 2018 cycle, the incentive plan measures will be consistent with those in the 2017 cycle. Emphasis will continue to be placed on key financial performance indicators directly linked to shareholder value and profit. In addition, complementary Business and Personal Scorecards will allow the Committee to take account of areas including risk and capital management, controllable costs, attritional loss ratios, business improvement, people and the customer franchise.

The on-target performance levels for both the 2018 Annual Bonus Plan and the 2018–20 long-term incentive are set in line with the Group's operating plan.

Incentive award opportunities will remain unchanged as a percentage of salary. Conditional performance share grants in the 2018–20 long-term incentive cycle have been agreed in principle at 230% and 200% of salary for Stephen Hester and Scott Egan respectively.

In line with salary increase levels for the Group's UK-based employees, Executive Director salaries and the Chairman's fee will rise by 2% from 1 April 2018.

Stakeholder engagement

The Committee appreciates the ongoing dialogue it has with shareholders. Consultation took place with the Group's largest shareholders during the year, and the Committee engaged with ISS, the Investment Association (IA) and Pension and Lifetime Savings Association (PLSA). The feedback received was considered in finalising the Policy in early 2017, and more recently when determining the incentive plan performance measures for 2018.

Remuneration of other employees

The Committee considers pay relativities with RSA's wider workforce as part of its work on executive remuneration. As a principle, we aim to treat all employees fairly in the markets in which we operate (e.g. RSA is an accredited Living Wage Employer), while ensuring we continue to attract high calibre executives who have choices about where they work.

We will fully adhere to forthcoming disclosure requirements in this area once finalised, as announced in the UK government proposals published in the latter half of 2017.

As with many other UK companies, RSA is publishing its gender pay gap figures for the first time in 2018. A key part of reducing the gap is improving female representation in senior jobs, and initiatives we are taking in this area are set out online at www.rsagroup.com/responsibility.

Committee transition

Finally, having taken on the chairmanship of the Committee in December last year, I would like to thank my predecessor, Hugh Mitchell, for the role he has played over the last six years.

The Committee is grateful to shareholders for their support in the past year. This report seeks to provide a transparent account of our remuneration decisions, and I hope to receive your support for it at the AGM.

Kath Cates
Non-Executive Director and Chairman of Group Remuneration Committee
21 February 2018

> The Committee seeks to maintain a strong linkage between business performance, shareholder outcomes, risk management and reward.
>
> **Kath Cates**
> Independent Non-Executive Director

£620m

Underlying Profit before tax (PBT)
+12%

For more information see page **24**

15.5%

Underlying Return on Tangible Equity (ROTE)
1.3 points better

For more information see page **21**

REMUNERATION SNAPSHOT

Remuneration Policy

- Policy renewed in May 2017 with no significant changes.
- Policy approved at AGM with 99% of shareholder votes in favour.
- Executive Director salary increases will not exceed the level of increases for other employees (bar exceptions e.g. role change).
- Bonus up to 160% of salary, LTIP up to 230% of salary.
- Half of bonus is deferred for three years, LTIP performance period is three years plus a two-year retention period.
- Malus and clawback provisions in place.

Implementation of Policy

- Executive Director salary increases of 2.5% effective 1 April 2017.
- LTIP ROTE target range increased for the 2017-19 cycle.
- Limited changes for 2018: Annual Bonus and LTIP measures similar to 2017 cycle.

2017 Annual Bonus

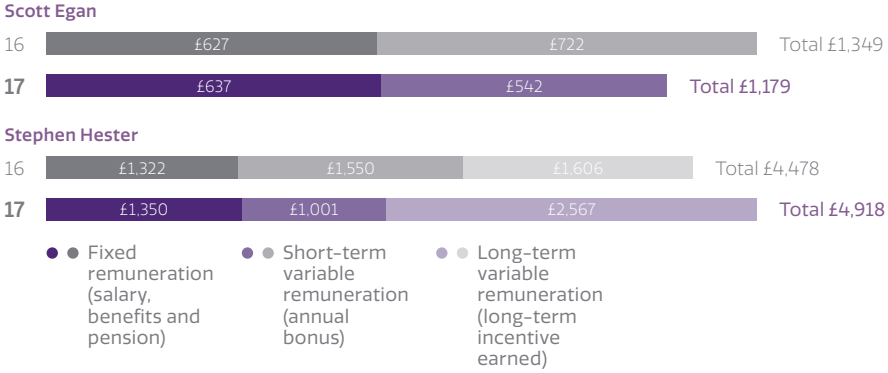
Strategic priorities	Measures	Actual performance	Scott Egan	Stephen Hester
· Shareholder returns · Profitability	Group underlying ROTE, Group underlying PBT and Group COR	Performance targets, results and narrative on pages 73 to 75	18.0/40%	18.0/40%
· Underlying Performance · Risk & Resilience · Business Sustainability	Business Scorecard (including controllable expenses, attritional loss ratio, capital and customer)		22.5/30%	22.5/30%
Personal Scorecard			22.5/30%	22.5/30%
Total (% of maximum)			**63%**	**63%**

2015-17 Long-term incentive

Strategic priorities	Measures	Actual performance	Vesting (% of max)
Shareholder returns	Relative TSR	Performance targets, results and narrative on pages 75 to 77	0/33.3%
	Group underlying ROTE		24.4/33.3%
Capital & Business performance	Business Review Scorecard		33.3/33.3%
Total (% of maximum)			**57.7%**

Remuneration outcomes in £'000

(full remuneration tables on page 73)



Shareholding at 31 Dec 2017

(details on pages 78 to 79)

Director	Share-holding % of salary[1]	Level to be reached % of salary	No. of unvested share awards[2]
Scott Egan	35%	200%	478,728
Stephen Hester	166%	300%	1,928,811

Notes:

1. Shareholding % figures do not include unvested share awards in the Group's incentive plans (i.e. Deferred Bonus Shares and Performance Shares), which are shown separately in the table above.
2. Awards which vest must be retained until the relevant shareholding level is reached, excluding any sold to satisfy statutory deductions.

ANNUAL REPORT ON REMUNERATION

1. Introduction

This Annual Report on Remuneration provides details of how the approved Remuneration Policy has been implemented for Directors in the financial year ended 31 December 2017, and how the Group intends to implement its Policy in 2018.

At the 2018 AGM, this report on pages 71 to 85, together with the Committee Chairman's letter on pages 68 to 69, will be put to an advisory vote.

2. Information about the Group Remuneration Committee

Purpose of the Committee

The Committee determines the remuneration and contractual terms for the Executive Directors and the Executive Committee (who are detailed on pages 44 to 48). It approves the fee and contractual terms of the Chairman (whose profile is on page 44). In addition, it maintains oversight of remuneration practice for roles covered by the specific remuneration principles of Solvency II, including Material Risk Takers and Key Governance Function holders.

The decisions the Committee makes are intended to promote the ongoing success of the Group, whilst upholding the interests of shareholders, regulators, customers, employees 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.

The Committee operates within an agreed set of terms of reference, which it 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 2017 were: Hugh Mitchell, Kath Cates (from 1 December 2017), Enrico Cucchiani, Isabel Hudson, Joseph Streppel, Martin Strobel and Johanna Waterous (from 1 January to 5 May 2017). Kath Cates succeeded Hugh Mitchell as chair of the Committee on 1 December 2017, having previously served as a member of the Committee from May 2014 to June 2016. The number of meetings attended by each Director is shown on page 53.

Committee attendees

At the invitation of the Committee, the Chairman, Group Chief Executive and designated representatives from functions within the business attend meetings where relevant to advise on Group strategy, risk, performance, and HR policies and practices, and support the Committee's work. These Committee attendees during 2017 included the Group HR Director, Group Chief Legal Officer & Company Secretary and Executive Compensation and Benefits Director. Additional input was provided by the Group Chief Risk Officer.

None of the above individuals are present if their own remuneration is being discussed.

Committee advisers

PricewaterhouseCoopers (PwC) was appointed by the Committee as its independent adviser. It was selected following a market tender exercise. During 2017, PwC also provided advice and consultancy services across the Group globally on matters including data and analytics technologies, operations strategy, cyber security and privacy, IT risk and governance, internal audit, direct and indirect tax and compliance. 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 interest arising between it, its advisers 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.

Committee meetings held in 2017

In 2017, the Committee met on five occasions and the table below summarises the matters it discussed.

Meeting	Regular items	Additional items
February (two meetings)	· Review of Directors' base salaries effective from 1 April 2017. · Testing of the performance conditions underpinning the Annual Bonus Plan 2016 and the LTIP cycle 2014–16; approval of the level of Directors' awards. · Approval of 2017 incentive performance conditions. · Approval of the terms of the long-term incentive grant 2017 and Directors' associated conditional share awards. · Review of Executive Directors' personal goals for 2017. · Review of the Directors' Remuneration Report 2016 and Solvency II disclosures.	· Shareholder engagement update
May	· Review of the 2017 long-term incentive grant and an update on dilution levels. · Approval for a supplementary grant of conditional long-term incentive awards in September 2017 for non-Board employees. · Approval to operate Sharesave and Sharebuild in 2017.	· Corporate governance update
September	· Update on the performance of the Annual Bonus Plan 2017 and long-term incentive cycles 2015–17, 2016–18 and 2017–19. · Review of incentive performance measures for 2018 onwards. · Update on the supplementary grant of conditional long-term incentive awards in September 2017 for non-Board employees. · Review of Chairman's fee. · Review of Remuneration Committee terms of reference.	· Corporate governance update
December	· Update on the performance of the Annual Bonus Plan 2017 and long-term incentive cycle 2015–17. · Review of incentive performance measures for 2018 onwards. · Review of the draft Directors' Remuneration Report 2017. · Review of outputs of Remuneration Committee effectiveness survey 2017. · Review of Committee meeting schedule for 2018. · Update on Sharesave and Sharebuild participation.	· Corporate governance update

3. Total remuneration 2017: 'single figure' tables (audited)

The tables below set out the Directors' total remuneration single figure for the financial year ended 31 December 2017. The fee structure applicable to Non-Executive Directors is detailed on page 84.

Executive Directors

	Salary		Taxable benefits[1]		Bonus[2]		LTIP		Pension related benefits		Other remuneration		Total	
(£'000)	**2017**	2016	**2017**	2016	**2017**	2016	**2017[3]**	2016[4]	**2017[5]**	2016	**2017**	2016	**2017**	2016
Scott Egan[6]	**535**	525	**22**	23	**542**	722	**–**	–	**80**	79	**–**	–	**1,179**	1,349
Stephen Hester[7]	**987**	964	**67**	69	**1,001**	1,550	**2,567**	1,606	**296**	289	**–**	–	**4,918**	4,478
Total	**1,522**	1,489	**89**	92	**1,543**	2,272	**2,567**	1,606	**376**	368	**–**	–	**6,097**	5,827

Non-Executive Directors

	Fees		Taxable benefits[1]		Total	
(£'000)	**2017**	2016	**2017**	2016	**2017**	2016
Alastair Barbour	**97**	95	**18**	17	**115**	112
Kath Cates	**93**	92	**1**	1	**94**	93
Enrico Cucchiani	**68**	67	**–**	8	**68**	75
Isabel Hudson[8]	**89**	28	**1**	–	**90**	28
Hugh Mitchell	**90**	90	**4**	6	**94**	96
Martin Scicluna	**420**	400	**–**	–	**420**	400
Joseph Streppel	**85**	83	**9**	3	**94**	86
Martin Strobel[9]	**79**	50	**5**	3	**84**	53
Johanna Waterous[10]	**34**	95	**1**	–	**35**	95
Total	**1,055**	1,000	**39**	38	**1,094**	1,038

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 £43,760 (2016: 44,614), Scott Egan received a car allowance of £15,000 (2016: £15,000), and each of the Executive Directors were provided with medical benefits and life cover. Alastair Barbour received benefits of £17,561 (2016: £17,057) for taxable travel where relief under HMRC rules is not available.
2. Bonus: Awards in respect of performance measures relating to the financial year shown, as described on pages 73 to 75. 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 Malus and Clawback Policy detailed on page 78.
3. LTIP 2017: Estimated value of Performance Shares and accrued dividend equivalents under the 2015-17 LTIP cycle due to vest on 7 April 2018. Estimate reflects the performance conditions having been met to the extent noted on pages 75 to 76, and uses an average share price over the last quarter of 2017 of £6.142.
4. LTIP 2016: Actual value of Performance Shares and accrued dividend equivalents under the 2014-16 LTIP cycle that vested on 19 May 2017. The vesting was as disclosed in the 2016 Annual Report and Accounts on page 93. Valuation has been restated using the share price on the vesting date of £6.095.
5. Pension 2017: Scott Egan and Stephen Hester received taxable cash allowances of 15% and 30% of base salary respectively. The aggregate value paid by the Company into the RSA Pension Scheme (a defined contribution plan) for the Executive Directors in 2017 was £0 (2016: £19,688). No Executive Director has a prospective entitlement to a defined benefit pension in respect of their service with RSA.
6. Scott Egan received an annual base salary of £525,000 from 1 January to 31 March 2017. This increased by 2.5% effective 1 April 2017 to £538,125.
7. Stephen Hester received an annual base salary of £969,000 from 1 January to 31 March 2017. This increased by 2.5% effective 1 April 2017 to £993,225.
8. Isabel Hudson was appointed as a Non-Executive Director effective 1 August 2016.
9. Martin Strobel was appointed as a Non-Executive Director effective 1 May 2016.
10. Johanna Waterous resigned as a Non-Executive Director effective 5 May 2017.

4. Components of variable remuneration (audited)

Annual Bonus Plan 2017

For the 2017 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 Scorecard and role-specific personal objectives.

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, as detailed on page 78.

In determining 2017 bonus awards under this Plan, the Committee considered how goals had been met and took account of key risk factors.

Financial Performance (40% weighting – achieved 18.0%)

As shown in the following table, RSA's financial performance was better than 2016's record results and above target at EPS and ROTE level. However, growth of underwriting profits was held back by external factors – US/Caribbean hurricanes, UK Ogden governmental action and UK household 'escape of water' inflation. As a result, the headline financial performance element overall achieved 18/40. Had external loss factors been in line with normal averages, the score would have been 40/40.

Business Scorecard (30% weighting – achieved 22.5%)

The Business Scorecard component focuses on key areas of management activity essential to the success of the Company spanning Underlying Performance, Risk and Resilience (including Capital) and Business Sustainability (including Customer Franchise). Achievement is measured against a range of objective measures, with the overall Scorecard outcome being determined using judgement in the round. The Scorecard outcome will vary from the financial metrics' outcome if these are considered over or under representative of the underlying actions of management and their results.

Achievement under the Scorecard was assessed to have been strong overall, although less so than in 2016. As a result, an award of 22.5% out of a maximum of 30% in this category was made (compared to 30% awarded in 2016).

In terms of *Underlying Performance*, underwriting profit set a new RSA record at £394 million, despite external loss pressures. Controllable costs and cost ratio improved again, well ahead of targeted reduction levels, and cost saving ambitions were raised for a fourth time. Attritional loss ratios improved in every overseas market, but UK results dragged the Group ratio down to broadly flat versus 2016's record level. Strategic plan initiatives are discussed at length in the body of the Annual Report. They support the achievement of the financial progress noted, and the potential for more in future years. This affirms the Committee's positive view of underlying progress.

From a *Risk and Resilience* perspective, achievements were very strong. Capital metrics significantly exceeded targets and credit ratings are strong. The successful sale of UK legacy liabilities reduced risk, boosted capital and allowed a major pay down of high cost debt, improving capital resilience further. Reinsurance structures successfully protected the Company against the worst of the US Cat losses.

In terms of *Business Sustainability*, across the Company activities delivered successful improvements in line with RSA's Best in Class agenda. A key achievement in 2017 was premium growth of 4%, the first return to growth since 2013. This was accompanied by rising customer retention rates, good NPS and equivalent scores and key new business wins like the Nationwide home partnership.

Bonus 2017 performance measures		2016 Result	2017 Target	2017 Actual	Weighting (% of maximum)	Scott Egan (% of maximum)	Stephen Hester (% of maximum)
Group underlying ROTE		14.2%	Threshold 13.1% Target 15.4% Maximum 17.7%	15.5%	20%	10.5%	10.5%
Group underlying PBT		£556m	Threshold £504m Target £593m Maximum £682m	£620m	10%	6.5%	6.5%
Group COR		94.2%	Threshold 94.0% Target 93.0% Maximum 92.0%	94.0%	10%	1.0%	1.0%
Business Scorecard	– Underlying Performance:				30%	22.5%	22.5%
	Group controllable expense ratio	23.3%	22.5%	21.5%			
	Group controllable expenses	£1,515m	£1,476m	£1,425m			
	Attritional loss ratio[1]	49.4%	49.0%	49.6%			
	Strategic plan initiatives	N/A	See narrative	See narrative			
	– Risk and Resilience:						
	Solvency II coverage ratio	158%	≥130%	163%			
	TNAV:NWP	45%	≥35%	41%			
	S&P credit rating	A stable	≥A– stable	A stable			
	Capital actions	N/A	See narrative	See narrative			
	Broader risk management	N/A	See narrative	See narrative			
	– Business Sustainability:						
	Policy / premium retention	79.5%	Better than 2016	80.2%			
	Top line growth	£6,408m	£6,687m	£6,678m			
	Customer franchise	N/A	See narrative	See narrative			
Personal Scorecard				See narrative	30%	22.5%	22.5%
Total (% of maximum)					100%	63%	63%
Total (% of annual base salary)						101%	101%
Bonus receivable[2]						£542,113	£1,000,586

Notes:
1. Defined on a Core Group basis excluding Claims Handling Expenses (which are part of the expense measure).
2. Half of the bonus is awarded in Deferred Bonus Shares which vest three years from the grant date, and are subject to malus adjustment as noted on page 78.

Personal Scorecard

This component focuses on personal performance vs the priorities set by the Board for the Executive Directors in 2017. The Committee noted very strong achievement in respect of these areas, as shown in the following tables:

Scott Egan, Group Chief Financial Officer (30% weighting – achieved 22.5%)

Overview	Progress
Scott's objectives included: · Strategy work: centred on effective Group planning and benchmarking, upgrading of Finance function and introduction of zero based budgeting. · Financial delivery: driving achievement of Group's financial plans, legacy disposal and debt repurchase, capital plans and ratings, investment income and functional cost goals. · Risk profile: targeting strong financial control, actuarial reporting, capital reporting and audit results. · Stakeholders: effective Investor Relations, investor and analyst interaction, regulator and rating agency relations. · Leadership: personal development goals, team effectiveness improvements.	· Financial and capital results were strong as set out above. · Success in negotiating legacy sale and debt repurchase. · Good progress in upgrading Finance function delivery and reducing its cost. · Assumption of additional responsibility for Group transformation projects and IT oversight. · Clean bill of health for Finance on risk and audit items overall. · Planning process working well, improvements to Board reporting. · Good stakeholder feedback. · Strong team building and improvements to Finance team effectiveness. · Excellent progress as trusted partner to CEO.

Stephen Hester, Group Chief Executive (30% weighting – achieved 22.5%)

Overview	Progress
Stephen's objectives included: · Strategy work: driving Best in Class capability improvements and sustaining plan trajectory. · Financial delivery: driving achievement of Group's financial and capital plans, focused particularly on controllables including cost. · Risk profile: operating Company to good standards of risk/regulatory control and capital resilience. · Customer progress: driving initiatives to improve customer service and resume profitable growth. · Leadership: sustain strong stakeholder relations, continued team and culture development focused on top 50 leaders to support Best in Class strategies, support for Diversity & Inclusion and environmental/community policies.	· Financial and capital results as set out above. · Success in overseeing legacy sale and debt repurchase. · Strategic initiatives proceeding well across Company. · Beat cost targets and increased them again. · Clean bill of health on risk and regulatory items overall. · Delivery of improved customer metrics and volumes. Good new partnership wins. · Strong stakeholder feedback. · Strong development of leadership group capability, ambition and effectiveness. · Delivery of Diversity & Inclusion and stakeholder programmes. · Overall, the Board has a strong appreciation of Stephen's leadership in driving RSA's impressive performance transformation since 2014.

Long-term incentive awards vesting from 2015-17 cycle

Conditional long-term incentive awards were granted in 2015. In 2018, these Performance Shares will partially vest at 58% of the maximum, based on the achievement of the three performance conditions described below.

Relative Total Shareholder Return (33.3% weighting – no vesting)

While RSA's share price appreciation beat the index of comparators, Relative TSR (which combines share price and dividend returns), fell 1% short of the vesting threshold. The lower dividend return reflected the challenges of RSA's starting position and the capital constraints influencing distributions during the period.

Group underlying ROTE (33.3% weighting – achieved 24.4%)

The Group underlying ROTE required for an on-target vesting (62.5% vesting) was a three-year average of 12% as envisaged by RSA's operating plan for the period and being a level significantly in excess of the Group's cost of equity. The average achieved was 13.1%, up from the 11.2% achieved for the 2014-16 LTIP cycle. The target average was arithmetically less than the mid-point of the 11-16% range reflecting the nature of the turnaround where ROTE performance was targeted to improve substantially over the three year averaging period taking into account the operating plan. For context, in the year prior to this LTIP cycle, i.e. 2014, RSA's ROTE result was 9.7%. RSA's continuing progress allowed the on-target value required for the 2016-18 LTIP cycle to be set higher to reflect progress of the turnaround and to continue to incorporate an appropriate degree of stretch, and the ROTE target range itself was increased for the 2017-19 LTIP cycle.

Performance measures 2015–17	Threshold target: 25% vesting	Maximum target: 100% vesting	Actual	Weighting	Vesting (% of maximum)
Relative TSR[1]	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	Below index: RSA TSR 43% vs. Index of comparators 44%	33.3%	0%
Group underlying ROTE[2]	11%	16%	13.1%	33.3%	24.4%
Business Review Scorecard	See narrative	See narrative	See narrative	33.3%	33.3%
Total				**100%**	**57.7%**

Notes:
1. Relative TSR index of comparators includes: Admiral, Allianz, Aviva, Chubb (formerly ACE), Direct Line, Gjensidige Forsikring, Hiscox, Intact, Mapfre, QBE, Topdanmark, Tryg and Zurich. Amlin and Catlin were originally included in the index, but were delisted during the performance period and so the Committee determined to exclude them from the calculation. 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 is calculated on a three-year average basis. A straight-line calculation was 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) in this cycle was 12%.

Business Review Scorecard (33.3% weighting – achieved 33.3%)

The vesting outcome on this element was determined by the Committee assessing RSA's progress during the turnaround in the round, particularly relating to capital, strategy implementation and earnings improvement. The 2015-17 Scorecard targets were strengthened compared to 2014-16, taking account of progress made including enhanced controllable expenses targets. The Scorecard differs from that applied to the 2017 Annual Bonus Plan both in timescale (three years vs one year) and some of the performance measures.

The 2015-17 LTIP period captures the bulk of the Company's turnaround activity following the recovery plan road map laid out in 2014. The Committee reviewed how the Business Review activities that make up this plan have succeeded. It considered that excellent progress had been made with significant improvement in capability and performance. RSA's widely acclaimed transformation is shown across all the metrics below and drove the ROTE outperformance. The Committee's assessment of the Business Review Scorecard is therefore at the same level as for the Scorecard in the 2014-16 LTIP last year.

The Scorecard's capital and business performance indicators shown in the following table form the basis of this judgement. Despite tough markets, underwriting performance has gone from losses to two successive record years, driven by underlying performance improvement. Cost saving targets have been beaten and raised four times and ROTE targets successfully raised also. Credit ratings and capital ratios have been raised to well above threshold zones.

Strategic priority	Key performance indicators	Target	Actual		
Capital			2015	2016	2017
	IGD coverage ratio[1]	≥175%	216%	–	–
	ECA coverage ratio[1]	≥115%	140%	–	–
	Solvency II coverage ratio[1]	≥130%	143%	158%	163%
	TNAV:NWP	≥35%	42%	45%	41%
				2015–17	
	S&P credit rating	≥A- stable		A stable	
Business performance				2015–17	
	Cumulative earnings[2]	£951m		£975m	
	TNAV growth per share[3]	15.4p		17.0p	
	Controllable cost savings[4]	>£250m by 2017		£395m	
	Total controllable expenses[5]	£5,218m		£5,021m	
			2015	2016	2017
	Attritional loss ratio[4]	Improvement i.e. reduction on 2014 result (52.1%)	51.0%	49.4%	49.6%

Notes:
1. Solvency II coverage ratio was introduced as a measure of capital strength to reflect the new Solvency II regime implemented from 1 January 2016, replacing IGD and ECA, as noted in the 2015 Annual Report and Accounts on page 67.
2. Cumulative earnings defined in common with the underlying ROTE measure of earnings adjusted for disposal gains and restructuring charges which were also key management activities. The Committee assessed all other items falling outside of this definition to determine if they should adjust the Committee's view of progress upwards or downwards (namely non-cash, non-capital accounting items). Comparison is versus original 2015-17 Plans incorporating the planned costs and benefits of the additional cost programmes announced subsequently.
3. TNAV growth per share assessed consistent with the methodology in note 2. Market volatility (FX, Bonds, Pensions) have been excluded as well as the impact of capital actions beneficial to the shareholder.
4. These indicators were not separately listed in the Scorecard Key Performance Indicators but were key underlying targets and reviewed by the Committee as additional context on the transformation. Defined on a Core Group basis. Attritional loss ratio excludes Claims Handling Expenses (which are captured in the expense measure).
5. Adjusted for the timing of business disposals.

Vesting overview

Director	Granted number of shares	Vesting number of shares	Estimated value (including dividend equivalents)[1]
Stephen Hester	669,202	386,185	£2,566,576

Notes:
1. Estimate includes vesting Performance Shares valued at £2,371,948 and accrued dividend equivalents valued at £194,628 which will be added to the awards that vest. Valued using an average share price over the last quarter of 2017 of £6.142.
2. Scott Egan was appointed effective 1 October 2015, and does not have awards in this cycle.

Long-term incentive awards granted in 2017

Conditional long-term incentive awards were made to the Group Chief Executive and Group Chief Financial Officer on 3 March 2017. These Performance Share awards will vest in 2020, subject to the satisfaction of the plan's performance conditions based on Group underlying ROTE, relative Total Shareholder Return and a Business Scorecard.

The Group underlying ROTE target range has been increased compared to the 2016-18 cycle.

The Business Scorecard measures a range of indicators on an underlying basis, and includes: regulatory capital ratios, credit rating, capital actions, risk management, attritional loss ratio, total controllable costs/cost ratios, key business improvement projects, customer franchise and other relevant actions related to the Company's long-term success. Achievement will be evaluated using a performance framework whereby metrics will be reviewed against their targets, together with any other aspects connected to the business performance including material risk items. Judgement in the round will be 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 regarding the level of Scorecard vesting once the performance conditions have been tested.

Performance measures 2017–19	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	12%	18%
Business Scorecard	⅓	Commercially sensitive	Commercially sensitive

Notes:
1. Relative TSR index of comparators includes: Admiral, Allianz, Aviva, Chubb, 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 positioned requiring demanding increases in underlying performance vs 2016 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.

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]
Scott Egan	200% of salary	180,216	£1,076,250
Stephen Hester	230% of salary	382,521	£2,284,417

Notes:
1. The performance measures are Group underlying ROTE, Relative TSR and a Business Scorecard (⅓ weighting each).
2. The performance period is three years and ends on 31 December 2019.
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 at maximum, multiplied by the mid-market closing price of an RSA ordinary share averaged over the five business days preceding the date of grant (3 March 2017), of £5.972.

Malus and Clawback Policy

The Group operates a Malus and Clawback Policy. This is reviewed annually, as set out on page 88. In summary, the Committee has the ability to 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.	

5. Directors' shareholding (audited)

The table below shows the interests of Directors in Ordinary Shares of £1.00 each of the Company, including those of closely associated persons.

Director	Shares held at 1 January 2017	Shares held at 31 December 2017[1]
Alastair Barbour	12,039	12,039
Kath Cates	4,124	4,124
Enrico Cucchiani	–	–
Scott Egan	29,956	29,956
Stephen Hester	121,500	260,783
Isabel Hudson	3,832	5,974
Hugh Mitchell	8,552	8,552
Martin Scicluna	14,303	14,303
Joseph Streppel	4,125	4,125
Martin Strobel	12,000	12,000
Johanna Waterous[2]	18,069	18,069

Notes:

1. As at 21 February 2018, the interests in Ordinary Shares of the current Directors have not changed since 31 December 2017.
2. Johanna Waterous resigned as a Non-Executive Director effective 5 May 2017. The table above shows her shareholding as at that date and not 31 December 2017.
3. 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. The Directors had no share options that vested and remained unexercised, or were exercised in the year.

Executive Directors' required shareholding

The table below shows the Executive Directors' shareholding level and their unvested scheme interests in the Company's incentive plans. Scott Egan and Stephen Hester joined RSA in October 2015 and February 2014 respectively and continue to build their shareholdings to the target levels shown below within the targeted five-year period.

	Required shareholding level				Unvested scheme interests held at 31 December 2017		
Director	Shares owned outright and counting towards shareholding at 31 December 2017[1]	Valuation[2]	Shareholding level at 31 December 2017 (% of salary)[1,3]	Shareholding level to be reached (% of salary)	Share awards not subject to performance conditions[4]	Share awards subject to performance conditions[5]	Total unvested share awards
Scott Egan	29,956	£189,472	35%	200%	60,482	418,246	478,728
Stephen Hester	260,783	£1,649,452	166%	300%	371,852	1,556,959	1,928,811

Notes:
1. Shareholding figures do not include unvested share awards in the Group's incentive plans (i.e. Deferred Bonus Shares and Performance Shares), which are shown separately in the above table.
2. The valuation is against the mid-market closing price of an RSA ordinary share as at 31 December 2017 of £6.325 per share.
3. Calculated using the gross annual base salary as at 31 December 2017.
4. Includes Deferred Bonus Shares as detailed in the following table.
5. Includes Performance Shares as detailed in the following table.

Scheme interests held by Executive Directors

Details of Executive Directors' existing awards in the Company's share plans for the financial year are set out in the following table. The interests shown were granted under the long-term incentive plan approved by shareholders at the 2014 AGM, the Performance Share Plan (PSP).

	Share awards held at 1 January 2017	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 2017	Grant share price	Vesting date
Scott Egan							
Deferred Bonus Shares[2]	–	60,482	–	–	60,482	£5.972	3 March 2020
Performance Shares 2016–18[4]	238,030	–	–	–	238,030	£4.4112	4 March 2019
Performance Shares 2017–19[5]	–	180,216	–	–	180,216	£5.972	3 March 2020
Total	238,030	240,698	–	–	478,728		
Stephen Hester							
Deferred Bonus Shares[2]	110,247	–	–	–	110,247	£4.2588	7 April 2018
Deferred Bonus Shares[2]	131,800	–	–	–	131,800	£4.4112	4 March 2019
Deferred Bonus Shares[2]	–	129,805	–	–	129,805	£5.972	3 March 2020
Performance Shares 2014–16[3]	585,431	–	249,784	335,647	–	£4.8682	19 May 2017
Performance Shares 2015–17[4]	669,202	–	–	–	669,202	£4.2588	7 April 2018
Performance Shares 2016–18[4]	505,236	–	–	–	505,236	£4.4112	4 March 2019
Performance Shares 2017–19[5]	–	382,521	–	–	382,521	£5.972	3 March 2020
Total	2,001,916	512,326	249,784	335,647	1,928,811		

Notes:
1. The Company granted conditional awards over Ordinary Shares under the PSP at nil cost. The number of shares was calculated based on the mid-market closing price averaged over the five business days preceding the grant date of 3 March 2017, of £5.972.
2. Deferred Bonus Shares vest three years from the date of grant, and are subject to malus adjustment as detailed on page 78.
3. Performance Shares granted to Stephen Hester in 2014 partially vested during the year and 13,718 accrued dividend equivalent shares were added to the number of vesting awards shown above. A portion of the shares were sold to cover statutory deductions during the year, the rest were retained in line with the shareholding requirements.
4. Performance Shares granted in 2015 and 2016 have performance conditions of Group underlying ROTE, Relative TSR and a Business Review Scorecard (⅓ weighting each). The dates by which performance conditions are to be met is as follows: 2015 awards by 31 December 2017, 2016 awards by 31 December 2018.
5. Performance Shares granted in 2017 have performance conditions of Group underlying ROTE, Relative TSR and a Business Scorecard (⅓ weighting each). The date by which performance conditions are to be met is 31 December 2019.
6. No other Directors of the Company held long-term incentive scheme interests during the year.

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

There were no payments to Directors for loss of office in 2017.

7. Payments to former Directors (audited)

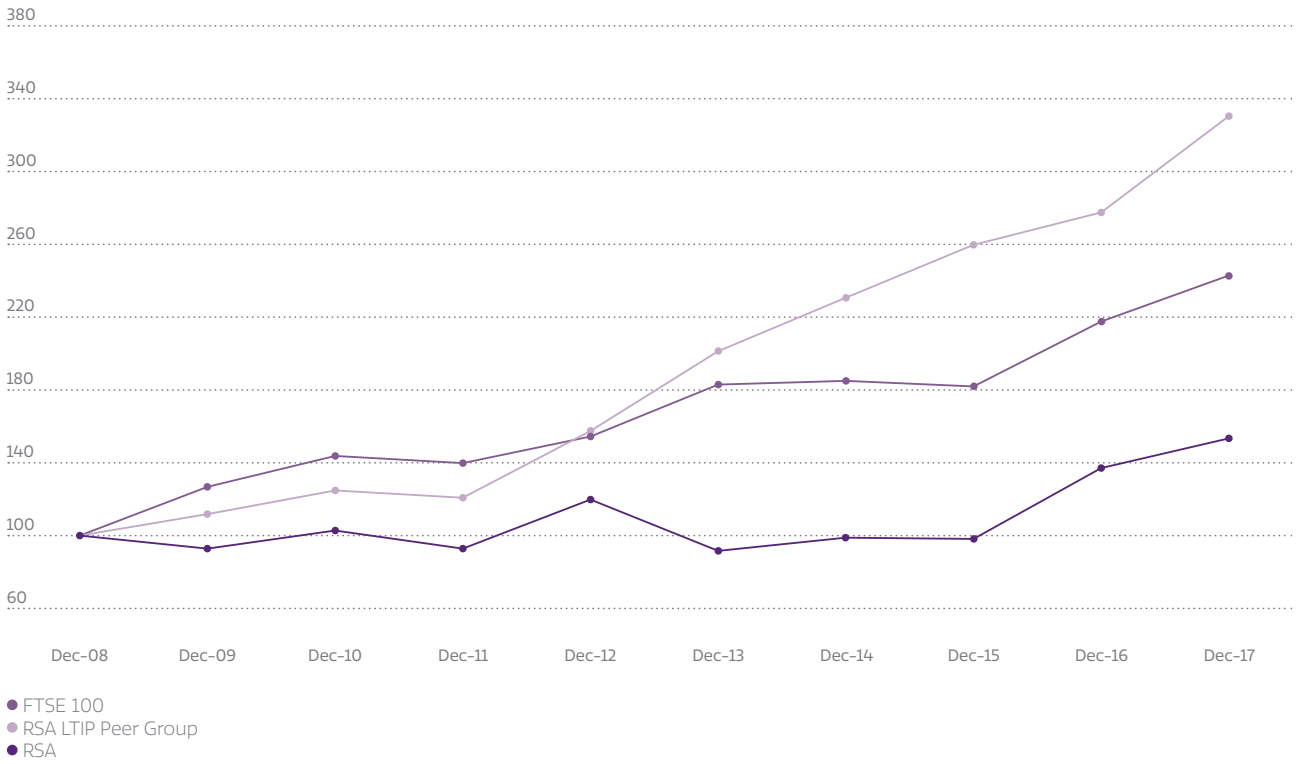
No payments were made to former Directors in 2017.

8. Historical TSR and executive remuneration

The following 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 (the constituents of which are noted on page 76). 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 2017.

RSA's TSR performance relative to the indices is shown over the nine years from 31 December 2008 to 31 December 2017. 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.

Value of hypothetical £100 holding



The table below shows the total remuneration for the incumbents appointed as the most senior Executive Director. The annual bonus award rates include both cash and deferred shares components.

	2009	2010	2011		2012	2013		2014		2015	2016	2017
Director	Andy Haste	Andy Haste	Andy Haste	Simon Lee	Simon Lee	Simon Lee	Martin Scicluna[1]	Martin Scicluna[1]	Stephen Hester[2]	Stephen Hester[2]	Stephen Hester[3]	Stephen Hester[3]
Single figure of total remuneration (£'000)	4,451	4,024	2,488	311	2,164	1,011	21	39	2,118	2,469	4,478	4,918
Annual bonus award rates (% of maximum)	89%	73%	58%	59%	50%	0%	n/a	n/a	68%	77%	100%	63%
LTIP vesting rates (% of maximum)	100%	66%	31%	34%	34%	0%	n/a	n/a	n/a	n/a	43%	58%

Notes:
1. Martin Scicluna was appointed Executive Chairman effective 13 December 2013 until 4 February 2014.
2. Stephen Hester was appointed Group Chief Executive effective 5 February 2014 and did not have any long-term incentive awards in the 2012-14 and 2013-15 cycles.
3. Details of the 2016 and 2017 figures are given on pages 73 to 77.

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 Group employees on average between 2016 and 2017.

	Salary and Fees	Taxable benefits	Bonus
All employees	2.5%	2%	-34%
Most senior Executive Director	2.5%	-1%	-35%

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 2017. Figures from 2016 are provided for comparison. The employee pay data covers the Group's employees globally, and therefore includes the impact of exchange rate changes.

(£m)	2016	2017	% difference from prior year
Total Spend on Employee Pay[1]	804	782	-3%
Total Distributions to Shareholders[2]	131	200	53%

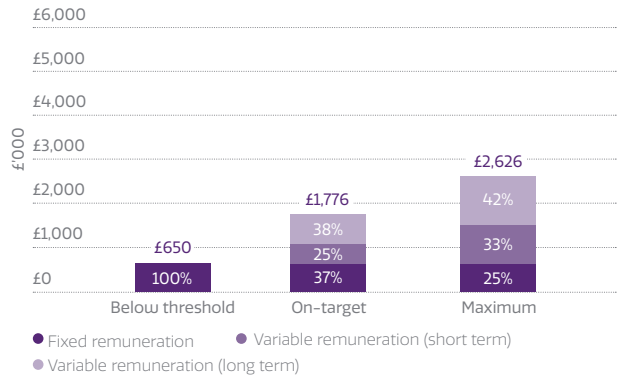
Notes:
1. Includes wages and salaries, social security costs, pension costs and share-based payments as shown in the notes to the Financial Statements on page 135.
2. Includes the figures as shown in the notes to the Financial Statements on page 139.

11. Implementation of Remuneration Policy in 2018

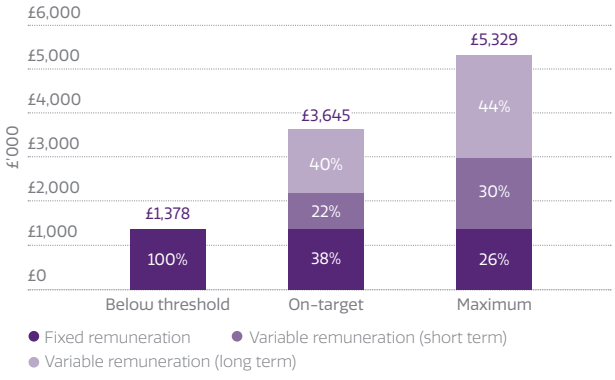
This section outlines how the Committee intends to implement the Directors' Remuneration Policy during 2018.

The following charts illustrate how Executive Directors' remuneration potential changes according to varying levels of performance achievement, and the balance between fixed and variable remuneration. 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 assumptions used in preparing these charts are noted in the following table.

Scott Egan



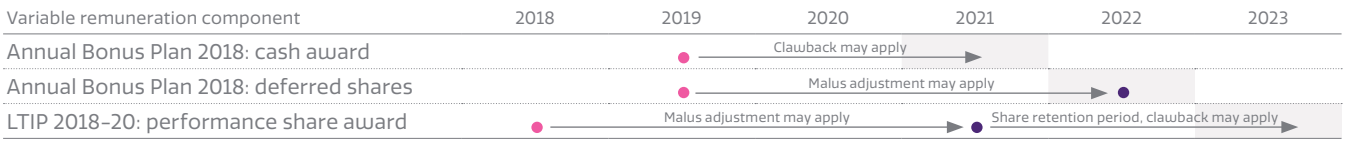
Stephen Hester



Basis of calculation	Below threshold scenario	On-target scenario	Maximum scenario
Scott Egan	Minimum remuneration receivable: · Fixed remuneration (includes the value of base salary and pension for 2018, and benefits based on the value included in the total remuneration 'single figure' for 2017) · Annual Bonus 0% of salary · LTIP 0% of salary	· Fixed remuneration · Annual Bonus 80% of salary · LTIP 125% of salary (this assumes 62.5% vesting, i.e. half-way between the 25% threshold vesting and 100% maximum vesting)	· Fixed remuneration · Annual Bonus 160% of salary · LTIP 200% of salary (this assumes 100% vesting of the award in the 2018-20 grant)
Stephen Hester		· Fixed remuneration · Annual Bonus 80% of salary · LTIP 144% of salary (this assumes 62.5% vesting, i.e. half-way between the 25% threshold vesting and 100% maximum vesting)	· Fixed remuneration · Annual Bonus 160% of salary · LTIP 230% of salary (this assumes 100% vesting of the award in the 2018-20 grant)

Note:
1. There are no assumptions relating to share price growth or dividend equivalents included in the above scenarios.

The remuneration structure is intended to promote the long-term interests of the Company and its shareholders. The table below illustrates when each variable component of the Executive Directors' remuneration package would be delivered to them once any performance conditions or other restrictions have ended.



Base salary, benefits and pension

The Committee reviewed the Executive Director salary levels, taking into account the average reviews applied elsewhere in the Group, including those for employees subject to collective bargaining agreements, and UK inflation figures. It referenced 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.

The table below shows the salaries that will apply from 1 April 2018. The level of increase is in line with those for other UK-based employees this year:

Director	Annual base salary effective 1 April 2017	Annual base salary effective 1 April 2018	% change
Scott Egan	£538,125	£548,888	2%
Stephen Hester	£993,225	£1,013,090	2%

In respect of benefits and pension, the Policy will continue to be implemented the same way as it was at the end of 2017.

How will incentives be aligned to the business strategy in 2018?

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 2018:

Strategic priorities	Annual Bonus Plan 2018	Long-term incentive cycle 2018-20
· Shareholder returns · Profitability	Group underlying ROTE Group underlying PBT Group COR	Relative TSR Group underlying ROTE
· Underlying Performance · Risk and Resilience · Business Sustainability	Business Scorecard: Underlying Performance: Attritional loss ratio, total controllable costs/cost ratios, key business improvement projects; Risk and Resilience: Regulatory capital ratios, credit rating, capital actions, risk management; Business Sustainability: Customer franchise and other relevant actions related to the Company's long-term success including People and Corporate Responsibility	

Annual Bonus Plan 2018

The Annual Bonus Plan is aligned with the core priorities for focus in 2018. 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 Scorecard component focuses on key areas of management activity essential to the success of the Company including Underlying Performance, Risk and Resilience and Business Sustainability (including Customer franchise). The Personal Scorecard consists of SMART objectives bespoke to each Director, with a focus on both what is achieved and how goals are delivered.

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 2018 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 2018 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 2018:

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 Scorecard	30%	48%
Personal Scorecard	30%	48%
Total	100%	160%

Long-term incentive 2018-20

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 Scorecard.

For the 2018 grant, performance measures will be assessed against a performance period of 1 January 2018 to 31 December 2020, taking into account underlying business performance and material risk factors.

The Business Scorecard measures and assessment will be operated similarly to the 2017-19 LTIP cycle, as described on page 77. In contrast to the Business Scorecard in the 2018 Annual Bonus, which will capture calendar year actions and outcomes relative to RSA's business plan, the long-term incentive Scorecard will capture progress over three years vs the Company's strategy and three-year Operating Plans. Its specific targets cannot be disclosed prospectively for commercial reasons, including price sensitivity. A performance narrative will be given regarding the level of vesting on the Scorecard once the performance conditions have been tested.

The Committee has approved in principle that Stephen Hester's Performance Share opportunity in the 2018–20 LTIP grant will be 230% of salary at maximum vesting, which is the usual level of award for the Group Chief Executive; and that Scott Egan's opportunity 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.

Performance measures 2018–20	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	12%	18%
Business Scorecard	⅓	Commercially sensitive	Commercially sensitive

Notes:
1. The TSR index of comparators for this cycle includes: Admiral, Allianz, Aviva, Chubb, 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 set in line with, and therefore signals, the Group's forward plan for the period and for this reason is considered commercially sensitive. Disclosure will be provided retrospectively following the end of the performance period.

Non-Executive Directors' fees

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. An increase of 2% will be applied effective from 1 April 2018, moving the fee from £420,000 to £428,400.

Under the Company's Articles of Association, the Non-Executive Directors' remuneration is determined by the Board, within limits set by shareholders. 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 page 92.

The Company reviewed the Non-Executive Directors' fees in accordance with the Remuneration Policy and the fees effective from 1 April 2018 are shown in the following table.

Fee structure	From 1 January 2017	From 1 April 2018
Base fee	£62,500	£64,000
Additional fee for chairing committees:		
Group Audit Committee	£20,000	£20,000
Group Remuneration Committee	£20,000	£20,000
Group Investment Committee	£12,500	£12,500
Board Risk Committee	£20,000	£20,000
Additional fee for Senior Independent Director	£20,000	£20,000
Additional committee fee[1]	£5,000	£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.

12. Statement of voting at General Meeting

The following voting was recorded at the AGM on 5 May 2017:

Resolution	Votes for	Votes against	Total votes cast	Votes witheld[1]
To approve the Directors' Remuneration Report				
Number of votes	732,499,680	9,024,286	741,523,966	165,146
% of votes cast	98.78%	1.22%	100%	–

Resolution	Votes for	Votes against	Total votes cast	Votes witheld[1]
To approve the Directors' Remuneration Policy				
Number of votes	734,627,246	6,903,843	741,531,089	158,023
% of votes cast	99.07%	0.93%	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 2017, the dilution levels were as follows:

Limit	RSA dilution %
10% over 10 years for all share schemes	3.57%
5% over 10 years for discretionary schemes, including long-term incentives	2.37%

14. External directorships

Stephen Hester received fees of £92,500 during the year in respect of his non-executive role at Centrica plc, where he is Senior Independent Director. As permitted under the Remuneration Policy, he retained these fees.

Scott Egan does 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.

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

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 2020
Kath Cates	1 September 2013	1 September 2019
Enrico Cucchiani	1 December 2014	1 December 2020
Isabel Hudson	1 August 2016	1 August 2019
Hugh Mitchell[1]	26 September 2012	26 September 2018
Martin Scicluna	1 January 2013	1 January 2019
Joseph Streppel	3 October 2011	3 October 2020
Martin Strobel	1 May 2016	1 May 2019

Note:
1. Hugh Mitchell is retiring as a Non-Executive Director with effect from the Company's 2018 AGM on 11 May 2018.

Kath Cates
Non-Executive Director and Chairman of Group Remuneration Committee
21 February 2018

SUMMARY OF DIRECTORS' REMUNERATION POLICY

1. Introduction

The Directors' Remuneration Policy was approved by shareholders on 5 May 2017, and was effective from that 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, elements of the Policy referenced in Committee activity during 2017 are re-presented on the following pages 86 to 92, including the policy tables and information on Directors' contractual terms. The full Policy Report is contained in the 2016 Annual Report and Accounts (pages 80 to 87), which is available at www.rsagroup.com/financial-reporting.

2. RSA's remuneration principles

The remuneration philosophy and strategy are directly informed by the business strategy. The remuneration principles that the Group Remuneration Committee ('the Committee') follows are:

- Remuneration is aligned to the long-term term interests of the Company, its business strategy and performance;
- The remuneration framework is designed to promote sound and effective risk management in line with the company's risk profile;
- Each component of the total remuneration package is simple and transparent, so as to be effective and understood by executives, shareholders and regulators;
- Pay is linked to performance, with variable remuneration fully contingent on the achievement of 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;
- 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; and
- 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 and avoiding conflicts of interest.

3. Remuneration Policy for Executive Directors

The following table sets out the components of the Executive Directors' remuneration package and how they operate.

Purpose and Strategic Link	Operation	Maximum opportunity	Performance measures
Base salary (fixed remuneration) This element is designed to attract and retain high calibre executives, essential for ensuring RSA's ongoing success.	Salaries are reviewed annually considering 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. Salaries are benchmarked referencing peer group companies of comparable size and complexity. There is no automatic right for any Director to receive a salary increase. 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.	Other than exceptional circumstances such as a role change, salary increases will not exceed the level of increases applied to other RSA employees.	Performance conditions do not apply, but business and individual performance may be considered when conducting the review process.
Benefits (fixed remuneration) This element forms part of a market competitive package and supports the executive.	Benefits typically 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. Some benefits are delivered as taxable cash-in-lieu allowances. Tax changes are not compensated. Assistance would be available under RSA's relocation policy or global mobility policy should this be required. Expenses can be claimed according to RSA's business and travel policies, including tax thereon where such expenses do not qualify for tax relief. Executive Directors in participating countries can acquire shares in RSA's all-employee share plans (Sharesave and Sharebuild), and those in the UK can participate in RSA's flexible benefits programme. Benefits are determined with reference to market practice within the same peer group companies referred to in respect of salaries. The Committee can also source information from bespoke benefit surveys to aid decision-making. The 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.	Benefits are valued and determined with reference to the benchmarking peer groups and other surveys reviewed by the Committee. Benefits are fixed remuneration, however the cost to provide them can vary from year to year in line with market conditions, which therefore determine the maximum value.	None.
Pension (fixed remuneration) This element forms part of a market competitive package and enables executives to save for retirement.	Pension benefits take the form of employer contributions to a pension plan, or a full/partial cash allowance in lieu. The RSA UK defined benefit pension schemes are closed to all new entrants and future accrual. Pension cash allowances are paid monthly and are subject to statutory deductions. The Committee can adjust contribution or allowance levels to ensure these remain appropriate and market aligned. It can also agree changes to the terms of the Directors' pension plan(s), as appropriate.	No Executive Director will receive a pension benefit in excess of 30% of salary.	None.

Purpose and Strategic Link	Operation	Maximum opportunity	Performance measures
Annual Bonus Plan (variable remuneration) This element incentivises the achievement of short-term financial and non-financial goals, in line with RSA's risk profile. Deferral into shares enhances shareholder alignment.	Bonus awards are calculated against stretching annual financial and non-financial targets, as well as the performance of the individual executive. 50% of the bonus is deferred into a share award for a period of three years, and 50% is awarded in cash. Vested shares must be retained until the relevant shareholding level is reached, excluding any sold to satisfy statutory deductions. The applicable shareholding levels are detailed on page 92. Awards are subject to the Malus and Clawback Policy, which is reviewed annually, and is noted on page 78. Dividend equivalents accrue on the deferred shares, and are awarded at the end of the deferral period. The Committee can exercise discretion to change the bonus measures, how they are weighted, calculated and targeted. It can adjust bonus outcomes provided this is appropriate and in shareholders' interests, including adjustment downwards for current or future risk exposure, and 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.	The normal maximum bonus opportunity is 160% of salary. An additional bonus opportunity 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. Actual bonus awards are linked to achievement as follows: · Below threshold – no bonus · Threshold – 10% of maximum opportunity · Target – 50% of maximum opportunity · Maximum – 100% of maximum opportunity	Performance measures and weightings are set each year considering the Company's strategy and shareholder interests, and will vary based on each Directors' area of responsibility where appropriate. Measures typically cover profit, underwriting performance, risk management, expenses, capital and balance sheet strength, customer and business sustainability, and objectives personal to the executive. A majority weighting is given to financial metrics. Measures can be assessed on a Scorecard basis. Performance is measured over one financial year. Targets are set with reference to the Group's operational plan. The performance measures and targets used to inform the 2017 bonus awards are on pages 73 to 75.
Long-term Incentive Plan (LTIP) (variable remuneration) This element supports RSA's long-term strategy, performance and priority to create shareholder value through sustained earnings and share price growth. The share-based nature of the plan enhances shareholder alignment.	Conditional long-term incentive awards are granted annually in the form of Performance Shares, and may vest wholly or partially subject to company performance conditions. A two-year retention period applies to vested Performance Shares, excluding any sold to satisfy statutory deductions. This applies while the Director remains in employment. Vested shares must be retained until the relevant shareholding level is reached, excluding any sold to satisfy statutory deductions, as detailed on page 92. Awards are subject to the Malus and Clawback Policy, which is reviewed annually, and is noted on page 78. Dividend equivalents accrue during the performance period and are added to the shares that vest. The Committee can act within the parameters of the Plan's rules as approved by shareholders and its performance conditions, enabling the LTIP to be appropriately administered under both normal and exceptional circumstances.[1] 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. Vesting can be adjusted downwards for current or future risk exposure.	The normal maximum LTIP opportunity is 230% of salary. 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. Award vesting is linked to achievement against the performance conditions as follows: · Below threshold – 0% vesting · Threshold – 25% vesting · Target – 62.5% vesting · Maximum – 100% vesting	Performance conditions are reviewed for each new cycle and set in line with the Company's operational plan, long-term strategy and considering shareholder interests. Measures are typically linked to value creation through performance of the Group's share price, profit, capital and balance sheet strength and underlying performance. The LTIP will include at least two measures. A majority weighting is given to financial metrics. Metrics can be assessed through a Scorecard. The performance period will normally be at least three years for all measures, with no re-testing. Shareholders will be consulted if material changes to the measures are proposed by the Committee. The measures and targets for the 2018-20 cycle are on pages 83 to 84.

Notes:

1. The current LTIP, referred to as the Performance Share Plan 2014 (PSP), was approved by shareholders at the 2014 AGM. It is also used as a vehicle for granting deferred bonus shares, and restricted shares where these are awarded as part of an Executive Director buy-out as noted on page 89.
2. The overall remuneration principles in this Policy apply across the Group. Employee remuneration packages are set with reference to the relevant competitive markets in which the Group operates, and remuneration levels therefore reflect differences in location and job role. All permanent UK-based employees are eligible to receive a bonus award, but deferral is only operated for senior leaders and where required by Solvency II. The LTIP policy provisions are 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. Members of the Executive Team and selected senior leaders across the Group are also required to hold shares in RSA.

4. Approach to recruitment remuneration

The Committee ensures a consistent and transparent approach is taken when appointing Executive Directors to the Board, as shown in the following table. When a new Executive Director is recruited, the Committee will provide details of how the Policy has been implemented in respect of their appointment terms in the relevant Directors' Remuneration Report.

Remuneration component	Notes on approach
Base salary	· Set using the same approach as for existing Directors' salary reviews. 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	· 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. · Where the Director is an internal appointee to the Board, or appointed following a corporate transaction, he/she may be permitted to retain any legacy benefits or terms at the Committee's discretion, or a buy-out may be made depending on the benefit type and circumstance. Continuity of service with the Group will be maintained.
Incentive awards	· Under normal circumstances, a new Executive Director will be eligible for incentive awards in line with the usual policy as detailed on page 88. 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. · 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 terms as applies to other plan participants.
Buy-outs	· Where the Director is an external appointment, the Committee may agree to a compensatory package reflecting the value and terms of incentives or benefits forfeited upon resignation. – This will only be permitted on receipt of reasonable evidence of 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. – Performance-linked awards will normally only be compensated with Restricted Shares 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. – 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.

5. Service contracts and policy for payments on loss of office

Each of the Executive Directors is employed under a service agreement, which contains a variety of contractual terms and conditions. Contracts are available for inspection by shareholders at the Company's registered office. Terms are designed to ensure fair treatment for departing executives while avoiding reward for failure.

Key terms	Notes on approach
Notice period	· No Director will be appointed on a notice period exceeding 12 months. The current Executive Directors' 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 or her contractual notice period. · The Company can require accrued annual leave related to the year of termination to be used during a notice period or garden leave, although payment of untaken days can alternatively be made in lieu.
Garden leave	· 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.
Payment in lieu of notice (PILON)	· A Director may be paid in lieu of an unexpired portion of their notice period, covering base salary, pension and benefits, regardless of which party has served notice. · Generally, in the event of termination and in all cases of termination on performance grounds, PILON would be made on a phased basis subject to mitigation, and would be reduced or ceased if the Director starts to receive payment or remuneration from alternative employment.
Termination payment	· There are no pre-determined special provisions for Directors with regard to compensation for loss of office. · 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/her annual gross basic salary as at their employment termination date. · 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. · 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	· Restrictive covenants are in place to help protect RSA's interests should the individual leave the Company for any reason.
External appointments	· 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 Group Nomination and Governance Committee. If there is any remuneration arising from this role, the individual can retain it.

The Committee's approach to incentive treatment for Executive Director leavers is set out in the following table. 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.

Leaving circumstances	Approach to Annual Bonus	Approach to Deferred Bonus Shares	Approach to unvested LTIPs
Resignation or dismissal for cause	· Not eligible if left or under notice at the date of payment.	· Forfeited if dismissed for cause. · Normally vest in line with the normal timetable if resignation.	· Forfeited.
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[1]	· Eligible for the proportion of the bonus year served. · Performance is tested in line with the normal performance timetable. · In cases of death in service and, with Committee discretion, medical severance, performance can be tested and awards made sooner than the scheduled date. · The Committee has the discretion to make the final bonus award in cash and so waive deferral, subject to any regulatory requirements.	· Normally vest in line with the normal timetable. · In cases of death in service and, with Committee discretion, medical severance, awards can vest sooner than the scheduled date.	· Performance is tested in line with the normal timetable. · In cases of death in service and, with Committee discretion, medical severance, performance conditions can be tested early and awards vest sooner than the scheduled date. · Awards vest subject to performance and time pro-rating.
Change of control	· Normally good leaver treatment applies as above. · Where this is the case, performance can be tested and awards made sooner than the scheduled date.	· Awards can vest sooner than the scheduled date. · The Committee can determine whether a pro-ration for time is applied to these awards.	· Performance conditions are tested early and awards can vest sooner than the scheduled date. · Vesting level determined with regard to performance and time served.

Note:
1. 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.

6. Legacy incentive plans

The Policy provides for any outstanding awards granted under legacy incentive plans to continue in place, although the current Executive Directors do not hold any such awards.

Existing incentive awards granted under the Remuneration Policy approved by shareholders in 2014 will continue in place.

7. Required shareholding

RSA believes it is in shareholders' interests for its executives to hold shares in the Company and build a stake in the business. They are expected to retain vested shares arising from the Company's share plans to build and maintain a minimum shareholding level.

Shareholding provisions

- Executive Directors must build up a shareholding in RSA according to specified levels, expressed as a salary multiple.
- The shareholding levels to be reached are:
  - Group Chief Executive: 300% of salary
  - Other Executive Directors: 200% of salary
- Executives have a targeted 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 level are those held either in the executive's 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 Performance Shares count towards the holding level during the two-year retention period.
- 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).
- The shareholding levels were determined with reference to the practice across the Company's benchmark peer groups.
- The Executive Directors' shareholding levels as at 31 December 2017 are noted on page 79.

8. Policy for Non-Executive Directors

The following table outlines the components of Non-Executive Directors' remuneration:

Purpose and Strategic Link	Operation and maximum level of remuneration
Fees · This element ensures competitive remuneration is paid to attract high calibre non-executives and recognise their time commitment on the Board.	· Non-Executive Directors (aside from the Chairman) receive a base fee, further fees are then paid to reflect membership of a 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. · Director Fees will not exceed the limit stated in the Company's Articles of Association, as approved by shareholders. · Fees are paid in cash, subject to any required statutory deductions. · 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. · The Company has the discretion to introduce new fees or change the Non-Executive Directors' terms. · Details of the Chairman's fee and the Non-Executive Directors' fees earned for 2017 are noted on page 73.
Other key terms of office · Reflects current good governance.	· Non-Executive Directors may claim expenses in accordance with RSA's business and travel policies, including tax thereon where such expenses do not qualify for 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. · Non-Executive Directors may hold shares in RSA but this is a personal matter and is not mandatory.

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. Appointment letters are available for inspection by shareholders at the Company's registered office.

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.

STATUTORY INFORMATION

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 2017. The information that fulfils the requirements of the Strategic Report set out in section 414C of the Companies Act 2006 can be found on pages 4 to 41.

The Companies Act 2006 also requires the Company to provide a Directors' Report for the year ended 31 December 2017. The information that fulfils this requirement and which is incorporated by reference into, and forms part of, this report is set out on pages 4 to 96 and includes the information on financial risk management objectives and policies contained in Note 5 in the consolidated financial statements.

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 all 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 4 to 41 which includes:

- Use of financial instruments by the Company and 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, underwriting risk, reserving risk, credit risk, liquidity risk and cashflow risk
- An indication of likely future developments in the Company's business.

There are no activities relevant for disclosure in respect of research and development of the Company.

A full list of the Group's subsidiaries and related undertakings is in Appendix B on pages 175 to 178.

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 of 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 67. A report from the external auditor can be found on pages 99 to 105.

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 basis to provide its viability statement as the operational planning process focuses on this period and is aligned to the short-tail nature of insurance contracts that the business underwrites.

The Group prepares a three year operational plan and capital forecast along with sensitivity analysis in line with the Group's strategy. These forecasts are subject to review and challenge by the Directors on at least an annual basis.

The three year cash flow forecast supports the Group's ability to sustain positive cash flows in its businesses through targeted underwriting, portfolio and distribution actions, and to pay dividends as forecast. 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.

In addition, the Group, as part its Own Risk and Solvency Assessment (ORSA) process, uses Prudential Regulatory Authority 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.

The directors have also considered the prospects of the Group through review of the longer term strategy as set in the Strategic Report on pages 4 to 41 and the principal risks and uncertainties that are of a longer term nature, as detailed in the Risk Management Report on pages 33 to 37.

Based on the results of these reviews, 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

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 including 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 Statement of Financial Position and the approval of the Consolidated Financial Statements.

Dividends

In accordance with regulatory requirements, 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. 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 directors recommend a final dividend (subject always to the dividend being cancelled, withheld or deferred) of 13 pence per Ordinary Share (2016: 11 pence) to be paid on 18 May 2018 to holders of Ordinary Shares on the register at the close of business on 2 March 2018, subject to Ordinary Shareholder approval. An interim dividend of 6.6 pence was paid during 2017, making the total proposed dividend for the year 19.6 pence (2016: 16 pence).

Details of 2018 dividend dates are detailed on page 189.

The Company's Preference Shares receive a dividend at the rate of 7.375 percent per annum paid in two instalments on, or as near as practicably possible to, 1 April and 1 October each year subject to approval by the Board.

Scrip Dividend Scheme

The Company renewed its authority to offer a Scrip Dividend Scheme to shareholders at the 2014 AGM and updated the terms and conditions in 2016. The Company will not be offering a Scrip Dividend alternative in respect of the final 2017 dividend. For dividends where a Scrip alternative is offered, shareholders wishing to receive a Scrip dividend instead of a cash dividend should contact the Company's Registrar for details or visit the shareholder services area of the Company's website www.rsagroup.com/investors/ shareholders.

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 Preference Shares are entitled to a fixed income, but the Ordinary Shares carry no right to a fixed income. The Preference Shares rank on a winding-up in priority to the Ordinary Shares.

More information on the Company's share capital can be found in Note 32 and 33 on pages 155 to 156. Note 33 includes a summary of the principal terms of the Company's SEK2,500,000,000 and DKK650,000,000 floating rate Restricted Tier 1 Contingent Convertible Notes which were issued in March 2017. The notes are convertible into Ordinary Shares of the Company upon the occurrence of certain conversion trigger events.

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.

As at 31 December 2017, the Ordinary Shares and Preference Shares represented 89 percent and 11 percent respectively of the Company's total issued share capital. Directors are limited as to the number of shares they can allot (save in respect of employee share schemes). Renewal of the directors' authorities to allot shares will be sought at the 2018 AGM. In addition, directors are restricted by the limits set out by the Investment Association. During 2017, the directors exercised their authorities to allot shares only in respect of employee share schemes.

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 102,016,572 of its own Ordinary Shares (representing 10 percent of its issued share capital as at 14 March 2017), was passed at the 2017 AGM. This authority will expire at the conclusion of the 2018 AGM and a new authority will be sought. The authority was not exercised during 2017. Other than the standard compulsory transfer provisions in respect of US shareholders contained in the Company's Articles of Association, 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.

During the year, the Company operated two employee share trusts to hold Ordinary Shares in the Company which are used to satisfy grants under the Group's share incentive schemes. Link Trustees (Jersey) Limited and Link Market Service Trustees Limited, 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 the 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 benefit share trust, of which Link Trustees (Jersey) Limited are Trustees, to receive dividends of 0.01 pence per share.

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 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 restricting the receipt of 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 2017. None of the directors had any interest in any contract of significance with the Company or any of its subsidiaries during 2017.

Essential contracts and change of control

The Company does not consider that there are 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).

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.

Employment information

The Group recognises and actively promotes the benefits of a diverse workforce and is committed to treating all employees with dignity and respect regardless of race, gender, disability, age, religion or belief. We therefore welcome applications from all sections of the community. The Group is committed, wherever possible, to employing and supporting people who are disabled, or become disabled during their career with the Group. Our 'Equal Opportunities' and 'Dignity at Work' policies support this commitment to employees.

The Group has a close working relationship with trade unions and employee associations in all parts of the business where they exist and consults with employees and representatives on relevant matters, taking their views into consideration. The European Works Council ('EWC') consults with employee representatives on transnational matters across UK, Ireland, Sweden, Norway, Denmark, France, Spain, the Netherlands, Belgium and Germany. The annual meeting of the EWC took place in Rotterdam in March 2017. Regular consultations with employee representatives took place throughout the year.

More information on employees can be found on pages 40, 41 and 56.

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 also maintains a pension trustee liability indemnity policy for the directors of SAL Pension Fund Limited and Royal & Sun Alliance Pension Trustee Limited, subsidiaries of the Group, in relation to such company's role as a trustee of an occupational pension scheme. This indemnity constitutes a qualifying pension scheme indemnity provision under section 235 of the Companies Act 2006. These indemnities were in force during the year ending 31 December 2017 and remain in force as at the date of this Report.

Articles of Association

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 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.

The Company's Articles of Association may be amended by special resolution of the Company's Ordinary Shareholders. It is proposed that an amendment be made to the Articles of Association at the 2018 AGM. It is proposed that provision be made to allow for hybrid general meetings enabling participation through technological means via the internet to supplement the meeting hosted at a venue. The Company does not have any current intention of hosting hybrid general meetings but may consider the use of technology to allow for flexibility in the future.

The Company's current Articles of Association are available on the Company's website at www.rsagroup.com/articles.

Substantial share interests[1]

The table below shows the holdings of major shareholders as disclosed to the Company in accordance with the Disclosure Guidance and Transparency Rules (DTR) as at 31 December 2017 and at the date of this Report.

	31 December 2017			21 February 2018		
Shareholder name	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 & CFD	75,871,245	7.46%	Direct & Indirect & CFD
BlackRock, Inc	55,359,399	5.43%	Indirect, Securities Lending & CFD	55,359,399	5.43%	Indirect, Securities Lending & CFD
Cevian Capital II G.P. Limited	137,645,130	13.50%	Indirect & CFD	137,645,130	13.50%	Indirect & CFD
T. Rowe Price Associates, Inc.	53,306,835	5.01%	Direct & Indirect	53,306,835	5.01%	Direct & Indirect

Notes:
1. The threshold for notifications is 5 percent in accordance with DTR 5.1.5. If the Company has not been informed that interests have fallen below this threshold the last notification is included in this table.

Borrowing powers

Article 98 of the Articles of Association sets out the restrictions on 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).

Greenhouse Gas Emission Reporting

	2017	2016[1,2]	2015[1]
Scope 1	2,195Ⓐ	2,153	4,173
Scope 2	10,039Ⓐ	11,319	13,890
Scope 3	12,052	12,469	13,919
Business Travel	10,824Ⓐ	11,272	12,379
Total gross tonnes CO_2e	24,286	25,941	31,981
Gross Tonnes of CO_2e per FTE	1.80	1.88	2.13

Notes:

Please note, emissions reported above have been restated versus numbers previously disclosed, in accordance with GHG protocol guidelines.

1. Removed the impact of all divested businesses, including sale of our Quality Repair Centres (QRCs), Russian and Latin American businesses, to allow for fair comparison year on year
2. Conversion factors have been updated to reflect most recent publications.

Ⓐ values 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/responsibility

Scope 1: Direct emissions from the group's activities, including use of company-owned vehicles and onsite thermal energy

Scope 2: Indirect emissions from imported energy; electricity, district cooling and district heating.

Scope 3: Emissions relating to RSA activities not within our direct control, including business travel, water supply, wastewater treatment, paper and waste generated.

Business travel: Emissions from flights, trains, taxis, hotels and vehicles not owned by the organisation.

Approach

Our disclosures cover all sources of greenhouse gas emissions as required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, covering everything within the boundary of our operational control. Figures above include emissions from all operations with 50 or more full time equivalent employees, covering the period 1 January 2017 – 31 December 2017.

Where data is not provided by the operating entity, estimates have been provided based on intensities determined from similar sites within the Company. Our reporting has been conducted in accordance with guidance set forth by the GHG protocol's corporate standard.

All conversion factors have been sourced from recognised public sources, including the UK's department for environmental and rural affairs, the international energy agency and the GHG protocol's stationary combustion tool.

Political donations

During the year the Group has not made any donations to political parties or independent election candidates. 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.

Modern Slavery

As per section 54(1) of the Modern Slavery Act 2015, our Slavery and Human Trafficking Statement is published annually on our Group website. The statement covers the activities of RSA Insurance Group plc and its subsidiaries and details policies, processes and actions we have taken to ensure that slavery and human trafficking are not taking place in our supply chains or any part of our own business.

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 94

Directors' Responsibility Statement

The Directors' Responsibility Statement appears on page 98 and is incorporated by reference into this Report.

By order of the Board

Charlotte Heiss
Group Chief Legal Officer and Company Secretary
21 February 2018

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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 law 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 both the Group and the Parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group 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, relevant and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the 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 their financial statements comply with the Companies Act 2006 and as regards the Group financial statements, Article 4 of the IAS Regulations. 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 comply 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements on pages 106 to 185, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the financial position of the Group and Parent Company and profit or loss of the Group; and
- The Management Report on pages 4 to 96 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 the Group face.

Signed by order of the Board

Stephen Hester
Group Chief Executive
21 February 2018

Scott Egan
Group Chief Financial Officer
21 February 2018

Independent auditor's report

to the members of RSA Insurance Group plc

1) Our opinion is unmodified

We have audited the consolidated financial statements of RSA Insurance Group plc ("the Company") for the year ended 31 December 2017 which comprises the consolidated income statement, consolidated and Parent statement of comprehensive income, consolidated and Parent Company statement of changes in equity, consolidated and Parent Company statement of financial position, the consolidated and Parent Company statement of cash flows and the related notes, including the accounting policies in note 4.

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 2017 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 (IFRSs 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 Group requirements of the Companies Act 2006 and, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders of the Company at the Annual General Meeting held on 13 May 2013. The period of total uninterrupted engagement is for the five financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the Financial Reporting Council ('FRC') Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	**£35m** (2016: £35m) **0.5%** (2016: 0.6%) of Net Earned Premium	
Coverage	**97%** (2016: 97%) of Net Earned Premium	
Risks of material misstatement		vs 2016
Recurring risks of the Group	Valuation of Insurance Liabilities	◀▶
	IT systems and control environment	◀▶
	Valuation of defined benefit pension schemes	◀▶
	Valuation of deferred tax assets	◀▶
Recurring risks of the Parent	Recoverability of Parent Company's investment in subsidiaries	◀▶

2) Key audit matters: Our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, which are unchanged from 2016, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Insurance liabilities (**2017: £9,477 million gross, £7,954 million net**; 2016: £9,365 million gross, £7,929 million net) *Refer to page 62 (Group Audit Committee Report), page 112 (accounting policy) and pages 158 to 162 (financial disclosures)*	**Subjective valuation** Insurance liabilities represent the single largest liability for the Group. Valuation of these liabilities is highly judgmental because it requires a number of assumptions to be made with high estimation uncertainty such as 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 determination and application of the methodology and performance of the calculations are also complex. A margin is added to the actuarial best estimate of insurance liabilities to make allowance for specific risks and uncertainties that are not specifically allowed for in establishing the actuarial best estimate. The appropriate margin to recognise is a subjective judgement and estimate taken by the directors, based on the perceived uncertainty and potential for volatility in the underlying claims. Certain lines of business have greater inherent uncertainty, for example those where claims emerge more slowly over time, or where there is greater variability in claim settlement amounts and potential exposure to large losses due to effect of uncertain or unknown future events. This includes Abuse, 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. **Data capture** The valuation of insurance liabilities depends on complete and 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.	With the assistance of our actuarial specialists, we performed the following procedures: · **Control design and observation:** Evaluation of 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 challenge applied through the Group's reserving process. · **Independent re-performance:** Independent re-projection of the reserve balances using our own models for certain classes of business. The determination of which classes to reproject was based on risk assessment and consideration of the evidence available from other alternative data analysis procedures. · **Sector experience and Benchmarking:** Comparison of assumptions, reserving methodologies and estimates of losses to expectations based on the Group's historical experience, current trends, externally-derived data and benchmarking against industry trends including information relating to forthcoming legislation that may affect claims settlement speed or amount. · **Sensitivity analysis:** Review of sensitivity analysis over key judgements and assumptions, such as the discount rates for longer tail classes of business and Periodic Payment Order projections. · **Margin evaluation:** Evaluation of the appropriateness of the Reserve Committee's recommended margin to be applied to the actuarial best estimate. In order to do this we assessed the Director's approach to, and analysis performed, in setting the margin with respect to recognised actuarial methods. In particular we considered the allowance for uncertainties inherent in the data and assumptions in developing the actuarial best estimate through inquiry with the Directors and with respect to our understanding of the Group and our own sector experience of approaches to setting the margin and the level of margin held by the Group's peers. In addition to the above the audit team performed procedures to assess the completeness and accuracy of the data used in the calculations to estimate insurance liabilities: · **Control observation and operation:** 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). The controls included reconciliations between data in the actuarial reserving systems and data in the policy administration systems. We tested controls through inspecting or re-performing the Group's reconciliations. · In addition, we tested the operation of controls over the valuation of individual claims reserves, such as large loss review controls, internal peer reviews and claims approvals. We assessed whether such controls were performed in line with the Group's policies and with reference to underlying claims data. · **Tests of detail:** Re-performance of reconciliations between the claims data recorded in the policy administration systems and the data used in the actuarial reserving calculations to ensure the integrity of the data used in the actuarial reserving process. · We also compared samples of claims case reserves, including large loss reserves, to appropriate documentation, such as reports from loss adjusters in order to test valuation of individual claims reserves. We used sampling techniques and data analysis to focus our procedures on significant or anomalous claims. · **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of the insurance contract liabilities. **Our results** · We found the valuation of the insurance liabilities to be acceptable.

	The risk	Our response
IT systems and control environment *Refer to page 62 (Group Audit Committee Report).*	**Processing errors** Many financial reporting controls depend on the correct functioning of operational and financial IT systems. 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.	With the assistance of our own IT audit specialists, our procedures included: · **Controls design and observation:** Testing general IT controls around system access, change management and computer operations within specific applications pertinent to the financial statements by assessing if appropriate policies are in place and adhered to by inspecting supporting evidence. Where general IT controls are not operating effectively, we addressed the increased risk of financial statement misstatement by extending the scope of our work. This included assessing the operation of controls over changes or transactions being recorded in the systems and testing manual compensating controls, such as reconciliations between systems and other information sources, through re-performance or inspection. · **Extended scope:** Where general IT controls and compensating manual controls did not operate to mitigate a risk, we performed additional substantive testing, such as using extended sample sizes and performing data analysis routines over impacted accounts to test the integrity of the transactional level data that is flowing into the Group financial statements. **Our results** · Our testing identified deficiencies in the design and operation of certain controls. We compensated for this by extending our detailed testing over and above that originally planned, and this work was completed satisfactorily.
Pensions and post-retirement obligations (**2017: £8,878 million**, 2016: £8,893 million) *Refer to page 62 (Group Audit Committee Report), page 116 (accounting policy) and pages 163 to 168 (financial disclosures).*	**Subjective valuation** Small changes in the assumptions and estimates used can have significant effect on the valuation of the Group's pension obligations and therefore the amount of the pension and post retirement obligations and the Group's financial position. The valuation of defined benefit pension obligations is dependent upon complete and accurate data about the members of the pension scheme.	With the assistance of our own pension actuarial specialists, our procedures included: · **Membership data:** Compared the data received from the third party administrator of the pension scheme to the data sent to the third party external expert who valued the pension obligation. · **Benchmarking assumptions:** Comparing the key assumptions such as discount rate, inflation rate and life expectancy against externally derived data. · **Assessing valuer's credentials:** Evaluating the Group's external valuer's competence, objectivity, capability and scope of work. · **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of the sensitivity of the defined pension obligation to these assumptions. **Our results** · We found the valuation of the pension and post-retirement obligations to be acceptable.
Deferred tax assets (**2017: £220 million**; 2016: £216 million) *Refer to page 62 (Group Audit Committee Report), page 115 (accounting policy) and pages 153 to 154 (financial disclosures).*	**Forecast-based valuation** The recoverability of the recognised deferred tax asset is dependent on the future profitability of the UK business, and RSAI plc as the taxable legal entity, in particular. There is inherent uncertainty involved in developing the operational plan upon which forecast future taxable profits are based. These forecasts determine the extent to which deferred tax assets are or are not recognised.	Our procedures included: · **Control design and observation:** Evaluating the internal review and challenge process the Group undertakes during the development of the operational plan and by the Group Risk Function during the approval process, and the extent to which the Group considered alternative outcomes. · **Historical comparisons and our sector experience:** Comparing the expected growth rates to the Group's approved operating plan and assessing the accuracy of that forecasting process in the past. We considered whether projected margins are achievable with reference to the business's recent performance and operating plans, as well as our own industry knowledge. · **Sensitivity testing:** Sensitivity testing of taxable profits to assumptions such as the Combined Operating Ratio. · **Own tax expertise:** With the support of our own tax specialists and their knowledge of tax legislation, 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 within the group against UK business, and RSAI plc as the taxable legal entity, in particular. · **Assessing transparency:** Assessing adequacy of the Group's disclosures in respect of the assumptions supporting the deferred tax asset valuation and recognition. **Our results** · As a result of our work we found the level of deferred tax assets recognised to be acceptable.

Recoverability of Parent Company's investment in subsidiaries
(**2017: £5,765 million**, 2016: £4,970 million)

Refer to page 182 (accounting policy, Investment in Subsidiaries*) and page 184 (financial disclosures).* Amount should be the full investment balance

Subjective valuation
The Parent Company holds its investment in subsidiaries at fair value, representing 72% (2016: 65%) of the company's total assets. For the most significant subsidiary, fair value is based on market value of the Group, after adjusting for certain items. Whilst there is not a high degree of subjectivity, the estimation of some of the adjusting items is dependent on assumptions of future cash flows discounted to present value.

Our procedures included:

- **Comparing valuations:** We compared the market value of the Group, used as the base for the Company's valuation, to an independent source of market capitalisation.
- **Historical comparisons:** In respect of the adjusting items, we compared the expected cash flows to the Group's operating plan, and considered the historical accuracy of previous projections.
- **Sector experience:** With the support of our own valuation specialists, we independently recalculated the weighted average cost of capital used to discount the cash flows to determine the value of the adjusting items.

Our results

- We found the assessment of the recoverability of the Parent Company's investment in subsidiaries to be acceptable.

3) Our application of materiality and an overview of the scope of our audit

Determining Group materiality

The materiality for the Group financial statements as a whole was set at £35m (2016: £35m) determined with reference to a benchmark of net earned premiums of £6,605m (2016: £6,340m), of which it represents 0.5% (2016: 0.6%). We continue to believe that the benchmark of net earned premiums is a fair reflection of revenue from the Group's operations as it is not subject to the volatility arising from multi-year insurance contracts that net written premium would be. We have not considered profit before tax to be a suitable benchmark due to historical volatility in this metric.

Materiality for the Parent Company financial statements as a whole was set at £31.5m (2016: £35m), determined with reference to a benchmark of net assets and chosen to be lower than materiality for the Group financial statements as a whole. It represents 0.5% of the stated benchmark (2016: 0.6%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.75m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

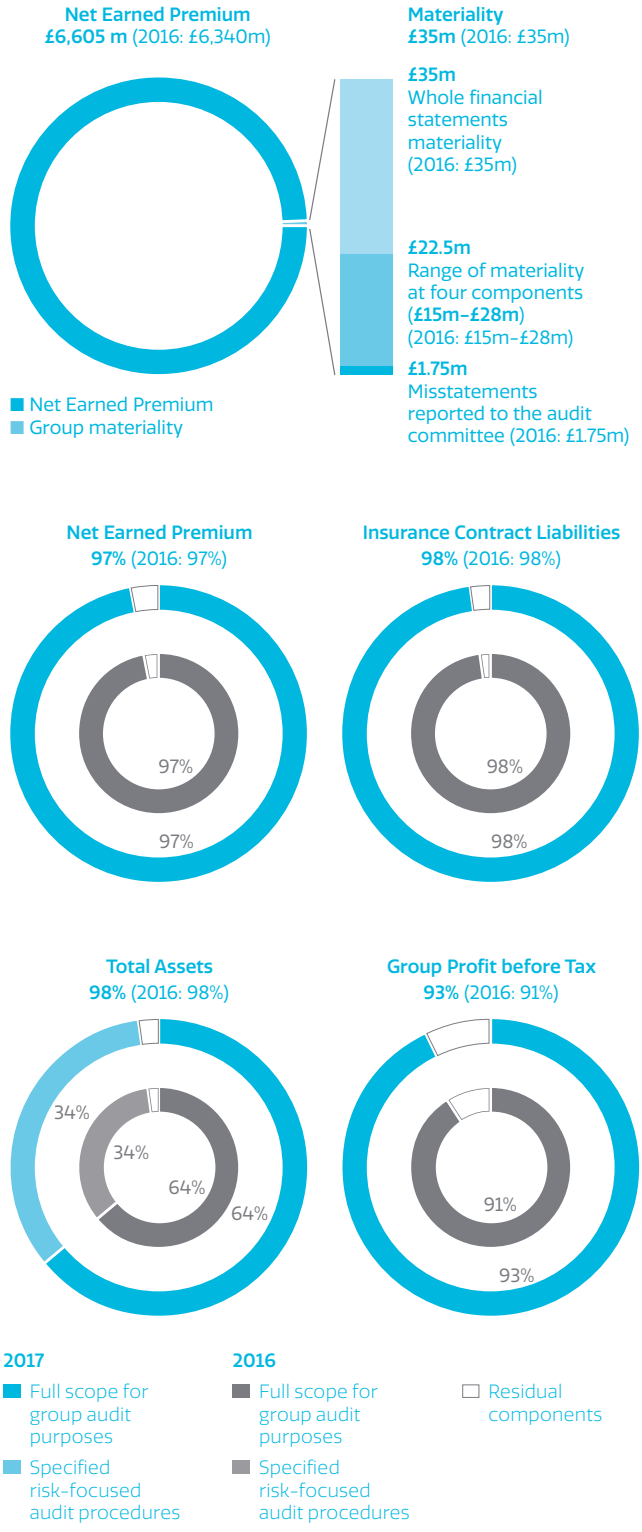
Audits for Group reporting purposes were performed by component auditors for four (2016: four) of the Group's nine (2016: nine) reporting components, being those located within the UK, Ireland, Canada and Scandinavia. The Group's central functions were not individually significant enough to require a full scope audit for group reporting purposes, but did present specific individual risks that needed to be addressed. As such, specified risk-focused procedures were performed on investments, treasury and reinsurance, which included agreeing financial information to supporting documentation. For the residual four components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The components within the scope of our work accounted for the percentages illustrated opposite. For the remaining components we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group 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 team approved the component materialities, which ranged from £15m to £28m (2016: £15m to £28m), having regard to the mix of size and risk profile of the Group across the components. All (2016: all) of the audits of reporting components were performed by the component auditors.

The Group audit team visited four (2016: five) component locations, being those in the UK, Ireland, Canada and Denmark (2016: UK, Ireland, Canada, Denmark and Sweden) to assess the audit risk and planned audit approach. Instead of a site visit, the Swedish team came and met with the Group audit team in Denmark.

Telephone conference meetings were also held with these component auditors and with others that were not physically visited, being those which are out of scope. 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 auditors' work papers. Any further work required by the Group audit team was then performed by the component auditor



4) We have nothing to report on going concern

We are required to report to you if:

- We have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- The related statement under the Listing Rules set out on page 94 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5) We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- The directors' confirmation within the Group's viability statement (page 93) that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- The principal risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- The directors' explanation in the Company's viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Company's viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6) We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

7) Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 98, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. We identified relevant areas of laws and regulations from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition, we considered the impact of laws and regulations in the specific areas of regulatory capital, conduct, and market abuse regulations, and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at group level, with a request to report on any indications of potential existence of irregularities in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8) The purpose of our audit work and to whom we owe our responsibilities

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

Stuart Crisp (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

21 February 2018

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Consolidated Income Statement for the year ended 31 December 2017

	Note	2017 £m	2016 £m
Income			
Gross written premiums		**7,599**	7,220
Less: reinsurance premiums		**(921)**	(981)
Net written premiums	8	**6,678**	6,239
Change in gross provision for unearned premiums		**(16)**	109
Less: change in provision for unearned reinsurance premiums		**(57)**	(8)
Change in provision for unearned premiums		**(73)**	101
Net earned premiums		**6,605**	6,340
Net investment return	9	**350**	347
Other operating income	11	**150**	170
Total income		**7,105**	6,857
Expenses			
Gross claims incurred		**(5,136)**	(4,826)
Less: claims recoveries from reinsurers		**786**	707
Net claims	10	**(4,350)**	(4,119)
Underwriting and policy acquisition costs		**(2,007)**	(1,977)
Unwind of discount		**(34)**	(59)
Other operating expenses, reorganisation costs and impairments	12	**(234)**	(229)
		(6,625)	(6,384)
Finance costs	13	**(102)**	(138)
Profit on disposal of business and realised gains on held for sale assets	6(iii)	**69**	–
Remeasurement of disposal groups	6(iv)	**–**	(234)
Net share of profit after tax of associates		**1**	–
Profit before tax	8	**448**	101
Income tax expense	17	**(126)**	(54)
Profit after tax from continuing operations		**322**	47
(Loss) from discontinued operations	6(i)	**–**	(27)
Profit for the year		**322**	20
Attributable to:			
Equity holders of the Parent Company		**289**	27
Non-controlling interests		**33**	(7)
		322	20
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company			
Basic			
From continuing operations	19	**26.3p**	4.4p
From discontinued operations	19	**–**	(2.6)p
		26.3p	1.8p
Diluted			
From continuing operations	19	**26.1p**	4.4p
From discontinued operations	19	**–**	(2.6)p
		26.1p	1.8p
Ordinary dividends paid and proposed for the year			
Interim dividend paid	20	**6.6p**	5.0p
Final dividend proposed	20	**13.0p**	11.0p

The attached notes on pages 111 to 178 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2017

	Note	2017 £m	2016 £m
Profit for the year		**322**	20
Items from continuing operations that may be reclassified to the income statement:			
Exchange (losses)/gains net of tax on translation of foreign operations	21	**(36)**	228
Fair value (losses)/gains on available for sale financial assets net of tax	21	**(197)**	151
		(233)	379
Items from continuing operations that will not be reclassified to the income statement:			
Pension – remeasurement of net defined benefit asset/liability net of tax	21	**44**	(316)
Movement in property revaluation surplus net of tax	21	**2**	1
		46	(315)
Other comprehensive (expense)/income for the year from continuing operations		**(187)**	64
Other comprehensive income for the year from discontinued operations	6[i]	**–**	120
Total other comprehensive (expense)/income for the year	21	**(187)**	184
Total comprehensive income for the year from continuing operations		**135**	111
Total comprehensive income for the year from discontinued operations	6[i]	**–**	93
Total comprehensive income for the year		**135**	204
Attributable to:			
Equity holders of the Parent Company			
from continuing operations		**117**	98
from discontinued operations		**–**	94
		117	192
Non-controlling interests			
from continuing operations		**18**	13
from discontinued operations		**–**	(1)
		18	12
		135	204

The attached notes on pages 111 to 178 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2017

	Ordinary share capital £m	Ordinary share premium £m	Own shares £m	Preference shares £m	Revaluation reserves £m	Capital redemption reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Share-holders' equity £m	Tier 1 notes £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2016	1,017	1,077	(1)	125	293	389	(221)	963	3,642	–	129	3,771
Total comprehensive income												
Profit for the year	–	–	–	–	–	–	–	27	27	–	(7)	20
Other comprehensive income/(expense) (note 21)	–	–	–	–	181	–	299	(315)	165	–	19	184
	–	–	–	–	181	–	299	(288)	192	–	12	204
Transactions with owners of the Group												
Contribution and distribution												
Dividends (note 20)	–	–	–	–	–	–	–	(131)	(131)	–	(3)	(134)
Shares issued for cash (note 32)	2	3	–	–	–	–	–	–	5	–	–	5
Share based payments (note 18/32)	1	–	–	–	–	–	–	15	16	–	–	16
Other reserve transfer	–	–	–	–	28	–	–	(28)	–	–	–	–
	3	3	–	–	28	–	–	(144)	(110)	–	(3)	(113)
Changes in shareholders' interests in subsidiaries	–	–	–	–	(6)	–	–	(3)	(9)	–	(6)	(15)
Total transactions with owners of the Group	3	3	–	–	22	–	–	(147)	(119)	–	(9)	(128)
Balance at 1 January 2017	1,020	1,080	(1)	125	496	389	78	528	3,715	–	132	3,847
Total comprehensive income												
Profit for the year	–	–	–	–	–	–	–	289	289	–	33	322
Other comprehensive income/(expense) (note 21)	–	–	–	–	(192)	–	(24)	44	(172)	–	(15)	(187)
	–	–	–	–	(192)	–	(24)	333	117	–	18	135
Transactions with owners of the Group												
Contribution and distribution												
Dividends (note 20)	–	–	–	–	–	–	–	(200)	(200)	–	(10)	(210)
Shares issued for cash (note 32)	1	3	–	–	–	–	–	–	4	–	–	4
Share based payments (note 18/32)	2	–	–	–	–	–	–	14	16	–	–	16
Issue of Tier 1 notes (note 33)	–	–	–	–	–	–	–	–	–	297	–	297
Other reserve transfer	–	–	–	–	(7)	–	–	7	–	–	–	–
	3	3	–	–	(7)	–	–	(179)	(180)	297	(10)	107
Changes in shareholders' interests in subsidiaries	–	–	–	–	–	–	–	1	1	–	12	13
Total transactions with owners of the Group	3	3	–	–	(7)	–	–	(178)	(179)	297	2	120
Balance at 31 December 2017	1,023	1,083	(1)	125	297	389	54	683	3,653	297	152	4,102

The attached notes on pages 111 to 178 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position as at 31 December 2017

	Note	2017 £m	2016 £m
Assets			
Goodwill and other intangible assets	22	**763**	728
Property and equipment	23	**104**	109
Investment property	24	**308**	333
Investments in associates		**13**	12
Financial assets	25	**11,643**	12,325
Total investments		**11,964**	12,670
Reinsurers' share of insurance contract liabilities	28	**2,252**	2,252
Insurance and reinsurance debtors	30	**2,923**	2,823
Deferred tax assets	29	**276**	270
Current tax assets	29	**43**	65
Other debtors and other assets	30	**559**	430
Other assets		**878**	765
Cash and cash equivalents	31	**1,048**	985
		19,932	20,332
Assets of operations classified as held for sale	6(ii)	**668**	807
Total assets		**20,600**	21,139
Equity and liabilities			
Equity			
Shareholders' equity		**3,653**	3,715
Tier 1 notes	33	**297**	–
Non-controlling interests		**152**	132
Total equity		**4,102**	3,847
Liabilities			
Loan capital	35	**441**	1,068
Insurance contract liabilities	37	**12,793**	12,676
Insurance and reinsurance liabilities	37	**934**	954
Borrowings	36	**123**	251
Deferred tax liabilities	29	**56**	54
Current tax liabilities	29	**24**	32
Provisions	39	**407**	420
Other liabilities	40	**1,052**	1,087
Provisions and other liabilities		**1,539**	1,593
		15,830	16,542
Liabilities of operations classified as held for sale	6(ii)	**668**	750
Total liabilities		**16,498**	17,292
Total equity and liabilities		**20,600**	21,139

The attached notes on pages 111 to 178 form an integral part of these consolidated financial statements.

The financial statements were approved on 21 February 2018 by the Board of Directors and are signed on its behalf by:

Scott Egan
Group Chief Financial Officer

Consolidated Statement of Cash Flows for the year ended 31 December 2017

	Note	2017 £m	Re-presented[1] 2016 £m
Cash flows from operating activities			
Cash generated from operating activities	41	**469**	71
Tax paid		**(104)**	(88)
Net cash flows from operating activities – continuing operations		**365**	(17)
Net cash flows from operating activities – discontinued operations		**–**	(18)
Cash flows from investing activities			
Proceeds from sales or maturities of:			
Financial assets		**3,030**	3,747
Investment property		**28**	28
Property and equipment		**–**	10
Sale of subsidiaries (net of cash disposed of)		**15**	–
Purchase of:			
Financial assets		**(2,406)**	(3,589)
Property and equipment		**(18)**	(25)
Intangible assets		**(131)**	(139)
Cash element of reinsurance premium on UK Legacy assets	6(ii)	**(96)**	–
Net cash flows from investing activities – continuing operations		**422**	32
Net cash flows from investing activities – discontinued operations		**–**	333
Cash flows from financing activities			
Proceeds from issue of share capital		**4**	5
Proceeds from issue of Tier 1 notes	33	**297**	–
Dividends paid to ordinary shareholders		**(180)**	(122)
Coupon payment on Tier 1 notes		**(11)**	–
Dividends paid to preference shareholders		**(9)**	(9)
Dividends paid to non-controlling interests		**(10)**	(3)
Redemption of debt instruments	35	**(636)**	(200)
Net movement in other borrowings		**(136)**	242
Interest paid		**(133)**	(150)
Net cash flows from financing activities – continuing operations		**(814)**	(237)
Net cash flows from financing activities – discontinued operations		**–**	–
Net (decrease)/increase in cash and cash equivalents		**(27)**	93
Cash and cash equivalents at the beginning of the year		**1,087**	902
Effect of changes in foreign exchange on cash and cash equivalents		**(11)**	92
Cash and cash equivalents at the end of the year	31	**1,049**	1,087

Notes:
1. A reconciliation of net profit before tax to cash flow from operating activities is now shown as a separate note.

The attached notes on pages 111 to 178 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, Middle East (together 'UK & International'), Scandinavia and Canada.

1) Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006 where applicable. The consolidated financial statements are prepared on an 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.

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.

The assets and liabilities considered as current include cash and cash equivalents, and insurance and reinsurance debtors.

The remaining balances are of a mixed nature. The current and non-current portions of such balances are in the notes on pages 111 to 178 or in the Risk and Capital Management note (note 5).

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

Accounting policies that are significant to understanding the performance, financial position and cash flows of the Group are set out in note 4 with other policies presented in Appendix A. The notes are grouped together by their nature. Estimation techniques and assumptions are 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 29) and defined benefit pension scheme liabilities (note 38).

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 2017, none of which have had a significant impact on the consolidated financial statements.

3) New accounting standards, interpretations and amendments

IFRS 17 'Insurance Contracts'

The International Accounting Standards Board (IASB) issued IFRS 17 'Insurance Contracts' in May 2017, which it is expected will replace IFRS 4 'Insurance Contracts' at the latest for annual reporting periods beginning on or after 1 January 2021. A Transitional Resource Group has been set up by the IASB to support implementation of the new standard. The European Financial Reporting Advisory Group (EFRAG) have been requested by the European Commission to provide their advice by the end of 2018 which should lead to endorsement some time in 2019. There is currently no certainty of what the endorsement process will be if this has not happened by the time the UK leaves the EU, and RSA continue to monitor this.

The Group has completed its initial impact assessment and is using these results to inform a detailed planning phase which is underway. During this phase decisions will be made on appropriate policies to adopt and the required change to finance systems and processes. The Group intends to start implementation activities in 2018 and intends to parallel run systems and reporting during 2020 to assure reporting compliance by 1 January 2021.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' has been issued to replace IAS 39 'Financial Instruments: Recognition and Measurement' and primarily changes the classification and measurement of financial assets, depending on the business model under which they are held, as well as hedge accounting requirements and recognising expected credit losses.

The Group, in line with peers, will take advantage of the exemption available to entities whose activities are predominantly insurance related to defer applying IFRS 9 'Financial Instruments' (which would otherwise be applicable for annual reporting periods beginning on or after 1 January 2018) until 1 January 2021 which will coincide with the expected implementation of IFRS 17. This will enable accounting policy choices to consider the interrelationships of IFRS 17 and 9 particularly with regards to asset and liability management. Assessment and implementation of IFRS 9 will therefore run alongside IFRS 17 activity.

IFRS 15 'Revenue Recognition'

IFRS 15 'Revenue Recognition' is effective from 1 January 2018 and does not apply to insurance and financial instrument income. The impact of IFRS 15 on the recognition of relevant revenue has been evaluated during the year with no significant changes identified.

IFRS 16 'Leases'

IFRS 16 'Leases' replaces the existing standard IAS 17 'Leases' and standardises lessee treatment of leases and becomes effective at the latest for periods beginning on or after 1 January 2019. The standard requires a lessee to recognise a right-of-use asset representing its right to use the underlying asset and a lease liability representing the corresponding obligation to make lease payments. In addition, the nature of expenses related to those leases will now change; IFRS 16 replaces the straight line operating lease expense with a depreciation charge for the right-of-use assets and interest expense on the lease liabilities,

The Group has completed an initial assessment of the potential impact of adopting the standard but has still to complete its detailed assessment or to incorporate into its financial reporting systems and processes, which will take place during 2018. The actual impact of implementing IFRS 16 on the Group's financial statements will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the group chooses to use practical expedients and recognition exemptions.

Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- Annual improvement to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28;
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2);
- Transfers of Investment Property (Amendments to IAS 40);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28);
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- IFRIC 23 Uncertainty over Income Tax Treatments.

4) 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 2017.

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 estimates where the amounts are not known at the date they are written. These are deferred as a provision for 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 agreeing and settling insurance claims on insurance contracts underwritten by the Group. Provisions for losses and loss adjustment expenses are recognised 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 financial 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. Levies payable are treated as costs of underwriting business. These costs are recognised as deferred acquisition costs (DAC) and are deducted from the provision for unearned premium. DAC is 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 cash flows associated with the provision for unearned premium net of related DAC. In performing these tests, best estimates of future contractual cash flows, including loss adjustment and administrative expenses as well as investment income on financial 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 10, and insurance contract liabilities in note 37.

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 the consolidated income statement 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 present the exposure to 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 28.

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 not FVTPL are added to their fair value in their initial measurement.

Further information can be found in notes 25, 26 and 27.

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	Acquired or incurred principally for the purpose of selling or repurchasing in the near term	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 cash flows 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

Category	Financial instrument	Description	Subsequent Measurement	Recognition of change in fair value
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, and loans made for investment purposes	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	Income statement – net investment gains/ (losses) when settled
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 cash flows 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 cash flows – effective portion is initially recognised in OCI; subsequently recognised in the income statement when the hedged cash flows affect profit or loss Hedge of a net investment in a foreign operation – 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 AFS, 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 9.

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 cash flows 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 cash flows 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 9.

Current and deferred tax

Current and deferred tax are 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. Any exceptions permitted under IAS12 are disclosed in the notes.

Current 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 settlement: these are changes to the obligations already established for past service costs that have arisen from an amendment to the terms of the scheme 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.

Goodwill

Goodwill is the difference between the cost of a business acquisition and 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 generally between one and five years and are estimated considering relevant metrics such as customer retention rates, contract length, and forecast period to technological obsolescence. 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 22.

Impairment of goodwill, other intangible assets and internally developed computer software

Goodwill and intangible assets not yet available to use are 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 are 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 22.

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 other 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) 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, subject to extension in certain circumstances, including where disposals have been committed to subject to regulatory and legal approval.

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 6(ii).

Discontinued operations and business disposal

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 6(i).

In the period in which an operation is first classified as discontinued, the consolidated income statement, statement of other comprehensive income, statement of cash flows, earnings per share and diluted earnings per share for the comparative prior period is re-presented to present those operations as discontinued.

In circumstances where the Group is entering into an arrangement to make a legal transfer of a significant book of business, which includes an interim economic transfer of risk to the intended acquirer prior to obtaining court approval for the transfer, the accounting gain or loss arising from the reinsurance is considered as being incremental to the disposal and is consequently presented as a gain or loss arising from the disposal of the business.

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 7.

5) Risk and Capital Management

Insurance risk

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

A) Underwriting risk

B) Reserving risk

A) Underwriting risk

Underwriting risk refers to the risk that claims arising are higher (or lower) than assumed in pricing due to bad experience including catastrophes, weakness in controls over underwriting or portfolio management, or claims management issues.

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 minimises the volatility of its 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 adverse claims development.

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.

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 Board determines a maximum and 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 aim to prevent the Group suffering 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.

B) Reserving risk

Reserving risk refers to the risk that the Group's estimates of future claims payments 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.

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. This 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. 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 primary 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 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 2017, 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; 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 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 for fixed income investments and premium receivables 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.

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 2017 the extent of collateral held by the Group against reinsurers' share of insurance contract liabilities was **£585m** (2016: £159m), which in the event of a default would be called and recognised on the balance sheet. The increase reflects the UK Legacy reinsurance arrangement announced on 7 February 2017 which is fully collateralised.

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 Berkshire Hathaway, Lloyd's of London and Talanx. At 31 December 2017 the reinsurance asset recoverable from these groups does not exceed **3.9%** (2016: 2.4%) 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 **6.4%** (2016: 6.1%) 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 2017

	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	5,358	2,170	2,305	655	171	1	10,660	–	10,660
Loans and receivables	81	–	5	104	4	25	219	–	219
Reinsurers' share of insurance contract liabilities[1]	–	617	1,574	605	45	41	2,882	636	2,246
Insurance and reinsurance debtors[2]	75	32	971	74	53	1,622	2,827	16	2,811
Derivative assets	–	6	16	38	–	10	70	–	70
Other debtors	–	–	–	–	–	189	189	11	178
Cash and cash equivalents	317	315	378	14	8	21	1,053	5	1,048

Notes:
1. The increase in BBB reinsurers' share of insurance contract liabilities reflects the UK Legacy reinsurance arrangement announced in 2017 which is fully collateralised.
2. 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 2016

	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	5,216	3,327	2,733	875	108	62	12,321	776	11,545
Loans and receivables	67	–	1	–	4	16	88	–	88
Reinsurers' share of insurance contract liabilities	–	605	1,577	90	20	51	2,343	96	2,247
Insurance and reinsurance debtors	129	30	834	96	103	1,518	2,710	15	2,695
Derivative assets	–	2	8	37	–	9	56	–	56
Other debtors	–	–	–	–	–	127	127	1	126
Cash and cash equivalents	402	202	442	27	–	16	1,089	104	985

With the exception of government debt securities, the largest single aggregate credit exposure does not exceed **3%** (2016: 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 2017, excluding those assets that have been classified as held for sale.

As at 31 December 2017

		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/ (reversed) to the income statement £m
Debt securities	10,660	–	–	–	–	–	10,660	–
Loans and receivables	219	–	–	–	–	–	219	(4)
Reinsurers' share of insurance contract liabilities	2,246	–	–	–	–	6	2,252	–
Insurance and reinsurance debtors	2,811	51	22	24	13	2	2,923	4
Derivative assets	70	–	–	–	–	–	70	–
Other debtors	178	11	1	–	1	–	191	–
Cash and cash equivalents	1,048	–	–	–	–	–	1,048	–

As at 31 December 2016

		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/ (reversed) to the income statement £m
Debt securities	11,545	–	–	–	–	–	11,545	–
Loans and receivables	88	–	–	–	–	–	88	(10)
Reinsurers' share of insurance contract liabilities	2,247	–	–	–	–	5	2,252	–
Insurance and reinsurance debtors	2,695	79	22	17	7	3	2,823	1
Derivative assets	56	–	–	–	–	–	56	–
Other debtors	126	–	–	–	3	–	129	–
Cash and cash equivalents	985	–	–	–	–	–	985	–

Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations of equity and property prices, interest rates and foreign currency exchange rates. Market risk arises in our operations due to the possibility that fluctuations in the value of liabilities are not offset by fluctuations 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. Equity and property risk

The Group classifies its investment portfolio in debt securities and equity securities in accordance with the accounting definitions under IFRS.

At 31 December 2017 the Group held investments classified as equity securities of **£764m** (2016: £692m). These include interests in structured entities (as disclosed in note 27) and other investments where the price risk arises from interest rate risk rather than from equity market price risk. The Group considers that within equity securities, investments with a fair value of **£242m** (2016: £170m) may be more affected by equity index market price risk than by interest rate risk. On this basis a 15% fall in the value of equity index prices would result in the recognition of losses of **£36m** (2016: £26m) in other comprehensive income.

In addition the Group holds investments in properties and in group occupied properties which are subject to property price risk. A decrease of 15% in property prices would result in the recognition of losses of **£46m** (2016: £50m) in the income statement and **£5m** (2016: £5m) in other comprehensive income.

This analysis assumes that there is no correlation between 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).

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 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 the Group's investments as at 31 December 2017, the table below illustrates the impact to the income statement and other comprehensive income of a hypothetical 100bps change in interest rates on fixed income securities and cash that are subject to interest rate risk.

Changes in the income statement and other comprehensive income (OCI):

	Increase in income statement		Decrease in other comprehensive income	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Increase in interest rate markets:				
Impact on fixed income securities and cash of an increase in interest rates of 100bps	**18**	20	**(412)**	(452)

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

The sensitivity of the fixed interest securities of the Group has been modelled by reference to a reasonable approximation of the average interest rate sensitivity of the investments held within each of the portfolios. The effect of movement in interest rates is reflected as a one time rise of 100bps on 1 January 2018 and 1 January 2017 on the following year's income statement and other comprehensive income. The impact of an increase in interest rates on the fair value of fixed income securities that would be initially recognised in OCI will reduce over time as the maturity date approaches.

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 2017, the Group's total shareholders' equity deployed by currency was:

	Pounds Sterling £m	Danish Krone/ Euro £m	Canadian Dollar £m	Swedish Krona £m	Other £m	Total £m
Shareholders' equity at 31 December 2017	**2,607**	**414**	**506**	**201**	**222**	**3,950**
Shareholders' equity at 31 December 2016	2,516	284	477	236	202	3,715

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 2017	**(38)**	**46**	**(46)**	**56**	**(18)**	**22**
Movement in Shareholders' equity at 31 December 2016	(25)	31	(43)	53	(21)	26

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 are 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.

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

As at 31 December 2017

	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	–	–	–	–	–	–	7	7	6
Guaranteed subordinated notes due 2045	–	–	–	–	–	400	–	400	396
Guaranteed subordinated step-up notes due 2039	–	39	–	–	–	–	–	39	39
Provisions for losses and loss adjustment expenses	3,913	1,645	1,110	799	584	1,379	1,872	11,302	9,477
Direct insurance creditors	111	2	–	–	–	–	–	113	113
Reinsurance creditors	506	239	76	–	–	–	–	821	821
Borrowings	123	–	–	–	–	–	–	123	123
Deposits received from reinsurers	35	–	–	–	–	–	–	35	35
Derivative liabilities	7	27	–	11	–	5	38	88	88
Total	4,695	1,952	1,186	810	584	1,784	1,917	12,928	11,098
Interest on perpetual bonds and notes	25	23	21	21	21	60	1	172	

As at 31 December 2016

	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	–	–	–	–	–	–	7	7	6
Perpetual guaranteed subordinated capital securities	375	–	–	–	–	–	–	375	369
Guaranteed subordinated notes due 2045	–	–	–	–	–	400	–	400	395
Guaranteed subordinated step-up notes due 2039	–	–	300	–	–	–	–	300	298
Provisions for losses and loss adjustment expenses	3,583	1,728	1,150	805	556	1,300	1,887	11,009	9,365
Direct insurance creditors	108	–	–	–	–	–	–	108	108
Reinsurance creditors	559	201	86	–	–	–	–	846	846
Borrowings	251	–	–	–	–	–	–	251	251
Deposits received from reinsurers	67	–	–	–	–	–	–	67	67
Derivative liabilities	28	1	49	–	19	35	35	167	167
Total	4,971	1,930	1,585	805	575	1,735	1,929	13,530	11,872
Interest on perpetual bonds and notes	63	49	32	21	21	81	2	269	

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.

Pension risk

The Group is exposed to risks through its obligation to fund a number of 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 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. Further information on the Groups management of pension risk is included within note 38.

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, Tier 1 notes 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 2017

The Group's Solvency II Internal Model was approved by the PRA in December 2015 and forms the basis of the primary Solvency II solvency capital ratio (SCR) measure.

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 and hedging strategy, its reinsurance programme and to determine the pricing and target returns for each portfolio.

At 31 December 2017, the estimated SCR and corresponding eligible own funds were as follows:

	Unaudited 2017 £bn	2016 £bn
Eligible own funds	**2.9**	2.9
SCR	**1.8**	1.8
Coverage (unrounded)	**163%**	158%

The impact on the Solvency II coverage ratio of a range of sensitivities is set out below:

	Unaudited 2017 Including pensions	Unaudited 2017 Excluding pensions
Solvency II Sensitivities (change in coverage ratio):		
Interest rates: +1% non-parallel[1] shift	**11%**	**6%**
Interest rates: -1% non-parallel[1] shift	**-10%**	**-7%**
Equities: -15%	**-8%**	**-2%**
Property: -10%	**-3%**	**-2%**
Foreign exchange: GBP +10% vs all currencies	**-3%**	**-4%**
Cat loss of £75m net	**-4%**	**-4%**
Credit spreads: +0.25%[2] parallel shift	**4%**	**-2%**
Credit spreads: -0.25% parallel shift	**-14%**	**3%**

Notes:
1. Interest rate sensitivities use a non-parallel shift to reflect that the long end of the yield curve is typically more stable than the short end.
2. The IAS 19 surplus cap will dampen upside credit spread sensitivities, so these should not be extrapolated.

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

Movement in tangible net asset value (TNAV)

TNAV is one of many capital metrics used by the Group and is based on IFRS net assets excluding the value of goodwill and intangible assets.

	2017 £m	2016 £m
As at 1 January 2017	**2,862**	2,838
Profit after tax[1]	**385**	115
Exchange (losses)/gains net of tax	**(22)**	229
Fair value (losses)/gains net of tax	**(194)**	159
Pension fund gains/(losses) net of tax	**44**	(316)
Dividends[2]	**(200)**	(131)
Goodwill and intangible additions	**(131)**	(43)
Other	**21**	11
As at 31 December 2017	**2,765**	2,862

Notes:
1. Profit after tax excludes amortisation and impairment of intangible assets.
2. Dividends includes £9m (2016: £9m) paid in relation to preference shares and £11m (2016: £nil) coupon payment on the Group's Tier 1 notes.

Own risk and solvency assessment (ORSA)

The Solvency II directive introduced a requirement for undertakings to conduct an 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 or to which it is exposed;
- The level of capital required to support those risks;
- The actions it will take to achieve and maintain the desired levels of risk and capital.

The assessment considers both the current position and the positions that may arise during the planning horizon of the Group (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.

The ORSA is approved by the BRC.

Significant Transactions and Events

6(i) Discontinued operations and disposals

The Group classified the following operations as discontinued because they have been sold and represent a separate geographical area of operation.

Operation	Date of disposal	Acquirer
Russia	29 January 2016	Joint Stock Insurance Company Blagostoyanie
Brazil	29 February 2016	Suramericana S.A.
Colombia	31 March 2016	Suramericana S.A.
Chile	30 April 2016	Suramericana S.A.
Argentina	30 April 2016	Suramericana S.A.
Mexico	31 May 2016	Suramericana S.A.
Uruguay	30 June 2016	Suramericana S.A.

The revenue, expenses and related income tax expense in 2016 relating to these discontinued operations is set out below.

The total loss on the sale of discontinued operations disposed of during 2016 after tax was £29m.

Discontinued Income Statement
for the year ended 31 December 2017

	Note	2017 £m	2016 £m
Income			
Gross written premiums		–	256
Less: reinsurance premiums		–	(87)
Net written premiums	8	–	169
Change in gross provision for unearned premiums		–	38
Less: change in provision for unearned reinsurance premiums		–	(19)
Change in provision for unearned premiums		–	19
Net earned premiums		–	188
Net investment return	9	–	16
Total income		–	204
Expenses			
Gross claims incurred		–	(304)
Less: claims recoveries from reinsurers		–	208
Net claims	10	–	(96)
Underwriting and policy acquisition costs		–	(89)
Unwind of discount		–	(5)
Other operating expenses	12	–	(7)
		–	(197)
(Loss) on disposal		–	(29)
(Loss) before tax		–	(22)
Income tax expense	17	–	(5)
(Loss) after tax		–	(27)

Discontinued Statement of Comprehensive Income
for the year ended 31 December 2017

	2017 £m	2016 £m
(Loss) for the year from discontinued operations	–	(27)
Items from discontinuing operations that may be reclassified to the income statement:		
Exchange losses recycled on disposal of discontinued operations net of tax	–	111
Exchange gains net of tax	–	3
	–	114
Fair value gains recycled on disposal of discontinued operations net of tax	–	1
Fair value gains on available for sale financial assets net of tax	–	3
	–	4
Items from discontinuing operations that will not be reclassified to the income statement:		
Movement in property revaluation, net of tax	–	2
Other comprehensive income for the year from discontinued operations	–	120
Total comprehensive income for the year from discontinued operations	–	93

Discontinued operations disposed of during the year
There were no discontinued operations disposed of during 2017.

As at 31 December 2016

	Latin America £m	Russia £m	Total £m
Consideration received	434	5	439
Transaction costs	(20)	(1)	(21)
Net proceeds from sales	414	4	418
Carrying value of net assets disposed of	(321)	(3)	(324)
Gains on sale before recycling of items from other comprehensive income	93	1	94
Reclassification of items from other comprehensive income on disposals:			
Foreign currency translation reserve	(99)	(11)	(110)
Unrealised gains on available for sale investments	(1)	–	(1)
Losses on disposal of discontinued operations before tax on disposal	(7)	(10)	(17)
Tax on disposal	(12)	–	(12)
Losses on disposal of discontinued operations after tax	(19)	(10)	(29)

6(ii) 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.

UK Legacy	2016 £m	Reinsurance and other movements £m	2017 £m
Assets classified as held for sale:			
Investments	689	(689)	–
Reinsurers' share of insurance contract liabilities	90	546	636
Insurance and reinsurance debtors	–	16	16
Other debtors and other assets	9	2	11
Cash and cash equivalents	101	(96)	5
Total assets of disposal groups	889	(221)	668
Remeasurement of disposal groups to fair value less costs to sell	(204)	204	–
Assets of operations classified as held for sale	685	(17)	668
Liabilities directly associated with assets classified as held for sale:			
Insurance contract liabilities	685	(49)	636
Insurance and reinsurance liabilities	–	2	2
Provisions and other liabilities	–	30	30
Liabilities of operations classified as held for sale	685	(17)	668
Net assets of operations classified as held for sale	–	–	–

The value of insurance contract liabilities £595m (net of reinsurance £90m) as at 31 December 2016 was £834m on an undiscounted basis (excludes claims handling provision and margin).

As at 31 December 2016

	UK Legacy £m	Oman[1] £m	UK Other £m	Total £m
Assets classified as held for sale:				
Property and equipment	–	–	4	4
Investments	689	87	–	776
Reinsurers' share of insurance contract liabilities	90	6	–	96
Insurance and reinsurance debtors	–	15	–	15
Other debtors and other assets	9	6	1	16
Cash and cash equivalents	101	3	–	104
Total assets of disposal groups	889	117	5	1,011
Remeasurement of disposal groups to fair value less costs to sell	(204)	–	–	(204)
Assets of operations classified as held for sale	685	117	5	807
Liabilities directly associated with assets classified as held for sale:				
Insurance contract liabilities	685	50	–	735
Insurance and reinsurance liabilities	–	5	–	5
Provisions and other liabilities	–	10	–	10
Liabilities of operations classified as held for sale	685	65	–	750
Net assets of operations classified as held for sale	–	52	5	57

Notes:
1. At 31 December 2016 it was probable that the Group would lose control over its Oman business as a result of a government required public offering of 40% of the group holding. In 2017, the actual required sale was only 25% meaning control was maintained and as a result it is no longer held for sale.

6(iii) Profit on disposal of business and realised gains on held for sale assets

The net gain of £69m includes £66m relating to the realised gain on the investments transferred as part of the UK Legacy reinsurance transaction, offset by a charge of £22m on the commutation of the Group's Adverse Development Cover reinsurance protection bought partly to protect the UK Legacy book.

The reversal of part of the valuation adjustment on the Group's Oman business has resulted in a gain of £17m and the Group recognised a gain of £7m on the disposal of the Accident and Repairs business in the UK.

6(iv) Remeasurment of disposal groups

In 2016, the assets and liabilities of the Oman and UK Legacy business were classified as held for sale. Upon classification as held for sale, the net assets were measured at the lower of carrying amount and fair value less costs to sell. This valuation adjustment resulted in a £234m loss which was recognised in the continuing income statement.

7) Reorganisation costs

In 2017, the reorganisation costs of **£155m** (notes 8, 12 and 39) are directly associated with continuing operations (2016: £160m). The amounts are directly attributable to redundancy **£68m** (2016: £49m) and other restructuring activity of **£87m** (2016: £111m). Restructuring costs in 2017 relate to amounts incurred across the Group for activities such as process re-engineering, office footprint consolidation and reduction, reducing spans of control, and outsourcing.

Notes to the Income Statement, Other Comprehensive Income and Distributions

8) Segmental information

Group excluding disposals

The Group's primary operating segments comprise Scandinavia, Canada, UK & International and Central Functions which is consistent with how the Group is managed. The primary operating segments are based on geography and are all engaged in providing personal and commercial general insurance services. Central Functions include the Group's internal reinsurance function and Group Corporate Centre.

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.

Disposals

Disposals are categorised between disposals of continuing operations and discontinued operations:

Disposals of continuing operations

On 7 February 2017, the Group's UK Legacy liabilities were disposed of to Enstar Group Limited. The transaction initially takes the form of a reinsurance agreement, effective from 31 December 2016, which substantially effects economic transfer, to be followed by completion of a subsequent legal transfer of the business. The Group's UK Legacy business is managed as part of the UK operations. It is not presented as a discontinued operation as it is neither a separate geographical area nor a major line of business.

Discontinued operations

During 2015, the Group classified the Latin American and Russian operations as discontinued as they were held for sale at 31 December 2015 and represented a separate geographical area of operation. The sale of these operations completed in the first six months of 2016 and they were therefore classified as discontinued at 31 December 2016 (see note 6(i) for further details).

During 2017, no further operations have been classified as discontinued and as such, the 2016 comparatives do not require re-presentation.

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 Alternative Performance Measures (APMs), 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 2017

	Scandinavia £m	Canada £m	UK & International £m	Central Functions £m	Total Group £m
Net written premiums	1,833	1,619	3,199	27	6,678
Underwriting result	315	98	(82)	63	394
Investment result	74	61	149	–	284
Central costs and other activities	–	–	–	(15)	(15)
Operating result (management basis)	389	159	67	48	663
Realised gains					19
Unrealised losses, impairments and foreign exchange					(1)
Interest costs					(102)
Amortisation of intangible assets					(15)
Pension net interest and administration costs					(7)
Reorganisation costs					(155)
Impairment of intangible assets and similar charges					(23)
Profit on disposal of business and realised gains on held for sale assets					69
Profit before tax					448
Tax on operations					(126)
Profit after tax					322
Combined operating ratio (%)	82.9%	93.9%	102.6%		94.0%

Year ended 31 December 2016

	Scandinavia £m	Canada £m	UK & International £m	Central Functions £m	Group excluding disposals £m	Disposals of continuing operations £m	Continuing operations per income statement £m	Discontinued operations (note 6) £m	Total Group £m
Net written premiums	1,721	1,443	3,081	36	6,281	(42)	6,239	169	6,408
Underwriting result	239	74	88	(9)	392	(16)	376	4	380
Investment result	72	66	149	–	287	2	289	9	298
Central costs and other activities	–	–	–	(23)	(23)	–	(23)	–	(23)
Operating result (management basis)	311	140	237	(32)	656	(14)	642	13	655
Realised gains							28	2	30
Unrealised losses, impairments and foreign exchange							(4)	–	(4)
Interest costs							(138)	–	(138)
Amortisation of intangible assets							(16)	–	(16)
Pension net interest and administration costs							(4)	–	(4)
Solvency II costs							(7)	–	(7)
Reorganisation costs							(160)	(8)	(168)
Economic assumption changes							(6)	–	(6)
Remeasurement of disposal groups							(234)	(17)	(251)
Profit/(loss) before tax							101	(10)	91
Tax on continuing operations							(54)	(5)	(59)
Tax on disposals of discontinued operations							–	(12)	(12)
Profit/(loss) after tax							47	(27)	20
Combined operating ratio (%)	86.2%	94.9%	97.2%		93.8%				94.2%

9) Net investment return

A summary of the net investment return in the income statement is given below:

	Investment income		Net realised gains/ (losses)		Net unrealised gains/ (losses)		Impairments		Total investment return	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Investment property	**21**	23	**–**	–	**1**	(4)	**–**	–	**22**	19
Equity securities										
Available for sale	**32**	24	**5**	12	**–**	–	**–**	(2)	**37**	34
At FVTPL	**–**	4	**–**	2	**–**	–	**–**	–	**–**	6
Debt securities										
Available for sale	**262**	289	**19**	14	**–**	–	**–**	–	**281**	303
At FVTPL	**–**	–	**–**	–	**(1)**	(9)	**–**	–	**(1)**	(9)
Other loans and receivables										
Loans secured by mortgages	**2**	2	**–**	–	**–**	–	**–**	–	**2**	2
Other loans	**3**	–	**(1)**	–	**–**	–	**4**	10	**6**	10
Short term investments	**1**	1	**–**	–	**–**	–	**–**	–	**1**	1
Deposits, cash and cash equivalents	**5**	7	**–**	–	**–**	–	**–**	–	**5**	7
Derivatives	**5**	5	**(4)**	–	**(4)**	(31)	**–**	–	**(3)**	(26)
Continuing operations	**331**	355	**19**	28	**(4)**	(44)	**4**	8	**350**	347
Discontinued operations	**–**	14	**–**	2	**–**	–	**–**	–	**–**	16
Total net investment return	**331**	369	**19**	30	**(4)**	(44)	**4**	8	**350**	363

Direct operating expenses (including repairs and maintenance) arising from investment properties were not material in 2017 or 2016.

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[1]		Impairments transferred to income statement		Net movement recognised in other comprehensive income	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Equity securities	**25**	21	**(6)**	(13)	**–**	2	**19**	10
Debt securities	**(126)**	169	**(101)**	(11)	**–**	–	**(227)**	158
Other	**4**	10	**2**	–	**(4)**	(10)	**2**	–
Total continuing operations	**(97)**	200	**(105)**	(24)	**(4)**	(8)	**(206)**	168
Discontinued operations	**–**	5	**–**	(1)	**–**	–	**–**	4
Total	**(97)**	205	**(105)**	(25)	**(4)**	(8)	**(206)**	172

Note:
1. Net realised gains transferred to the income statement in 2017 of £105m includes £81m gains on disposal of the UK Legacy business.

10) Net claims

	2017 £m	2016 £m
Gross claims paid	**5,094**	4,840
Gross changes in provision for losses and loss adjustment expenses	**42**	(14)
Reinsurance recoveries on claims paid	**(712)**	(353)
Reinsurers' share of changes in provision for losses and loss adjustment expenses	**(74)**	(354)
Continuing operations	**4,350**	4,119
Discontinued operations	**–**	96
Total net claims	**4,350**	4,215

11) Other operating income

	2017 £m	2016 £m
Administration fees income	29	26
Instalment policy fee income	50	48
Introductory commissions	12	12
Service income	11	11
Other fees	48	41
Foreign exchange gain	–	32
Total other operating income	150	170

12) Other operating expenses, reorganisation costs and impairments

	2017 £m	2016 £m
Administration and other expenses	20	30
Investment expenses and charges	13	12
Amortisation of intangible assets	15	16
Pension administration expenses	7	4
Solvency II costs	–	7
Reorganisation costs (see note 7)	155	160
Impairment of intangible assets and similar charges[1]	23	–
Foreign exchange loss	1	–
Continuing operations	234	229
Discontinued operations	–	7
Total other operating expenses, reorganisation costs and impairments	234	236

Note:
1. Impairment of intangible assets and similar charges includes a £20m impairment charge on internally generated software and a £3m charge for related deferred acquisition costs.

13) Finance costs

	2017 £m	2016 £m
Interest expense on loan capital	42	97
Premium on debt buy back[1,2]	59	39
Other loan interest	1	2
Total finance costs	102	138

Notes:
1. On 7 July 2016, the Group bought back £200m of its holding of 9.375% Lower Tier 2 guaranteed subordinated step-up notes on which a premium was paid of £39m for early redemption.
2. In 2017 the Group bought back loan capital of £608m on which total premiums of £59m were paid for early redemption.

14) Employee expenses

Staff costs for all employees comprise:

	2017 £m	2016 £m
Wages and salaries	595	621
Social security costs	89	85
Pension costs	82	82
Share based payments to directors and employees	16	16
Total staff costs	782	804
Staff costs relating to continuing operations	782	780
Staff costs relating to discontinued operations	–	24

The average number of employees during the year are as follows:

	2017 Number	2016 Number
Scandinavia	**3,228**	3,214
Canada	**3,112**	3,318
UK & International	**7,023**	7,142
Average number of employees during the year relating to continuing operations	**13,363**	13,674
Average number of employees during the year relating to discontinued operations	**–**	754
Total average number of employees during the year	**13,363**	14,428

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 18.

15) Related party transactions

The following transactions were carried out with key management:

	2017 £m	2016 £m
Salaries and other short term employee benefits	**7**	7
Bonus awards	**3**	5
Pension benefits	**–**	1
Share based awards	**5**	4
Total	**15**	17

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 **£4,625,000** (2016: £5,239,000) 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 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.

16) Auditor's remuneration

	2017 £m	2016 £m
Fees payable to the auditor for audit of the Company's annual accounts	**0.8**	0.7
Fees payable to the auditor and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	**3.9**	3.9
Non-audit services:		
Audit related assurance services	**1.3**	1.7
Other services	**0.1**	0.1
	6.1	6.4

Included in the 'Audit related assurance services' for 2017 is **£0.9m** (2016: £1.4m) of assurance work in respect of Solvency II reporting, The remainder of **£0.4m** (2016: £0.3m), together with 'Other services' of **£0.1m** (2016: £0.1m), is ancillary non-audit work representing in aggregate **11%** (2016: 9%) of the Group IFRS audit fee of **£4.7m** (2016: £4.6m).

17) Income tax

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

	2017 £m	2016 £m
Current tax	136	90
Deferred tax	(10)	(36)
Total taxation attributable to continuing operations	126	54
Tax on disposal of discontinued operations	–	12
Tax on profits of discontinued operations	–	5
Taxation attributable to the Group	126	71

Reconciliation of the income tax expense

	2017 £m	2016 £m
Profit before tax	448	101
Tax at the UK rate of **19.2%** (2016: 20.0%)	86	20
Tax effect of:		
Income/gains not taxable	(8)	(3)
Expenses not deductible for tax purposes	6	7
Impairment and amortisation of goodwill	(2)	6
Movement in deferred tax assets not recognised	4	(17)
Increase of tax provided in respect of prior periods	–	2
Different tax rates of subsidiaries operating in other jurisdictions	11	17
Withholding tax on dividends from subsidiaries	29	5
Effect of change in tax rates	2	16
Deductible Restricted Tier 1 coupon on equity	(2)	–
Other	–	1
Total income tax expense attributable to continuing operations	126	54
Total income tax expense attributable to discontinued operations	–	17
Income tax expense	126	71

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

	Current Tax		Deferred Tax		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Fair value gains and losses	20	5	(18)	(24)	2	(19)
Remeasurement of net defined benefit pension liability	–	–	15	64	15	64
Total credited/(charged) to other comprehensive income	20	5	(3)	40	17	45

Foreign exchange arising on the revaluation of current and deferred tax balances is reported through other comprehensive income within the foreign currency translation reserve.

The net current tax and deferred tax charged directly to equity is **£nil** (2016: £nil).

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.

	2017		2016	
	Current Tax	**Deferred Tax**	Current Tax	Deferred Tax
UK	**19.2%**	**17.0%**	20.0 %	17.0 %
Canada	**27.2%**	**27.2%**	27.5 %	27.5 %
Denmark	**22.0%**	**22.0%**	22.0 %	22.0 %
Ireland	**12.5%**	**12.5%**	12.5 %	12.5 %
Sweden	**22.0%**	**22.0%**	22.0 %	22.0 %

18) Share based payments

The total amount included within staff costs in the consolidated income statement in respect of all share scheme plans in 2017 is **£16m** (2016: £16m).

Analysis of share scheme costs:

	2017 £m	2016 £m
Performance share plan (PSP)	**15**	14
Save as you earn (SAYE)	**1**	1
Sharebuild	**–**	1
Total	**16**	16

Analysis of new award costs:

	2017		2016	
	Charge for year £m	**Total value granted £m**	Charge for year £m	Total value granted £m
PSP	**7**	**13**	6	15
SAYE	**–**	**2**	–	1
Total	**7**	**15**	6	16

The balance of the value of the awards will be charged to the consolidated income statement during the remaining vesting periods.

Performance Share Plan

This plan is the Group's current Long-Term Incentive Plan. Awards of performance shares to executive directors and other selected executives and senior managers are subject to performance conditions. These consist of the Group's underlying return on tangible equity; relative total shareholder return; and business scorecard / business review scorecard targets over a three year performance period. Typically 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 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 the date of leaving the Group. Deferred Bonus Shares awards are generally retained by the employee to whom the award 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.

Further information can be found in the Directors' Remuneration Report within the Corporate Governance section.

19) Earnings per share (EPS)

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 **1,021,417,775** for basic EPS and **1,028,498,695** 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 2017 was **1,022,677,174** (excluding those held in ESOP and SIP trusts).

Basic EPS

	2017		2016	
	Continuing	**Discontinued**	Continuing	Discontinued
Profit/(loss) attributable to the shareholders of the Parent Company (£m)	**289**	**–**	54	(27)
Less: cumulative preference dividends (£m)	**(9)**	**–**	(9)	–
Less: Tier 1 notes coupon payment (£m)	**(11)**	**–**	–	–
Profit/(loss) for the calculation of earnings per share	**269**	**–**	45	(27)
Weighted average number of ordinary shares in issue (thousands)	**1,021,418**	**–**	1,018,174	1,018,174
Basic earnings/(loss) per share (p)	**26.3**	**–**	4.4	(2.6)

Diluted EPS

	2017 £m	2016 £m
Weighted average number of ordinary shares in issue (thousands)	**1,021,418**	1,018,174
Adjustments for share options and contingently issuable shares (thousands)	**7,081**	6,275
Total weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,028,499**	1,024,449
Diluted earnings per share (p) relating to continuing operations	**26.1**	4.4
Diluted loss per share (p) relating to discontinued operations	**–**	(2.6)

Note 32 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.

20) Dividends paid and proposed

The final dividend to equity holders is recognised as a liability when approved at the Annual General Meeting (AGM). 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 limit the ability to meet obligations or pay dividends. At the AGM on 5 May 2018, a final dividend in respect of the year ended 31 December 2017 of **13.0p** per ordinary share amounting to a total dividend of **£133m** 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 2018.

	2017 p	2016 p	**2017 £m**	2016 £m
Ordinary dividend:				
Final paid in respect of prior year	**11.0**	7.0	**112**	71
Interim paid in respect of current year	**6.6**	5.0	**68**	51
	17.6	12.0	**180**	122
Preference dividend			**9**	9
Tier 1 notes coupon payment			**11**	–
			200	131

The Tier 1 notes coupon payment relates to the two floating rate notes issued on 27 March 2017 (note 33).

21) Total other comprehensive income

Year ended 31 December 2017

	Investment valuation reserve £m	Group occupied property reserve £m	Hedging instrument reserve £m	Total revaluation reserves £m	Foreign currency translation reserve £m	Retained earnings £m	Shareholders' equity £m	Non-controlling interests £m	Total equity £m
Exchange gains/(losses) net of tax	2	–	–	2	(24)	–	(22)	(14)	(36)
Fair value (losses)/gains net of tax	(201)	–	5	(196)	–	–	(196)	(1)	(197)
Pension – remeasurement of net defined benefit liability net of tax	–	–	–	–	–	44	44	–	44
Movement in property revaluation net of tax	–	2	–	2	–	–	2	–	2
Total other comprehensive (expense)/income for the year	(199)	2	5	(192)	(24)	44	(172)	(15)	(187)

Year ended 31 December 2016

	Investment valuation reserve £m	Group occupied property reserve £m	Hedging instrument reserve £m	Total revaluation reserves £m	Foreign currency translation reserve £m	Retained earnings £m	Shareholders' equity £m	Non-controlling interests £m	Total equity £m
Exchange gains net of tax	24	–	–	24	299	–	323	19	342
Fair value gains net of tax	154	–	–	154	–	1	155	–	155
Pension – remeasurement of net defined benefit liability net of tax	–	–	–	–	–	(316)	(316)	–	(316)
Movement in property revaluation net of tax	–	3	–	3	–	–	3	–	3
Total other comprehensive income/ (expense) for the year	178	3	–	181	299	(315)	165	19	184

Notes to the Statement of Financial Position

22) Goodwill and intangible assets

	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 2017	440	128	82	753	259	1,662
Additions	–	–	–	131	–	131
Disposals	–	–	–	(28)	–	(28)
Exchange adjustment	1	4	–	3	(3)	5
At 31 December 2017	441	132	82	859	256	1,770
Accumulated amortisation						
At 1 January 2017	–	128	68	418	172	786
Amortisation charge	–	–	9	66	19	94
Amortisation on disposals	–	–	–	(28)	–	(28)
Exchange adjustment	–	4	–	–	(2)	2
At 31 December 2017	–	132	77	456	189	854
Accumulated impairment						
At 1 January 2017	95	–	–	48	5	148
Impairment charge	–	–	–	20	–	20
Reversal of held for sale valuation adjustment	(17)	–	–	–	–	(17)
Exchange adjustment	1	–	–	1	–	2
At 31 December 2017	79	–	–	69	5	153
Carrying amount at 31 December 2017	362	–	5	334	62	763

	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 2016	514	109	86	614	245	1,568
Additions and transfers	–	–	1	131	9	141
Disposals	(144)	–	(6)	(47)	(39)	(236)
Exchange adjustment	70	19	1	55	44	189
At 31 December 2016	440	128	82	753	259	1,662
Accumulated amortisation						
At 1 January 2016	–	108	64	355	151	678
Amortisation charge	–	1	8	61	18	88
Amortisation on disposals	–	–	(5)	(25)	(25)	(55)
Exchange adjustment	–	19	1	27	28	75
At 31 December 2016	–	128	68	418	172	786
Accumulated impairment						
At 1 January 2016	151	–	–	55	5	211
Held for sale valuation adjustment	30	–	–	1	–	31
Impairment on disposals	(86)	–	–	(16)	–	(102)
Exchange adjustment	–	–	–	8	–	8
At 31 December 2016	95	–	–	48	5	148
Carrying amount at 31 December 2016	345	–	14	287	82	728

Amortisation

Amortisation expense of **£79m** (2016: £72m) has been charged to underwriting and policy acquisition costs with the remainder recognised in other operating expenses.

Impairments

During 2017 the software impairment charge was **£20m** (2016: £1m), none of which was charged to underwriting and policy acquisition costs (2016: £nil). The impairment relates to software in the UK where business volumes have been lower than anticipated £11m and a Scandinavian IT system where certain older elements have been rendered obsolete £9m.

When testing for goodwill impairment, the carrying value of the Cash Generating Unit (CGU) to which goodwill has been allocated is compared to the recoverable amount as determined by a value in use calculation. These calculations use cash flow projections based on operating plans approved by management covering a three year period and using 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. Cash flows beyond this period are extrapolated using the estimated growth rates which management deem appropriate for the CGU. The cash flow forecasts are adjusted by appropriate discount rates. Where a sales price has been agreed for a CGU, the sales proceeds less costs to sell 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 is allocated to the Group's CGUs, which are contained within the following operating segments:

	2017 £m	2016 £m
Scandinavia (Sweden, Norway, Denmark)	**155**	152
Canada (Commercial, Johnson, Personal, Travel)	**157**	160
UK and International (Ireland, Oman)	**50**	33
Total Goodwill	**362**	345

In 2016, legislation was issued by the Oman Government requiring a proportion of the company to be offered to the public. This was expected to result in the Group losing control and therefore the Oman business was classified as held for sale. Consequently the business was measured at fair value less costs to sell resulting in a valuation adjustment in 2016 of £30m.

The proportion of business sold in 2017 was lower than expected resulting in control being retained by the Group. Goodwill of £17m has been reinstated in 2017 as a consequence.

Impairment sensitivity

Following completion of the Group impairment testing, it was identified that the Norway CGU was sensitive to changes in key assumptions.

The sensitivities are listed below:

	Norway Potential Impairment £m
Change to each year of the planning period (2018 to 2020)	
6% decrease in earned premium	(3)
6% increase in COR	(3)

The range of pre-tax discount rates used for goodwill impairment testing, which reflect specific risks relating to the CGU at the date of evaluation and weighted average growth rates used in 2017 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.

	Pre-tax discount rate		Weighted average growth rate	
	2017	2016	**2017**	2016
Scandinavia	**10%–11%**	9%–10%	**1%–3%**	2%–3%
Canada	**11%–13%**	11%–12%	**2%–4%**	2%–4%
UK & International	**9%–11%**	9%–11%	**2%**	2%

23) Property and equipment

	Group occupied property–land and buildings 2017 £m	Other 2017 £m	Total 2017 £m	Group occupied property–land and buildings 2016 £m	Other 2016 £m	Total 2016 £m
Cost/valuation						
At 1 January	**38**	**276**	**314**	52	272	324
Additions	**–**	**16**	**16**	1	26	27
Disposal of subsidiaries	**(4)**	**(6)**	**(10)**	(16)	(28)	(44)
Other disposals	**–**	**(32)**	**(32)**	–	(24)	(24)
Revaluation adjustments credited to other comprehensive income	**–**	**–**	**–**	1	–	1
Exchange adjustment	**1**	**(1)**	**–**	–	30	30
At 31 December	**35**	**253**	**288**	38	276	314
Accumulated depreciation						
At 1 January	**–**	**200**	**200**	–	191	191
Depreciation charge	**2**	**20**	**22**	2	20	22
Depreciation on disposals	**–**	**(35)**	**(35)**	–	(34)	(34)
Revaluation adjustments	**(2)**	**–**	**(2)**	(2)	–	(2)
Exchange adjustment	**–**	**(1)**	**(1)**	–	23	23
At 31 December	**–**	**184**	**184**	–	200	200
Accumulated impairment						
At 1 January	**–**	**1**	**1**	–	2	2
Impairment charge	**–**	**–**	**–**	–	–	–
Impairment on disposals	**–**	**(1)**	**(1)**	–	(1)	(1)
Exchange adjustment	**–**	**–**	**–**	–	–	–
At 31 December	**–**	**–**	**–**	–	1	1
Carrying amount at 31 December	**35**	**69**	**104**	38	75	113
Less: Assets classified as held for sale	**–**	**–**	**–**	4	–	4
Carrying amount at 31 December net of held for sale	**35**	**69**	**104**	34	75	109

Other includes fixtures, fittings and other equipment. Group occupied property was revalued on 31 December 2017 by independent valuers using the basis of valuation as set out in note 26.

Depreciation expenses of **£20m** (2016: £20m) 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 2017 is **£26m** (2016: £30m).

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

	2017 £m	2016 £m
At 1 January	**17**	22
Revaluation adjustment (note 21)	**2**	3
Transfers and disposal of subsidiaries	**(1)**	(9)
Exchange adjustment	**(1)**	1
Group occupied property reserve at 31 December	**17**	17

24) Investment Property

Investment property, consisting of **£308m** (2016: £333m) 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:

	2017 £m	2016 £m
At 1 January	**333**	369
Purchases	**2**	**–**
Sales	**(28)**	(28)
Disposal of subsidiary	**–**	(4)
Fair value gains/(losses)	**1**	(4)
Investment property at 31 December	**308**	333

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.

25) Financial assets

The following table analyses the Group's financial assets by classification as at 31 December 2017 and 31 December 2016.

As at 31 December 2017

	At FVTPL £m	Available for sale £m	Loans and receivables £m	Total £m
Equity securities	**–**	**764**	**–**	**764**
Debt securities	**18**	**10,642**	**–**	**10,660**
Financial assets measured at fair value	**18**	**11,406**	**–**	**11,424**
Loans and receivables	**–**	**–**	**219**	**219**
Total financial assets	**18**	**11,406**	**219**	**11,643**

As at 31 December 2016

	At FVTPL £m	Available for sale £m	Loans and receivables £m	Total £m
Equity securities	6	686	–	692
Debt securities	19	12,302	–	12,321
Financial assets measured at fair value	25	12,988	–	13,013
Loans and receivables	–	–	88	88
Total financial assets	25	12,988	88	13,101
Less: Assets classified as held for sale				
Debt securities	–	776	–	776
Total financial assets net of held for sale	25	12,212	88	12,325

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

	2017				2016
	Cost/ amortised cost £m	Unrealised gains £m	Unrealised losses and impairments £m	Fair value £m	Fair value £m
Equity securities	740	52	(28)	764	692
Debt securities	10,356	431	(127)	10,660	12,321
Financial assets measured at fair value	11,096	483	(155)	11,424	13,013
Loans and receivables	219	–	–	219	88
Total financial assets	11,315	483	(155)	11,643	13,101
Less: Assets classified as held for sale					
Debt securities	–	–	–	–	776
Total financial assets net of held for sale	11,315	483	(155)	11,643	12,325

Collateral

At 31 December 2017, the Group had pledged **£514m** (2016: £763m) of financial assets as collateral for liabilities or contingent liabilities. The assets pledged are included within the balance sheet as follows: government securities of **£461m** (2016: £636m), cash and cash equivalents of **£43m** (2016: £114m) and debt securities of **£10m** (2016: £13m). The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities.

At 31 December 2017, the Group has accepted **£31m** (2016: £101m) in collateral. The assets accepted are included within the balance sheet. 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 **£31m** (2016: £101m). The terms and conditions of the collateral held are market standard. The assets held as collateral are readily convertible into cash.

Derivative financial instruments

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

As at 31 December 2017

	Notional Amount				Fair Value	
	Less than 1 year £m	From 1 to 5 years £m	Over 5 years £m	Total £m	Asset £m	Liability £m
Designated as hedging instruments						
Currency risk (net investment in foreign operation)	1,253	–	–	1,253	21	(5)
Currency risk (cash flow)	1	5	–	6	1	–
Cross currency interest swaps (fair value/cash flow)	4	159	181	344	3	(44)
Total					25	(49)
At FVTPL						
Currency risk mitigation	223	–	–	223	2	–
Inflation risk mitigation	–	60	323	383	43	(39)
Total					45	(39)
Total derivatives					70	(88)

As at 31 December 2016

	Notional Amount				Fair Value	
	Less than 1 year £m	From 1 to 5 years £m	Over 5 years £m	Total £m	Asset £m	Liability £m
Designated as hedging instruments						
Currency risk (net investment in foreign operation)	1,271	–	–	1,271	7	(20)
Cross currency interest swaps (fair value/cash flow)	17	264	261	542	2	(109)
Total					9	(129)
At FVTPL						
Currency risk mitigation	317	–	–	317	6	(2)
Inflation risk mitigation	–	–	332	332	41	(36)
Total					47	(38)
Total derivatives					56	(167)

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 2017 or 2016.

The Group also applies hedge accounting to specified fixed interest assets in its investment portfolio. In order to remove exchange risk from these assets the Group may also acquire cross currency interest rate swaps to swap the cash flows from the portfolio into cash flows denominated in pounds sterling or the functional currency of the entity acquiring the asset. The Group applies fair value hedge accounting when using 'fixed to floating' interest rate swaps and cash flow hedge accounting when using 'fixed to fixed' interest rate swaps. The interest rate swaps exactly offset the timing and amounts expected to be received on the underlying investments. The investments have a remaining term of between four months and 38 years, with the substantial majority having a term of less than eight years. There have been no default and no defaults are expected on the hedged investments.

The total gains on cash flow hedge instruments during 2017 were **£3m** (2016: £6m gain) in the consolidated statement of other comprehensive income, and the amount reclassified to the income statement was **£1m** (2016: £1m). The ineffectiveness recognised in the income statement was **£nil** (2016: £nil).

The total losses on the fair value hedge instruments recognised in the income statement were **£45m** (2016: £50m) and the offsetting gains related to the hedged risk were **£50m** (2016: £45m).

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting arrangements. In general, under such agreements the amounts owed 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 current legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events. The tables below provide information on the impact of the netting arrangements.

In addition, during 2017, the Group took out borrowings from credit institutions under repurchase agreements of **£119m** (2016: £249m) (note 36). The Group continues to recognise debt securities in the statement of financial position as the Group remains exposed to the risks and rewards of ownership.

As at 31 December 2017

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in statement of financial position			Related items not offset		
	Gross amounts £m	Amounts offset £m	Net amounts reported £m	Financial instruments £m	Financial collateral £m	Net amount £m
Derivative financial assets	70	–	70	(54)	(15)	1
Reverse repurchase arrangements and other similar secured lending	119	–	119	(119)	–	–
Total assets	189	–	189	(173)	(15)	1
Derivative financial liabilities	88	–	88	(54)	(31)	3
Repurchase arrangements and other similar secured borrowing	119	–	119	(119)	–	–
Total liabilities	207	–	207	(173)	(31)	3

As at 31 December 2016

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in statement of financial position			Related items not offset		
	Gross amounts £m	Amounts offset £m	Net amounts reported £m	Financial instruments £m	Financial collateral £m	Net amount £m
Derivative financial assets	56	–	56	(45)	(9)	2
Reverse repurchase arrangements and other similar secured lending	249	–	249	(249)	–	–
Total assets	305	–	305	(294)	(9)	2
Derivative financial liabilities	167	–	167	(45)	(113)	9
Repurchase arrangements and other similar secured borrowing	249	–	249	(249)	–	–
Total liabilities	416	–	416	(294)	(113)	9

26) Fair value measurement

Fair value is used to value a number of assets within the statement of financial position and represents its market value at the reporting date.

Cash and cash equivalents, loans and receivables, other assets and other liabilities

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 cash flow models which take into account the net present value of cash flows to be generated from the properties. The cash flow 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 cash flows 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 rates 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 valuation that are not based on observable market data (unobservable inputs).

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

The Group uses prices received from external providers who calculate these prices from quotes available at the reporting date for the particular investment being valued. For investments that are actively traded the Group determines whether the prices meet the criteria for classification as a level 1 valuation. The price provided is classified as a level 1 valuation when it represents the price at which the investment traded at the reporting date taking into account the frequency and volume of trading of the individual investment together with the spread of prices that are quoted at the reporting date for such trades. Typically investments in frequently traded government debt would meet the criteria for classification in the level 1 category. Where the prices provided do not meet the criteria for classification in the level 1 category, the prices are classified in the level 2 category.

In limited circumstances, the Group does not receive pricing information from an external provider for its financial investments. In such circumstances the Group calculates fair value which may use input parameters that are not based on observable market data. Unobservable inputs are based on assumptions that are neither supported by prices from observable current market transactions for the same instrument nor based on available market data. In these cases, judgment is required to establish fair values. Valuations that require the significant use of unobservable data are classified as level 3 valuations. In addition, the valuations used for investment properties and for Group occupied properties are classified in the level 3 category.

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 2017				
	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	–	–	35	–	35
Investment properties	–	–	308	–	308
Available for sale financial assets:					
Equity securities	407	7	350	–	764
Debt securities	3,711	6,604	327	–	10,642
Financial assets at FVTPL:					
Equity securities	–	–	–	–	–
Debt securities	–	–	18	–	18
	4,118	6,611	1,038	–	11,767
Derivative assets:					
At FVTPL	–	45	–	–	45
Designated as hedging instruments	–	25	–	–	25
Total assets measured at fair value	4,118	6,681	1,038	–	11,837
Derivative liabilities:					
At FVTPL	–	39	–	–	39
Designated as hedging instruments	–	49	–	–	49
Total liabilities measured at fair value	–	88	–	–	88
Loan capital	–	507	–	–	507
Total value of liabilities not measured at fair value	–	507	–	–	507

	Fair value hierarchy 2016				
	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	4	34
Investment properties	–	–	333	–	333
Available for sale financial assets:					
Equity securities	323	–	363	–	686
Debt securities	4,256	7,756	290	776	11,526
Financial assets at FVTPL:					
Equity securities	–	–	6	–	6
Debt securities	–	–	19	–	19
	4,579	7,756	1,049	780	12,604
Derivative assets:					
At FVTPL	–	47	–	–	47
Designated as hedging instruments	–	9	–	–	9
Total assets measured at fair value	4,579	7,812	1,049	780	12,660
Derivative liabilities:					
At FVTPL	–	38	–	–	38
Designated as hedging instruments	–	129	–	–	129
Total liabilities measured at fair value	–	167	–	–	167
Loan capital	–	1,129	8	–	1,137
Total value of liabilities not measured at fair value	–	1,129	8	–	1,137

The movement in the fair value measurements of level 3 financial assets is shown in the table below:

	Available for sale investments		Investments at FVTPL		
	Equity securities £m	Debt securities £m	Equity securities £m	Debt securities £m	Total £m
At 1 January 2016	269	154	38	15	476
Total gains/(losses) recognised in:					
Income statement	1	–	1	(9)	(7)
Other comprehensive income	16	2	–	–	18
Purchases	49	118	5	28	200
Disposals	7	–	(38)	(15)	(46)
Exchange adjustment	21	16	–	–	37
At 1 January 2017	**363**	**290**	**6**	**19**	**678**
Total gains/(losses) recognised in:					
Income statement	**2**	**–**	**–**	**(1)**	**1**
Other comprehensive income	**(12)**	**(6)**	**–**	**–**	**(18)**
Purchases	**22**	**59**	**–**	**–**	**81**
Disposals	**(31)**	**(16)**	**(6)**	**–**	**(53)**
Exchange adjustment	**6**	**–**	**–**	**–**	**6**
Level 3 financial assets at 31 December 2017	**350**	**327**	**–**	**18**	**695**

The following table shows the level 3 available for sale financial assets, investment properties and Group occupied property carried at fair value as at the balance sheet date, the valuation basis, main assumptions used in the valuation of these instruments and reasonably possible decreases in fair value based on reasonably possible alternative assumptions.

		Reasonably possible alternative assumptions			
		2017		2016	
Available for sale financial assets and property	Main assumptions	**Current fair value £m**	**Decrease in fair value £m**	Current fair value £m	Decrease in fair value £m
Group occupied property – land and buildings[1]	Property valuation	**35**	**(5)**	38	(5)
Investment properties[1]	Cash flows; discount rate	**308**	**(48)**	333	(50)
Level 3 available for sale financial assets:					
Equity securities[2]	Cash flows; discount rate	**350**	**(10)**	363	(14)
Debt securities[2]	Cash flows; discount rate	**327**	**(9)**	290	(15)
Total		**1,020**	**(72)**	1,024	(84)

Notes:
1. The Group's property portfolio (including the Group occupied properties) is almost exclusively located in the UK. Reasonably possible alternative valuations have been determined using an increase of 100bps in the discount rate used in the valuation.
2. The Group's investments in financial assets classified at level 3 in the hierarchy are primarily investments in various private fund structures investing in debt instruments where the valuation includes estimates of the credit spreads on the underlying holdings. The estimates of the credit spread are based upon market observable credit spreads for what are considered to be assets with similar credit risk. Reasonably possible alternative valuations have been determined using an increase of 100bps in the credit spread used in the valuation.

27) 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 entity.

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 other 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 2017 are summarised in the table below:

Class of investments	Nature of the underlying investments of the vehicle	**Carrying value 2017 £m**	**Undrawn commitments 2017 £m**	**Exposure 2017 £m**	Carrying value 2016 £m	Undrawn commitments 2016 £m	Exposure 2016 £m
Mortgage backed securities	Mainly consists of mortgages in Scandinavia and Canada	**35**	**–**	**35**	10	–	10
Collateralised debt obligations	Structured debt security backed by bonds	**260**	**–**	**260**	203	–	203
Cash money market funds	Short term cash deposits	**332**	**–**	**332**	436	–	436
Other	Mainly consist of property funds	**343**	**66**	**409**	361	106	467
		970	**66**	**1,036**	1,010	106	1,116

The line items in the statement of financial position in which the investments above are included are as follows:

	2017 £m	2016 £m
Investments – financial assets – equity securities	**343**	363
Investments – financial assets – debt securities	**277**	205
Cash and cash equivalents	**332**	436
Other	**18**	6
	970	1,010

28) Reinsurers' share of insurance contract liabilities

	2017 £m	2016 £m
Reinsurers' share of provisions for unearned premiums	**729**	816
Reinsurers' share of provisions for losses and loss adjustment expenses	**1,523**	1,436
Total reinsurers' share of insurance contract liabilities net of held for sale	**2,252**	2,252
To be settled within 12 months	**1,187**	1,301
To be settled after 12 months	**1,065**	951

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

	2017 £m	2016 £m
Reinsurers' share of provision for unearned premiums at 1 January	818	961
Premiums ceded to reinsurers	920	1,068
Reinsurers' share of premiums earned	(977)	(1,096)
Changes in reinsurance asset	(57)	(28)
Reinsurers' share of portfolio transfers and disposals of subsidiaries	(27)	(137)
Exchange adjustment	(5)	22
Reinsurers' share of provision for unearned premiums at 31 December	729	818
Less: Assets classified as held for sale	–	2
Total reinsurers' share of provision for unearned premiums at 31 December net of held for sale	729	816

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

	2017 £m	2016 £m
Reinsurers' share of provisions for losses and loss adjustment expenses at 1 January	1,530	1,264
Reinsurers' share of total claims incurred	786	915
Total reinsurance recoveries received	(730)	(414)
Reinsurers' share of portfolio transfers and disposals of subsidiaries	–	(356)
Reinsurance of UK Legacy	568	–
Exchange adjustment	(23)	113
Other movements	28	8
Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	2,159	1,530
Less: Assets classified as held for sale	636	94
Total reinsurers' share of provisions for losses and loss adjustment expenses at 31 December net of held for sale	1,523	1,436

29) Current and Deferred Tax

Current Tax

	Asset		Liability	
	2017 £m	2016 £m	2017 £m	2016 £m
To be settled within 12 months	40	60	13	25
To be settled after 12 months	3	5	11	11
Net current tax position at 31 December	43	65	24	36
Less: Classified as held for sale	–	–	–	4
Net current tax position at 31 December net of held for sale	43	65	24	32

Deferred Tax

	Asset		Liability	
	2017 £m	2016 £m	2017 £m	2016 £m
Net deferred tax position at 31 December	276	270	56	54

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

	2017 £m	2016 £m
Net unrealised gains on investments	**(31)**	(54)
Intangibles capitalised	**(24)**	(28)
Deferred acquisition costs	**(8)**	(7)
Tax losses and unused tax credits	**97**	190
Other deferred tax reliefs	**87**	10
Net insurance contract liabilities	**(18)**	(15)
Retirement benefit obligations	**53**	55
Capital allowances	**55**	**56**
Provisions and other temporary differences	**9**	9
Net deferred tax asset at 31 December	**220**	216

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

	2017 £m	2016 £m
Net deferred tax asset at 1 January	**216**	123
Amounts credited to income statement	**10**	44
Amounts (charged)/credited to other comprehensive income	**(3)**	41
Net arising on acquisition/disposal of subsidiaries and other transfers	**–**	10
Exchange adjustments	**(3)**	7
Effect of change in tax rates – income statement	**–**	(8)
– other comprehensive income	**–**	(1)
Net deferred tax asset at 31 December	**220**	216

At the end of the reporting period, the Group's continuing operations have unused tax losses of **£2,326m** (2016: £1,629m) for which no deferred tax asset is being recognised. This includes capital losses of **£1,189m** (2016: £1,194m) for which it is unlikely that a deferred tax asset would be recognised as most UK capital gains are exempt from tax. None of these losses are subject to expiry. In addition, the Group has deductible temporary differences of **£198m** (2016: £654m) for which no deferred tax has been recognised.

The Group has temporary differences in respect of the retained earnings of overseas subsidiaries not held for sale of **£509m** (2016: £1,006m) on which overseas taxes, including withholding taxes, might be incurred on the remittance of these earnings to the UK. This amount relates 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 **£220m** (2016: £216m) net deferred tax asset recognised by the Group's continuing operations, **£233m** (2016: £179m) 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.

30) Insurance, reinsurance and other debtors

Insurance and reinsurance debtors

	2017 £m	2016 £m
Insurance debtors comprise:		
Due from policyholders	1,228	1,180
Due from intermediaries	1,522	1,490
Total insurance debtors	2,750	2,670
Reinsurance debtors	189	168
Total insurance and reinsurance debtors	2,939	2,838
Less: Assets classified as held for sale	16	15
Total insurance and reinsurance debtors net of held for sale	2,923	2,823

Other debtors and other assets

	2017 £m	2016 £m
Derivatives designated as accounting hedging instruments	25	9
Other derivatives	45	47
Other debtors	202	130
Pension scheme surplus	141	70
Accrued interest and rent	100	128
Prepayments	57	62
Total other debtors and assets	570	446
Less: Assets classified as held for sale	11	16
Total other debtors and assets net of held for sale	559	430
To be settled within 12 months	371	330
To be settled after 12 months	188	100

31) Cash and cash equivalents

	2017 £m	2016 £m
Cash and cash equivalents and bank overdrafts (consolidated statement of cash flows)	1,049	1,087
Add: Overdrafts reported in other borrowings (note 36)	4	2
Total cash and cash equivalents	1,053	1,089
Less: Assets classified as held for sale	5	104
Total cash and cash equivalents (consolidated statement of financial position)	1,048	985

32) 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 2017 is:

	2017 £m	2016 £m
Issued and fully paid		
1,022,835,039 Ordinary Shares of £1 each (2016: 1,019,554,986 Ordinary Shares of £1 each)	1,023	1,020
125,000,000 Preference Shares of £1 each (2016: 125,000,000 Preference Shares of £1 each)	125	125
	1,148	1,145

During 2017, the Company issued a total of **3,280,053** new Ordinary Shares of £1 each ranking pari passu with Ordinary Shares in issue (2016: 2,495,144 new 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 2016	1,017,059,842	1,017	1,077
Issued in respect of employee share options and employee share awards	2,495,144	3	3
At 1 January 2017	**1,019,554,986**	**1,020**	**1,080**
Issued in respect of employee share options and employee share awards	**3,280,053**	**3**	**3**
At 31 December 2017	**1,022,835,039**	**1,023**	**1,083**

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

157,866 Ordinary Shares (2016: 414,049 Ordinary Shares) are held by the Share Incentive Plan Trust which may subsequently be transferred to employees (including Executive Directors) to satisfy Sharebuild Matching Share awards. 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 2017, the total number of options over Ordinary Shares outstanding under the Group employee share option plans is **4,996,149** (2016: 5,047,441) and the total number of potential shares outstanding under the long term incentive plan and under the Sharebuild is **11,940,129** Ordinary Shares (2016: 12,638,394 Ordinary Shares). Further information on the employee share schemes is provided in note 18 and in the Directors' Remuneration Report within the Directors' and Corporate Governance Report.

33) Other equity instruments – Tier 1 Notes

On 27 March 2017, the Company issued two floating rate Restricted Tier 1 (RT1) Notes totalling £297m in aggregate size and with a blended coupon of c.4.7%. The Notes are as follows:

Swedish Krona 2,500m at 3 month Stibor +525bps (equivalent to c.4.8% coupon on issue)

Danish Krone 650m at 3 month Cibor +485bps (equivalent to c.4.6% coupon on issue)

Interest on the Notes is due and payable only at the sole and absolute discretion of the Company, subject to certain additional restrictions set out in the terms and conditions, and is non-cumulative. In addition the terms and conditions of the Notes will require the Company to cancel interest payments in certain circumstances. The Notes are redeemable (subject to certain conditions) at the option of the Company in whole but not in part on the first call date, being the fifth anniversary of the issue date, or any interest payment date thereafter or in the event of certain changes in the tax, regulatory or ratings treatment of the Notes. Any redemption is subject, inter alia, to the Company giving notice to the relevant regulator and the regulator granting permission to redeem. The Notes convert into ordinary shares of the Company, at a pre-determined price in the event that certain solvency capital requirements are breached, as more fully set out in the terms and conditions of the Notes. Accordingly, the Notes are treated as a separate category within Equity and coupon payments are recognised as distributions, similar to the treatment of preference share dividends.

34) Non-controlling interests

The non-controlling interests (NCI) of the Group includes the interests in the following Group entities:

	NCI shares at 31 December 2017		NCI shares at 31 December 2016	
	%	Share of net assets £m	%	Share of net assets £m
Royal & Sun Alliance Insurance (Middle East) BSC (c)	**50**	**139**	50	113
British Aviation Insurance Company Limited	**43**	**11**	43	17

Royal & Sun Alliance Insurance (Middle East) BSC (c) owns 50% of the ordinary share capital of Al Alamiya for Cooperative Insurance Company, a company operating in the Kingdom of Saudi Arabia and 52.5% of Al Ahlia Insurance Company SAOC, a company operating in the Sultanate of Oman. During the third quarter of 2017 an initial public offering reduced Royal & Sun Alliance Insurance (Middle East) BSC (c)'s share in Al Ahlia Insurance Company SAOC from 70% to 52.5%

During 2017 the dividends paid to the non-controlling interests in the Middle East were **£4m** (2016: £3m) and British Aviation Insurance Company **£6m** (2016: £nil).

35) Loan capital

		Cash movements	Non-cash movements	
	2016 £m	Settlement £m	Amortisation £m	**2017 £m**
Subordinated guaranteed US$ bonds	6	–	–	**6**
Guaranteed subordinated step-up notes due 2039	298	(261)	2	**39**
Guaranteed subordinated notes due 2045	395	–	1	**396**
Total dated loan capital	699	(261)	3	**441**
Perpetual guaranteed subordinated capital securities	369	(375)	6	**–**
Total loan capital	1068	(636)	9	**441**

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. On 12 July 2016, the Group bought back £200m in nominal value of these step-up notes, with a further £245m being bought back on 31 March 2017, £15m in Q2 2017 and £1m in Q3 and Q4 2017. The remaining £39m has a first call date of 20 May 2019.

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. On 29 March 2017, the Group bought back £347m of the outstanding principal amount. The remaining £28m balance was settled in July 2017.

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 other borrowings as at 31 December 2017 are **£123m** (2016: £251m). The 2017 other borrowings relate to borrowings from credit institutions under repurchase agreements of **£119m** (2016: £249m) and bank accounts in overdraft **£4m** (2016: £2m).

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.

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 **£8,520m** (2016: £8,784m).

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	**2017 %**	2016 %	**2017 Years**	2016 Years
UK	Asbestos and environmental	4.0	4.0	8	11
Scandinavia	Disability	1.3	1.3	8	7

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 2017, the value of the discount on net claims liability reserves is **£111m** (2016: £388m) excluding held for sale, 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 **£70m** (2016: £120m).

A decrease of 1% in the real discount rate for UK and Scandinavia annuities would reduce the value of the discount by approximately **£100m** (2016: £110m). 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 4.

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

	Gross	RI	Net
	2017 £m	2017 £m	2017 £m
Provision for unearned premiums	3,316	(729)	2,587
Provision for losses and loss adjustment expenses	10,113	(2,159)	7,954
Total insurance contract liabilities	13,429	(2,888)	10,541
Less: Held for sale provision for unearned premiums	–	–	–
Less: Held for sale provisions for losses and loss adjustment expenses	636	(636)	–
Less: Total liabilities held for sale	636	(636)	–
Provision for unearned premiums at 31 December net of held for sale	3,316	(729)	2,587
Provision for losses and loss adjustment expenses at 31 December net of held for sale	9,477	(1,523)	7,954
Total insurance contract liabilities excluding held for sale	12,793	(2,252)	10,541

	Gross	RI	Net
	2016 £m	2016 £m	2016 £m
Provision for unearned premiums	3,328	(818)	2,510
Provision for losses and loss adjustment expenses	10,083	(1,530)	8,553
Total insurance contract liabilities	13,411	(2,348)	11,063
Less: Held for sale provision for unearned premiums	17	(2)	15
Less: Held for sale provisions for losses and loss adjustment expenses	718	(94)	624
Less: Total liabilities held for sale	735	(96)	639
Provision for unearned premiums at 31 December net of held for sale	3,311	(816)	2,495
Provision for losses and loss adjustment expenses at 31 December net of held for sale	9,365	(1,436)	7,929
Total insurance contract liabilities excluding held for sale	12,676	(2,252)	10,424

Provision for unearned premiums, gross of acquisition costs

	2017 £m	2016 £m
Provision for unearned premiums (gross of acquisition costs) at 1 January	3,994	4,200
Premiums written	7,599	7,477
Less: Premiums earned	(7,583)	(7,624)
Changes in provision for unearned premiums	16	(147)
Gross portfolio transfers and disposals	–	(418)
Exchange adjustment	(24)	357
Other movements	–	2
Provision for unearned premiums (gross of acquisition costs) at 31 December	3,986	3,994
Less: Liabilities classified as held for sale	–	20
Provision for unearned premiums (gross of acquisition costs) at 31 December net of held for sale	3,986	3,974

The provision for unearned premiums is shown net of deferred acquisition costs of **£670m** (2016: £663m). The reasons for the movement in deferred acquisition costs during 2017 are as follows:

	2017 £m	2016 £m
Acquisition costs deferred during the year	**1,101**	1,010
Amortisation charged during the year	**(1,094)**	(1,037)
Exchange (losses)/gains	**(4)**	56
Other movements	**4**	6
Assets transferred to held for sale	**–**	(3)
Movement in deferred acquisition costs	**7**	32

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

Provision for losses and loss adjustment expenses

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

	2017 £m	2016 £m
Provision for losses and loss adjustment expenses at 1 January	**10,083**	9,457
Gross claims incurred and loss adjustment expenses	**5,135**	5,130
Total claims payments made in the year net of salvage and other recoveries	**(5,093)**	(5,001)
Gross portfolio transfers, acquisitions and disposals	**(46)**	(578)
Exchange adjustment	**(27)**	994
Other movements	**61**	81
Provision for losses and loss adjustment expenses at 31 December	**10,113**	10,083
Less: Liabilities classified as held for sale	**636**	718
Provision for losses and loss adjustment expenses at 31 December net of held for sale	**9,477**	9,365

Claims development tables

The tables below present changes in the historical provisions for losses and loss adjustment expenses that were established in 2007 and the provisions for losses and loss adjustment expenses arising in each subsequent accident year. The tables are presented at current year average exchange rates on an undiscounted basis and have been adjusted for operations that have been disposed of.

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

The lower triangle of the tables presents the amounts paid against those provisions in each subsequent accounting period.

The estimated provisions for ultimate incurred losses change as more information becomes known about the actual losses for which the initial provisions were set up and as the rates of exchange change.

Consolidated claims development table gross of reinsurance

	2007 and prior £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	**2017 £m**	Total £m
Estimate of cumulative claims												
At end of accident year	9,388	2,623	2,524	2,802	2,999	2,854	3,181	2,857	2,850	2,844	3,088	
One year later	8,889	2,644	2,616	2,935	3,053	2,898	3,246	2,973	2,863	2,837		
Two years later	8,524	2,621	2,573	2,875	3,082	2,874	3,169	2,886	2,828			
Three years later	8,125	2,560	2,531	2,905	3,008	2,866	3,123	2,861				
Four years later	7,856	2,554	2,559	2,891	2,942	2,821	3,113					
Five years later	7,625	2,514	2,554	2,856	2,909	2,836						
Six years later	7,544	2,498	2,515	2,817	2,900							
Seven years later	7,499	2,485	2,526	2,803								
Eight years later	7,674	2,483	2,529									
Nine years later	7,910	2,485										
Ten years later	7,832											
2017 movement	**78**	**(2)**	**(3)**	**14**	**9**	**(15)**	**10**	**25**	**35**	**7**		**158**
Claims paid												
One year later	2,352	1,257	1,209	1,533	1,378	1,342	1,491	1,351	1,338	1,440		
Two years later	1,205	401	425	418	499	503	558	429	545			
Three years later	947	252	271	286	334	291	275	292				
Four years later	604	186	200	212	193	190	206					
Five years later	443	123	149	116	108	145						
Six years later	438	72	73	65	77							
Seven years later	308	39	40	54								
Eight years later	155	37	32									
Nine years later	146	23										
Ten years later	227											
Cumulative claims paid	**6,825**	**2,390**	**2,399**	**2,684**	**2,589**	**2,471**	**2,530**	**2,072**	**1,883**	**1,440**		
Reconciliation to the statement of financial position												
Current year provision before discounting	1,007	95	130	119	311	365	583	789	945	1,397	**3,088**	8,829
Exchange adjustment to closing rates												(5)
Discounting												(105)
Annuities												758
Present value recognised in the consolidated statement of financial position												**9,477**
Held for sale												**636**
Total Group												**10,113**

Consolidated claims development table net of reinsurance

	2007 and prior £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	**2017 £m**	Total £m
Estimate of cumulative claims												
At end of accident year	8,017	2,388	2,287	2,455	2,625	2,584	2,776	2,531	2,403	2,263	**2,319**	
One year later	7,603	2,380	2,345	2,532	2,613	2,616	2,876	2,568	2,332	2,239		
Two years later	7,239	2,379	2,305	2,502	2,597	2,593	2,801	2,522	2,292			
Three years later	6,827	2,331	2,276	2,518	2,549	2,554	2,770	2,472				
Four years later	6,550	2,319	2,309	2,525	2,504	2,515	2,729					
Five years later	6,330	2,289	2,311	2,492	2,478	2,522						
Six years later	6,253	2,269	2,290	2,468	2,463							
Seven years later	6,244	2,256	2,285	2,458								
Eight years later	6,423	2,256	2,271									
Nine years later	6,664	2,246										
Ten years later	6,682											
2017 movement	**(18)**	**10**	**14**	**10**	**15**	**(7)**	**41**	**50**	**40**	**24**		**179**
Claims paid												
One year later	1,974	1,118	1,109	1,282	1,184	1,208	1,328	1,182	1,132	1,071		
Two years later	993	349	363	386	414	407	436	371	317			
Three years later	770	239	238	256	269	248	244	217				
Four years later	498	176	190	196	176	195	188					
Five years later	394	106	130	100	107	122						
Six years later	381	70	70	61	64							
Seven years later	275	35	34	49								
Eight years later	117	30	28									
Nine years later	184	21										
Ten years later	207											
Cumulative claims paid	**5,793**	**2,144**	**2,162**	**2,330**	**2,214**	**2,180**	**2,196**	**1,770**	**1,449**	**1,071**		
Reconciliation to the statement of financial position												
Current year provision before discounting	889	102	109	128	249	342	533	702	843	1,168	**2,319**	7,384
Exchange adjustment to closing rates												(19)
Discounting												(99)
Annuities												688
Present value recognised in the consolidated statement of financial position												**7,954**
Held for sale												**–**
Total Group												**7,954**

Insurance and reinsurance liabilities

	2017 £m	2016 £m
Direct insurance creditors	**113**	110
Reinsurance creditors	**823**	849
Total insurance and reinsurance liabilities	**936**	959
Less: Liabilities classified as held for sale	**2**	5
Total	**934**	954

38) Post-retirement benefits and obligations

Defined contribution pension schemes

Costs of **£63m** (2016: £51m) 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 **£8m** (2016: £8m) were paid to this scheme during 2017 and are included in the costs shown above. The expected contributions in 2018 are **£7m**. Total estimated contributions to the scheme from all employers in 2017 were **£66m**. The latest information regarding the funding of this scheme is taken from the interim report for the first half of 2017, when the scheme funding rate was 121% (2016: 111%).

Defined benefit pension schemes and other post-retirement benefits

The amounts recognised in the consolidated statement of financial position are as follows:

	2017			2016		
	UK £m	Other £m	Total £m	UK £m	Other £m	Total £m
Present value of funded obligations	(8,326)	(434)	(8,760)	(8,314)	(460)	(8,774)
Present value of unfunded obligations	(7)	(111)	(118)	(7)	(112)	(119)
Fair value of plan assets	8,344	455	8,799	8,184	457	8,641
Other net surplus remeasurements	(62)	–	(62)	–	–	–
Net IAS19 (deficits) in the schemes	(51)	(90)	(141)	(137)	(115)	(252)
Defined benefit pension schemes	(51)	(30)	(81)	(137)	(59)	(196)
Other post-retirement benefits	–	(60)	(60)	–	(56)	(56)
Schemes in surplus (note 30)	119	22	141	58	12	70
Schemes in deficit (note 39)	(170)	(112)	(282)	(195)	(127)	(322)

Independent actuaries calculate the value of the defined benefit obligations for the larger schemes 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 term structure 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 actual 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 and subsequently closed to future accruals with effect from 31 March 2017. UK schemes in surplus have been reduced for the tax cost of an authorised return of surplus, classified as 'Other net surplus remeasurements'. Our judgement is that the authorised refund tax charge is not an income tax within the meaning of IAS12 and so the surplus is recognised net of this tax charge rather than the tax charge being included within deferred taxation.

The profile of the members of the two main UK schemes at 30 September 2017 (the latest date at which full information is available) is as follows:

	Number
Active members – members in employment with the Group and accruing benefits	–
Deferred members – members no longer accruing and not yet receiving benefits	26,119
Pensioners – members and dependants receiving benefits	17,938
Total members at 30 September 2017	**44,057**

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 benefits accrued post March 2010 (a cap of 5% per annum applies for benefits which accrued prior to this date).

After retirement, pensions in payment are increased each year based on the increases in the Government indices for inflation. A cap of 2.5% applies to benefits accrued post 31 December 2005 (a cap of 5% applied to benefits in excess of Guaranteed Minimum Pension prior to this 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 Pensions Regulator.

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.

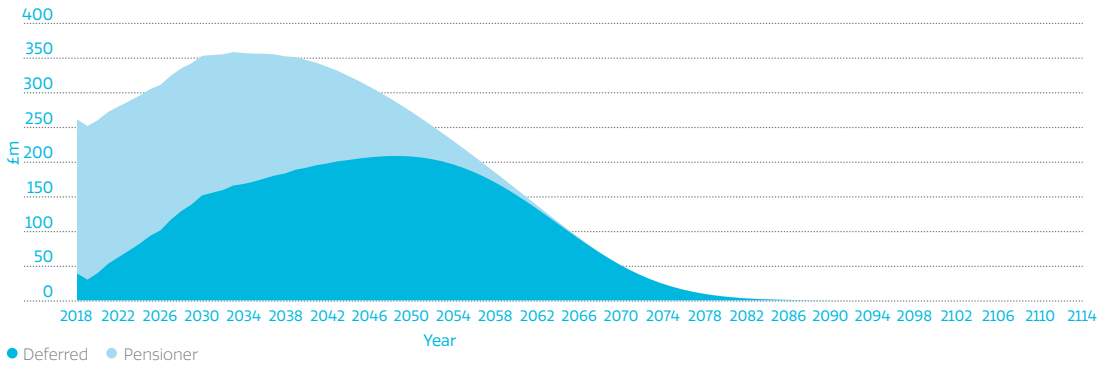
During 2009 the Group entered into arrangements that provide coverage against mortality risk for 55% of the retirement obligations relating to pensions in payment of the two largest UK schemes at that time (c.40% coverage based on current pensioner population). The arrangement provides for reimbursement 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 longevity swap is measured at fair value under IFRS 13 by discounting all future cash flows using a discount rate that appropriately reflects the terms of the arrangements. The pension schemes continue to hold the original assets used to fund the arrangements.

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 funding valuations, which determine the level of cash contributions payable into the schemes and which must be agreed between the Trustees and the Group, are typically based on a prudent assessment of future experience with the discount rate reflecting a prudent expectation of returns based on actual investment strategy. This differs from IAS 19, which requires that future benefit cash flows are projected on the basis of best-estimate assumptions and discounted in line with high-quality corporate bond yields. The Trustees' funding assumptions are updated only every three years, following completion of the triennial funding valuations. The effective date of the most recent valuations of the main UK funds is 31 March 2015.

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 2016 and 2017 and that are due to be paid in 2018 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 2017 was **£82m** (2016: £96m) of which **£65m** (2016: £66m) were additional contributions in line with the plan to reduce funding deficits. Expected contributions to the two schemes for the year ending 31 December 2018 are approximately **£73m** including **£65m** of additional contributions to reduce the deficit.

The maturity profile of the undiscounted cash flows 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 **18 years** (2016: 18.5 years).

Non UK schemes

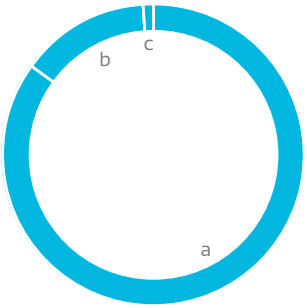
The Group also operates defined benefits schemes in other countries. The most significant of these schemes are in Canada and Ireland.

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 85%
b. Ireland 14%
c. Scandinavia 1%



All schemes

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

Movement during the year:

	2017			
	Present value of obligations £m	Fair value of plan assets £m	Other net surplus remeasurements £m	Net surplus / (deficit) £m
At 1 January	(8,893)	8,641	–	(252)
Current service costs	(11)	–	–	(11)
Past service costs	(1)	–	–	(1)
Interest (expense)/income	(249)	243	–	(6)
Administration costs	–	(7)	–	(7)
Gains/(losses) on settlements/curtailments	6	–	–	6
Total (expenses)/income recognised in income statement	(255)	236	–	(19)
Return on scheme assets less amounts in interest income	–	277	–	277
Effect of changes in financial assumptions	(309)	–	–	(309)
Effect of changes in demographic assumptions	166	–	–	166
Experience gains and losses	(34)	–	–	(34)
Investment expenses	–	(11)	–	(11)
Other net surplus remeasurements	–	–	(62)	(62)
Remeasurements recognised in other comprehensive income	(177)	266	(62)	27
Employer contribution	–	101	–	101
Scheme participant contribution	–	–	–	–
Benefit payments	440	(440)	–	–
Exchange adjustment	7	(5)	–	2
At 31 December	(8,878)	8,799	(62)	(141)
Deferred tax				53
IAS 19 net (deficit) net of deferred tax				(88)

	2016			
	Present value of obligations £m	Fair value of plan assets £m	Other net surplus remeasurements £m	Net surplus / (deficit) £m
At 1 January	(7,126)	7,193	–	67
Current service costs	(23)	–	–	(23)
Past service costs	(5)	–	–	(5)
Interest (expense)/income	(276)	282	–	6
Administration costs	–	(9)	–	(9)
Gains/(losses) on settlements/curtailments	–	–	–	–
Total (expenses)/income recognised in income statement	(304)	273	–	(31)
Return on scheme assets less amounts in interest income	–	1,279	–	1,279
Effect of changes in financial assumptions	(1,770)	–	–	(1,770)
Effect of changes in demographic assumptions	1	–	–	1
Experience gains and losses	120	–	–	120
Investment expenses	–	(10)	–	(10)
Other net surplus remeasurements	–	–	–	–
Remeasurements recognised in other comprehensive income	(1,649)	1,269	–	(380)
Employer contribution	–	110	–	110
Scheme participant contribution	(1)	1	–	–
Benefit payments	286	(286)	–	–
Exchange adjustment	(99)	81	–	(18)
At 31 December	(8,893)	8,641	–	(252)
Deferred tax				55
IAS 19 net (deficit) net of deferred tax				(197)

The value of scheme assets are as follows:

	2017			2016		
	UK £m	Other £m	Total £m	UK £m	Other £m	Total £m
Equities	**591**	**161**	**752**	597	167	764
Government debt	**5,275**	**147**	**5,422**	5,157	132	5,289
Non government debt	**3,351**	**114**	**3,465**	3,151	125	3,276
Derivatives	**743**	**–**	**743**	808	–	808
Property	**189**	**–**	**189**	164	–	164
Cash	**63**	**7**	**70**	55	6	61
Other (including infrastructure, commodities, hedge funds, loans)	**519**	**26**	**545**	484	27	511
Investments	**10,731**	**455**	**11,186**	10,416	457	10,873
Value of asset and longevity swaps	**(2,387)**	**–**	**(2,387)**	(2,232)	–	(2,232)
Total assets in the schemes	**8,344**	**455**	**8,799**	8,184	457	8,641

The scheme assets analysed by those that have a quoted market price in active markets and unquoted are as follows:

	2017			2016		
	Total Quoted £m	**Total Unquoted £m**	**Total £m**	Total Quoted £m	Total Unquoted £m	Total £m
Equities	**616**	**136**	**752**	675	89	764
Government debt	**5,422**	**–**	**5,422**	5,289	–	5,289
Non government debt	**1,300**	**2,165**	**3,465**	1,117	2,159	3,276
Derivatives	**–**	**743**	**743**	–	808	808
Property	**–**	**189**	**189**	–	164	164
Cash	**70**	**–**	**70**	61	–	61
Other (including infrastructure, commodities, hedge funds, loans)	**–**	**545**	**545**	–	511	511
Investments	**7,408**	**3,778**	**11,186**	7,142	3,731	10,873
Value of asset and longevity swaps	**–**	**(2,387)**	**(2,387)**	–	(2,232)	(2,232)
Total assets in the schemes	**7,408**	**1,391**	**8,799**	7,142	1,499	8,641

Where assets are classified as unquoted the values are:

- provided by an independent surveyor (in the case of direct property)
- taken from the underlying managers in the case of non-developed market equity and cash pooled funds – these funds themselves will be subject to annual (or more frequent) audit
- taken at the mark to market valuation used for collateral purposes in the case of derivative contracts

Assumptions

The principal actuarial assumptions used are:

	UK		Other	
	2017 %	2016 %	**2017 %**	2016 %
Assumptions used in calculation of retirement benefit obligations:				
Discount rate	**2.47**	2.81	**3.35**	3.56
Annual rate of inflation (RPI)	**3.13**	3.37	**–**	–
Annual rate of inflation (CPI)	**2.03**	2.27	**1.74**	1.72
Annual rate of increase in salaries	**n/a**	3.37	**2.96**	2.74
Annual rate of increase in pensions[1]	**2.94**	3.10	**1.74**	1.72
Assumptions used in calculation of pension net interest costs for the year:				
Discount rate	**2.81**	3.92	**3.56**	3.90

Notes:
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 2016 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 **27.8** (2016: 28.1) years for males and **28.9** (2016: 29.2) years for females and a future pensioner aged 60 in 15 years' time has a future expected lifetime from age 60 of **28.9** (2016: 29.3) years for males and **30.1** (2016: 30.7) years for females.

Sensitivity analysis

Sensitivities for the defined benefit obligations of the two main UK schemes are shown below:

	Changes in assumption	2017 £m	2016[3] £m
Discount rate	Increase by 0.25%	**(363)**	(373)
RPI / CPI[1]	Increase by 0.25%	**228**	235
Mortality long term rate	Increase by 0.25%	**78**	126
Mortality assumption[2]	Reduce by 12%	**319**	330

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.
3. 2016 comparatives have been re-presented gross of tax.

39) Provisions

	2017 £m	2016 £m
Pensions and post retirement obligations	**282**	322
Reorganisation provisions	**49**	14
Other provisions	**76**	84
Total provisions at 31 December	**407**	420

Of the above, **£308m** (2016: £320m) is due to be settled outside of 12 months.

Other provisions includes **£12m** (2016: £12m) 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.

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 2017 £m	Other provisions 2017 £m
Provisions at 1 January 2017	**14**	**84**
Additional provisions during the year	**53**	**39**
Utilised	**(17)**	**(35)**
Released	**(1)**	**(12)**
Provisions at 31 December 2017	**49**	**76**

40) Other liabilities

	2017 £m	2016 £m
Deposits received from reinsurers	**65**	67
Derivatives designated as accounting hedges	**49**	129
Other derivatives	**39**	38
Other creditors	**411**	299
Accruals	**445**	497
Deferred income	**73**	63
Total other liabilities	**1,082**	1,093
Less: Liabilities classified as held for sale	**30**	6
Total other liabilities net of held for sale	**1,052**	1,087
To be settled within 12 months	**917**	862
To be settled after 12 months	**135**	225

Other creditors of **£411m** (2016: £299m) mainly includes payroll and other indirect taxes **£163m** (2016: £165m), outstanding settlements for investment purchases **£61m** (2016: £nil), non-insurance creditors **£41m** (2016: £32m) and other creditors **£146m** (2016: £102m).

Notes to the Statement of Cash Flows

41) Reconciliation of cash flows from operating activities

The reconciliation of net profit before tax to cash flows from operating activities is as follows:

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Profit for the year before tax from continuing operations		**448**	101
Adjustments for non-cash movements in net profit for the year			
Amortisation of available for sale assets		**58**	70
Depreciation	23	**22**	20
Amortisation and impairment of intangible assets	22	**114**	83
Fair value (gains)/losses on disposal of financial assets		**(15)**	15
Impairment on available for sale financial assets		**(4)**	(8)
Share of (profit) of associates		**(1)**	–
(Profit) on disposal of business and realised gains on held for sale assets		**(69)**	–
Remeasurement of disposal groups		**–**	234
Foreign exchange loss/(gain)		**7**	(87)
Other non-cash movements		**24**	17
Changes in operating assets/liabilities			
Loss and loss adjustment expenses		**2**	(308)
Unearned premiums		**68**	(76)
Movement in working capital		**(253)**	(69)
Reclassification of investment income and interest paid		**(181)**	(212)
Pension deficit funding		**(65)**	(65)
Cash generated from investment of insurance assets			
Dividend income		**32**	28
Interest and other investment income		**282**	328
Cash flows from operating activities		**469**	71

42) Leases

The operating lease payments recognised as an expense during the year are **£50m** (2016: £54m). 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	
	2017 £m	2016 £m	**2017 £m**	2016 £m
One year or less	**50**	44	**1**	1
Between one and five years	**146**	138	**2**	2
After five years	**145**	144	**–**	–
	341	326	**3**	3
Recoveries under sub tenancies	**(17)**	(5)	**–**	–
Total	**324**	321	**3**	3

Operating lease commitments where the Group is the lessor

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

	Land and buildings	
	2017 £m	2016 £m
One year or less	**19**	22
Between one and five years	**69**	74
After five years	**52**	62
Total	**140**	158

43) 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:

	2017 £m	2016 £m
Property and equipment	**51**	30
Intangible assets	**143**	98
Total	**194**	128

Funding commitments to structured entities and invested assets

The future commitments to structured entities are disclosed in note 27 of these financial statements. In addition, the Group has committed to invest **£22m** (2016: £24m) in other classes of investments.

44) 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.

Appendices

Appendix A: 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:

- 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 entitled by 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 acquisition.

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 on consolidation. 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.

Investment 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 on consolidation, where necessary, to the accounting policies of associates to ensure consistency with the policies adopted by the Group.

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 21. 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.

Foreign currency transactions
Foreign currency transactions are translated into the functional currency of the Group's business operations 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.

Internal loans
Where non-sterling loans are provided by RSA Insurance Group plc to its subsidiaries, the settlement of which is neither planned nor likely to occur in the foreseeable future, they are treated as part of its net investment in subsidiary which results in foreign exchange gains and losses being recognised in revaluation reserves.

Earnings per share
Basic earnings per share are 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 cash flows 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 cash flows
Where a derivative is designated as a hedging instrument against the cash flows 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 cash flow 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 cash flows of the security, both since the inception of the hedge.

The accumulated amount in the cash flow hedge reserve, is reclassified to the consolidated income statement in the period in which the hedged cash flows 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 consolidated income statement.

Property, Plant 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 26. 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 and 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 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 its 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, any associated revaluation surplus is transferred to retained earnings.

Investment property and rental income

Investment property is stated at fair value. The fair value methodology is set out in more detail in note 26. Unrealised gains and unrealised losses or changes are recognised in net investment return 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, and either the amount of the expected future outflow of economic resources or the likelihood of payment cannot be reliably estimated.

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 and is recognised in full on the date that the change is made.
- Premium policy instalment fee 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.
- Introductory commission income is received from third parties for introducing business to them and is recognised when the introduction is made.
- Service income refers to income received for operating a settlement function primarily for the Group and its Global Network Partners which is recognised over the period in which the relevant business is earned.
- Reinsurance commissions are recognised over the same period in which relevant expenses are recognised.

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 or charge 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 RSA 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.

Further information on the share schemes the Group operates can be found in note 18 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 properties and equipment 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 B: Subsidiaries and associates

Unless otherwise stated, the share capital disclosed comprises ordinary shares (or equivalent) which are 100% held within the Group. All of the subsidiaries listed are wholly owned within the Group and included in the consolidated accounts.

The proportion of voting power held equals the proportion ownership interest unless indicated.

	Class of shares held	% Held
Bahrain		
Al foo, Building, office no. 21, 2nd floor, Building no. 662, Road no. 2811, Block no. 428, Al Seef, Manama, Kingdom of Bahrain		
Royal & Sun Alliance Insurance (Middle East) BSC (c)		50
Brazil		
Avenida Major Sylvio de Magalhães Padilha, 5200, America Business Park, Ed. Dallas, conj. 31, sala 02, Jardim Morumbi, Zip Code 05693-000, City of São Paulo, State of São Paulo, Brazil		
Royal & Sun Alliance Insurance plc – Escritório de Representação no Brasil Ltda.		
Canada		
18 York Street, Suite 800, Toronto ON M5J 2T8, Canada		
3342484 Canada Limited		
8301140 Canada Limited		
Ascentus Insurance Ltd.		
Roins Financial Services Limited		
Roins Financial Services Limited[4]	Preference	
Roins Holding Limited		
Royal & Sun Alliance Insurance Company of Canada[4]	Class A Preferred	
Royal & Sun Alliance Insurance Company of Canada		99.996
RSA Travel Insurance Inc.		
Western Assurance Company		
208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada		
Coast Underwriters Limited[4]	Class 1 Preferred Unlimited	
Coast Underwriters Limited[4]	Class 2 Preferred Unlimited	
Coast Underwriters Limited	Class A	85.42
Coast Underwriters Limited[4]	Class B1	
MRM Solutions Limited[6]	Class A Common	
MRM Solutions Limited[4] [6]	Class B Common	
555 West Hastings Street, Suite 1900, Vancouver BC V6B 4N6, Canada		
Canadian Northern Shield Insurance Company		
2475 Laurier Blvd., Quebec City, Québec G1T 1C4, Canada		
Quebec Assurance Company		
1800 – 401 West Georgia Street, Vancouver BC V6B 5A1, Canada		
Shaw Sabey & Associates Ltd.[3]	Common Unlimited	25
Fort William Building, 10 Factory Lane, St. John's Newfoundland A1C 6H5, Canada		
Johnson Inc.	Series A Common	
Johnson Inc.	Series B Common	
The Johnson Corporation		
Unifund Assurance Company		
Unifund Assurance Company[4]	Preferred	
Unifund Claims Inc.		
Denmark		
Codanhus, Gammel Kongevej 60, DK-1790 Kobenhavn V, Denmark		
Codan A/S		
Codan Ejendomme II A/S		
Codan Forsikring A/S		
Forsikringsselskabet Privatsikring A/S		
Guernsey		
Dixcart House, Sir William Place, St. Peter Port, Guernsey, GY1 4EY		
Insurance Corporation of the Channel Islands Limited		
Insurance Corporation Service Company Limited		
India		
Rider House, Plot No.136, Sector 44, Gurgaon, Haryana, 122002, India		
Royal & Sun Alliance IT Solutions (India) Private Limited		
First Floor, Building 10 C, Cyber City Complex, DLF Phase II, Gurgaon, Haryana, 122002, India		
RSA Actuarial Services (India) Private Limited		

	Class of shares held	% Held
Ireland		
RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
123 Money Limited[4]	B1 Ordinary	
123 Money Limited[4]	B2 Ordinary	
123 Money Limited[4]	B3 Ordinary	
123 Money Limited[4]	B4 Ordinary	
123 Money Limited[4]	B5 Ordinary	
123 Money Limited[4]	C Ordinary	
123 Money Limited		
Benchmark Underwriting Limited		
EGI Holdings Limited		
Europa General Underwriters Limited		
Royal & Sun Alliance (Ireland) Limited		
RSA Insurance Ireland DAC		
RSA Overseas Holdings (No 1) Unlimited Company		
RSA Overseas Holdings (No. 2) Unlimited Company		
RSA Reinsurance Ireland Limited		
Sertus Underwriting Limited		
The Patriotic Limited		
Isle of Man		
33–37 Athol Street, Douglas, IM1 1LB, Isle of Man		
RSA Isle of Man No.1 Limited		
Third Floor, Exchange House, 54/62 Athol Street, Douglas, IM1 1JD, Isle of Man		
RSA Manx Holdings Limited		
Jubilee Buildings, 1 Victoria Street, Douglas, IM99 1BF, Isle of Man		
Royal Insurance Service Company (Isle of Man) Limited		
Tower Insurance Company Limited		
Jersey		
Elizabeth House, 9 Castle Street, St Helier, JE2 3RT, Jersey		
URICA Capital Limited[3]	Participating	49.95
Luxembourg		
19, rue de Bitbourg, L–1273 Luxembourg		
RSA Overseas Holdings (Luxembourg) (No 1) SARL		
RSA Luxembourg S.A.		

	Class of shares held	% Held
Netherlands		
20 Fenchurch Street, London, EC3M 3AU, United Kingdom		
IDIP Direct Insurance B.V.		
Intouch Insurance Group B.V.		
RSA Overseas (Netherlands) B.V.		
RSA Overseas Holdings B.V.		
Sun Alliance Finance B.V.		
Wilhelminakade 97–99, 3072 AP Rotterdam, Netherlands		
GDII – Global Direct Insurance Investments V.O.F.	Partnership Interest	
Royal Insurance Global B.V.		
Norway		
Verkstedveien 3, 0277 OSLA, Norway		
NIS Norway AS		
Oman		
PO Box 889, 100, Oman		
Al Ahlia Insurance Company SAOC[7]		52.5
Russian Federation		
Sadovay Square, 3 Office 667, 121099, Moscow, Russia		
GDII – Rus L.L.C.		
Saudi Arabia		
Office No.203, 2nd Floor, Home Centre Building, Tahlia Street, Suleymaniyah, Riyadh, Kingdom of Saudi Arabia		
Al Alamiya for Cooperative Insurance Company[7]		50.07
Sweden		
c/o Trygg-Hansa Försäkring Filial, 10626, Stockholm, Sweden		
Holmia Livforsakring AB		
NIS Sweden I AB		
Stortorget 11, S–702 11 Örebro, Sweden		
CAB Group AB[3]		27.27

United Kingdom

	Class of shares held	% Held
5th Floor, United Kingdom House, 180 Oxford Street, London, W1D 1NN, United Kingdom		
Centrium Management Company Limited[3]		31.45
10 Buckingham Gate, London, SW1E 6LA, United Kingdom		
Punchbowl Park Management Limited[3] [5]		65.09
30 Finsbury Square, London, EC2P 2YU, United Kingdom		
Acrecrest Limited		
British and Foreign Marine Insurance Company Limited		
Codan Finance Limited		
Liverpool Marine and General Insurance Company Limited		
London Guarantee & Reinsurance Company Limited		
RSA CRS (US) Limited		
RSA E-Holdings Limited		
RSA Engineering Limited[1]		
RSA Overseas Holdings (UK) Limited		
Sun Alliance Fund Management Limited[1]		
Sun Alliance Insurance International Limited		
Sun Alliance Insurance UK Limited		
Sun Alliance Management Services Limited		
Swinchan Holdings Limited[1]		
The Northern Maritime Insurance Company Limited		
The Union Marine and General Insurance Company Limited		
The Westminster Fire Office Limited		
82 King Street, Manchester, M2 4WQ, United Kingdom		
Caunce O'Hara & Company Limited[3]		39
c/o UCL Business Plc, The Network Building 97, Tottenham Court Road, London, W1T 4TP, United Kingdom		
Eurotempest Limited[3]		33.33
Clinton House, 12 Lombard Street, Newark, Nottinghamshire, NG24 1XB, United Kingdom		
Noble Marine (Insurance Brokers) Limited		
Noble Marine (Underwriting Agencies) Limited		
New London House, 6 London Street, London, EC3R 7LP, United Kingdom		
Polaris U.K. Limited[3]		25.38
Fitzwilliam House, 10 St Mary Axe, London, EC3A 8EQ, United Kingdom		
British Aviation Insurance Company Limited		57.10
Law Society House, 90-106 Victoria Street, Belfast, BT1 3GN, Northern Ireland		
RSA Northern Ireland Insurance Limited		
Level 8, 110 Queen Street, Glasgow, G1 3BX, United Kingdom		
Century Insurance Company Limited		
St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Alliance Assurance Company Limited		
National Vulcan Engineering Insurance Group Limited		
Non-Destructive Testers Limited		
Oak Underwriting plc		
R&SA Global Network Limited		64
R&SA Marketing Services Limited		
Royal & Sun Alliance Insurance (Global) Limited		
Royal & Sun Alliance Insurance plc	Class A Ordinary	
Royal & Sun Alliance Insurance plc[4]	Class B Ordinary	
Royal & Sun Alliance Pension Trustee Limited		
Royal & Sun Alliance Property Services Limited		
Royal & Sun Alliance Reinsurance Limited		
Royal Insurance Holdings Limited[1]		
Royal International Insurance Holdings Limited	£1.00 Ordinary	
Royal International Insurance Holdings Limited	US$1.00 Ordinary	
Royal Insurance (U.K.) Limited		
Roysun Limited		
RSA Accident Repairs Limited		
RSA Finance		
RSA Law Limited		90

	Class of shares held	% Held
Sal Pension Fund Limited[1]		99.99
Sun Alliance and London Insurance Limited		
Sun Alliance Insurance Overseas Limited		
Sun Alliance Mortgage Company Limited[1]		
Sun Insurance Office Limited		
The Globe Insurance Company Limited		
The London Assurance		
The Marine Insurance Company Limited		
The Sea Insurance Company Limited		
Westgate Properties Limited		

United States

Wall Street Plaza, 88 Pine Street, 31st Floor, New York, NY 10005, United States		
Royal & Sun Alliance Insurance Agency Inc.		

Notes:
1. Directly owned by the parent company RSA Insurance Group plc.
2. No subsidiary holds a disclosable interest in the shares of RSA Insurance Group plc.
3. Indicates that the holding represents an Investment or is an Associate of the Group.
4. Indicates ownership of non-voting shares.
5. There is no subsidiary where the Group holds less than 50% of the voting rights. There are no entities where the Group holds more than 50% of the voting rights which are not subsidiaries other than Punchbowl.
6. The percentage held relates to the actual percentage of the share capital held and not the effective percentage held (85.42%).
7. In relation to Al Ahlia Insurance Company SAOC, (listed on the Muscat Securities Market, Oman Stock Exchange) and Al Alamiya for Cooperative Insurance Company (listed on the Tadawul, Saudi Stock Exchange), the percentage held relates to the actual percentage of the share capital held and not the effective percentage held (which is 26.25% and 25.04% respectively).

Financial Statements of the Parent Company

Parent Company Statement of Comprehensive Income

for the year ended 31 December 2017

	2017 £m	2016 £m
(Loss)/profit for the year net of tax	(18)	347
Fair value gains net of tax	753	1,285
Total comprehensive income for the year	735	1,632

The loss for the year net of tax includes a tax credit of **£16m** (2016: charge £6m). There is no tax relating to fair value gains.

Parent Company Statement of Changes in Equity

for the year ended 31 December 2017

	Ordinary share capital £m	Ordinary share premium £m	Own shares £m	Preference shares £m	Revaluation reserves £m	Capital redemption reserve £m	Retained earnings £m	Tier 1 notes £m	Total equity £m
Balance at 1 January 2016	1,017	1,077	–	125	1,170	389	991	–	4,769
Total comprehensive income for the year									
Profit for the year net of tax	–	–	–	–	–	–	347	–	347
Fair value gains net of tax	–	–	–	–	1,285	–	–	–	1,285
	–	–	–	–	1,285	–	347	–	1,632
Dividends – paid (note 5)	–	–	–	–	–	–	(131)	–	(131)
Purchase of own shares	–	–	(1)	–	–	–	–	–	(1)
Shares issued for cash (note 9)	2	3	–	–	–	–	–	–	5
Share based payments	1	–	–	–	–	–	15	–	16
Balance at 1 January 2017	1,020	1,080	(1)	125	2,455	389	1,222	–	6,290
Total comprehensive income/ (expense) for the year									
Loss for the year net of tax	–	–	–	–	–	–	(18)	–	(18)
Fair value gains net of tax	–	–	–	–	753	–	–	–	753
	–	–	–	–	753	–	(18)	–	735
Dividends – paid (note 5)	–	–	–	–	–	–	(200)	–	(200)
Shares issued for cash (note 9)	1	3	–	–	–	–	–	–	4
Issue of Tier 1 notes (note 10)	–	–	–	–	–	–	–	297	297
Share based payments	2	–	–	–	–	–	14	–	16
Balance at 31 December 2017	1,023	1,083	(1)	125	3,208	389	1,018	297	7,142

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

Parent Company Statement of Financial Position

as at 31 December 2017

	Note	2017 £m	2016 £m
Assets			
Investments	6	**5,801**	5,386
Amounts owed by subsidiaries	3	**2,203**	2,210
Current tax assets	7	**10**	1
Deferred tax assets	7	**6**	–
Other debtors and other assets	8	**1**	1
		2,220	2,212
Cash and cash equivalents		**3**	3
Total assets		**8,024**	7,601
Equity and liabilities			
Equity			
Shareholders' equity		**7,142**	6,290
Total equity		**7,142**	6,290
Liabilities			
Amounts owed to subsidiaries	3	**404**	168
Loan capital	11	**441**	1,068
Accruals and other liabilities		**37**	75
Total liabilities		**882**	1,311
Total equity and liabilities		**8,024**	7,601

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

The loss for the year net of tax was **£18m** (2016: £347m profit).

The separate financial statements were approved on 21 February 2018 by the Board of Directors and are signed on its behalf by:

Scott Egan
Group Chief Financial Officer

Parent Company Statement of Cash flows

for the year ended 31 December 2017

	2017 £m	Re-presented[1] 2016 £m
Cash flows from operating activities		
(Loss)/profit for the year before tax	**(34)**	353
Adjustments for non-cash movements in net profit for the year		
Impairment of subsidiary	**–**	16
Share based payments	**16**	16
Other non-cash movements	**8**	15
Changes in operating assets/liabilities		
Movement in working capital	**(5)**	60
Reclassification of investment income and interest paid	**8**	(401)
Cash generated from investment of insurance assets		
Dividend income	**–**	416
Interest and other investment income	**36**	70
Tax paid	**1**	8
Total net cash flows from operating activities	**30**	553
Cash flows from investing activities		
Net movement in amounts owed by subsidiaries	**242**	(331)
Repayment of loan capital from subsidiaries	**386**	239
Total net cash flows from investing activities	**628**	(92)
Cash flows from financing activities		
Proceeds from issue of share capital	**4**	5
Proceeds from issue of Tier 1 notes	**297**	–
Purchase of own shares	**–**	(1)
Dividends paid to ordinary shareholders	**(180)**	(122)
Coupon payment on Tier 1 notes	**(11)**	–
Dividends paid to preference shareholders	**(9)**	(9)
Redemption of debt instruments	**(636)**	(200)
Interest paid	**(123)**	(135)
Net cash flows from financing activities	**(658)**	(462)
Net increase/(decrease) in cash and cash equivalents	**–**	(1)
Cash and cash equivalents at the beginning of the year	**3**	4
Cash and cash equivalents at the end of the year	**3**	3

Notes:
1. 2016 Cash flow has been re-presented to provide further analysis of adjustments for non-cash movements and changes in operating assets and liabilities and to bring into line with the Consolidated Statement of Cash flows.

The attached notes form an integral part of these 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 endorsed by the European Union (EU) and the Companies Act 2006 where applicable.

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.

New accounting standards, interpretations and amendments

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' has been issued to replace IAS 39 'Financial Instruments: Recognition and Measurement' and primarily changes the classification and measurement of financial assets, depending on the business model under which they are held, as well as hedge accounting requirements and recognising expected credit losses.

IFRS 9 'Financial Instruments' is applicable for annual reporting periods beginning on or after 1 January 2018 and will be adopted by the Company from that date. It is intended that the Company will elect for its investment in subsidiaries at fair value through other comprehensive income, which if adopted in 2017 would not have had a significant impact on the Company's result for the year or its financial position.

IFRS 15 'Revenue Recognition'

IFRS 15 'Revenue Recognition' is effective from 1 January 2018 which if adopted in 2017 would not have had a significant impact on the Company's result for the year or its financial position.

IFRS 16 'Leases'

IFRS 16 'Leases' which replaces the existing standard IAS 17, becomes effective, at the latest, for periods beginning on or after 1 January 2019 and is not expected to have any impact on the Company.

2) Risk and capital 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 and capital management section of the consolidated financial statements.

3) Related party transactions

The following transactions were carried out with related parties:

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 **6%** (2016: 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 **£56m** (2016: £80m).

Key management compensation

	2017 £m	2016 £m
Salaries and other short term employee benefits	**7**	7
Bonus awards	**3**	5
Pension benefits	**–**	1
Share based awards	**5**	4
Total	**15**	17

Other transactions

Year end balances with related parties are set out below:

	2017 £m	2016 £m
Receivable from related parties:		
Receivable from subsidiaries, interest bearing loans	**1,857**	1,857
Receivable from subsidiaries, non interest bearing loan	**346**	353
Total receivable from related parties	**2,203**	2,210
Payable to related parties:		
Payable to subsidiaries, interest bearing loans	**53**	15
Payable to subsidiaries, non interest bearing loan	**351**	153
Total payable to related parties	**404**	168

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 plus margins ranging from 0.60% to 2.50%.

Interest is payable on interest bearing loans from subsidiaries, which are repayable on 24 hours written notice. The rates of interest charged are at three months LIBOR plus margins ranging from 0.40% to 2.00%.

Interest received from subsidiaries is **£37m** (2016: £72m), and interest paid to subsidiaries is **£1m** (2016: £3m).

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.

4) Share based payments

Full details of share based compensation plans are provided in note 18 to the consolidated financial statements.

5) Dividends paid and proposed

Full details of the dividends paid and proposed by the Company are set out in note 20 to the consolidated financial statements.

6) Investments

	2017 £m	2016 £m
Investments at 1 January	**5,386**	4,317
Reductions during the year	**(338)**	(200)
Impairment during the year	**–**	(16)
Fair value adjustments	**753**	1,285
Investments at 31 December	**5,801**	5,386

The balance at 31 December comprises:

	2017 £m	2016 £m
Investment in subsidiaries	**5,765**	4,970
Loans to subsidiaries	**36**	416
	5,801	5,386

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 cash flow 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 loan to a subsidiary has the same terms as the external loan capital from which the loan to the subsidiary was financed. The fair value of the loan is based on the quoted prices for the external loan capital. The nominal value of the loan is **£32m** (2016: £292m) with an interest rate of 9.375%. During the year the outstanding value of a further loan to a subsidiary was repaid, this had a nominal value at 31 December 2016 of £78m.

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 2017 was **632.5p**. A movement of 1% in the share price would have an impact of **£65m** on the fair value.

Full details of the principal subsidiaries of the Company are set out in Appendix B to the consolidated financial statements.

7) Current and deferred tax

Current Tax

	Asset		Liability	
	2017 £m	2016 £m	2017 £m	2016 £m
To be settled within 12 months	**10**	1	**–**	–
	10	1	**–**	–

The current tax relating to items that are credited to equity is **£nil** (2016: £nil).

Deferred Tax

Deferred tax for the current year is based on a rate of **17%** (2016: 17%). The following are the major deferred tax assets recognised by the Company and movements during the year:

	2017 £m	2016 £m
Depreciation in excess of capital allowances	**6**	–
Net deferred tax position at 31 December	**6**	–

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

	2017 £m	2016 £m
Net deferred tax position at 1 January	–	8
Amount credited/(charged) to income statement	6	(7)
Effect of change in tax rates – income statement	–	(1)
Net deferred tax position at 31 December	6	–

No deferred tax has been recognised in respect of **£7m** (2016: £47m) of deferred tax reliefs due to the unpredictability of future profits streams.

Net deferred tax assets of **£6m** (2016: £nil), 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.

8) Other debtors and other assets – to be settled within 12 months

	2017 £m	2016 £m
Other prepayments and accrued income	1	1
Total other debtors and other assets	1	1

9) Share capital
Full details of the share capital of the Company are set out in note 32 to the consolidated financial statements.

10) Tier 1 notes
Full details of the Tier 1 notes are set out in note 33 to the consolidated financial statements.

11) Loan capital
Full details of the loan capital of the Company are set out in note 35 to the consolidated financial statements.

SHAREHOLDER INFORMATION

The Company is registered in England and Wales under Company No. 2339826. Its registered office address is 20 Fenchurch Street, London EC3M 3AU (Telephone: +44(0) 20 7111 7000).

The Company's corporate website provides shareholders with a broad range of information about the Group'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/investors for further information.

The Company's share register is maintained by Equiniti Limited (Equiniti). Any administrative enquiries relating to shareholdings, such as dividend payment instructions or a change of address, should be notified to Equiniti, 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 public holidays in England and Wales. 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

The 2018 AGM will be held at 200 Aldersgate, St Paul's, London EC1A 4HD on Friday, 11 May 2018 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/AGM2018.

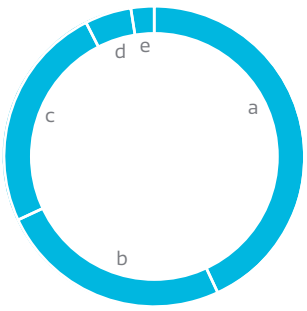
Separate resolutions are proposed on each item of business. In accordance with the provisions of the Articles of Association, any proxy form sent by the Company to shareholders in relation to any general meeting must be returned to the Company, whether in written form or in electronic form, not less 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 Ordinary Share of which he/she is the holder. Each resolution will be put to a poll at the AGM in 2018. 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/AGM2018.

Ordinary Share performance

The average total daily trading volume on the London Stock Exchange during 2017 was approximately 2.99m Ordinary Shares. The opening market price of an ordinary share on 3 January 2017 was 588.5 pence and the closing market price on 29 December 2017 was 632.5 pence. The highest daily closing price of an ordinary share during 2017 was 666.5 pence on 31 August 2017 and the lowest daily closing price was 562.5 pence on 23 January 2017.

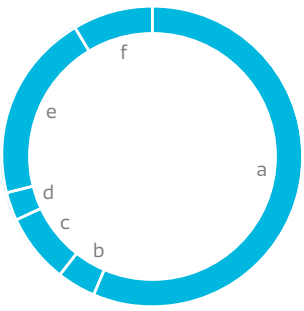
Distribution of shares by geography as at 29 December 2017 (threshold 25,000 Ordinary shares and above)

a. UK 43.2%
b. Europe 25.0%
c. US and Canada 24.4%
d. Rest of World 5.0%
e. Unknown and below threshold 2.4%



Analysis of Beneficial Holders as at 29 December 2017 (threshold 25,000 Ordinary shares and above)

a. Unit Trust/Mutual funds 56.48%
b. Private/Retail 4.32%
c. Pension funds 7.32%
d. Insurance 3.02%
e. Other 20.48%
f. Unknown and below threshold 8.38%



Registered shareholdings by size as at 31 December 2017

	No of Holdings	No of Shares	% of Holdings	% of Shares
1 and 24,999	28,128	24,731,011	97.81	2.42
25,000 and 99,999	259	13,686,476	0.90	1.34
100,000 and 499,999	190	42,878,016	0.66	4.19
500,000 and 999,999	61	44,776,111	0.21	4.38
1,000,000 and 1,999,999	44	60,949,180	0.15	5.96
2,000,000 and 9,999,999,999	79	835,814,245	0.27	81.71
Total	28,761	1,022,835,039	100.00	100.00

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. One ADR represents one Ordinary Share of £1.00 each.

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.

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.

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 account, receive annual dividend confirmations once a year, showing payments received in the respective tax year. Alternatively, individual dividend confirmations are available upon request. To take advantage of this convenient method of payment visit www.shareview.co.uk or contact Equiniti. Details of 2018 dividend dates are detailed overleaf.

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.

Corporate Sponsored Nominee (CSN)

The RSA CSN is an easy and convenient way for you to hold and manage your RSA shares electronically, so there is no need for a paper certificate. You are still the beneficial owner of the shares and you can instruct the nominee to buy, sell or transfer your holding on your behalf.

Shareholders participating in this service continue to receive dividend payments and annual reports and can attend and vote at RSA's general meetings. The service is administered by Equiniti Financial Services Limited, part of the same group of companies as our Registrar, Equiniti.

If you would like to join, please call Equiniti on 0371 384 2048 to obtain an application form today or visit www.shareview.co.uk/info/csn for more information, including the CSN terms and conditions. Lines are open 8:30am to 5:30pm (UK time), Monday to Friday, excluding public holidays in England and Wales.

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 offers a telephone and internet dealing service. Commission is 1.5 percent (rate quoted as at 21 February 2018 and may be subject to change) on amounts up to £50,000 and 0.25 percent 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 public holidays in England and Wales. For internet sales log on to www.shareview.co.uk/dealing. Please quote your shareholder reference number.

Stocktrade offers an online dealing service. An account can be opened by visiting www.alliancetrustsavings.co.uk, applying for an account which enable to buy, sell or transfer. Alternatively call + 44 (0) 13 8257 3737 for more detailed information on commission charges and their full terms and conditions.

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.

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/scamsmart. More information on protecting your investment can be found at www.fca.org.uk/consumers. 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
- 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 account or in the Corporate Sponsored 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 (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

1 March 2018
Ex-dividend date for the ordinary final dividend for 2017 and the first preference dividend for 2018

2 March 2018
Record date for the ordinary final dividend for 2017 and the first preference dividend for 2018

3 April 2018
Payment date for the first preference dividend for 2018

10 May 2018
Q1 Trading Update

11 May 2018
Annual General Meeting

18 May 2018
Payment date for the ordinary final dividend for 2017

9 August 2018*
Announcement of the half-year results for the six months ended 30 June 2018

16 August 2018*
Ex-dividend date for the second preference dividend for 2018

17 August 2018*
Record date for the second preference dividend for 2018

6 September 2018*
Ex-dividend date for the ordinary interim dividend for 2018

7 September 2018*
Record date for the ordinary interim dividend for 2018

1 October 2018*
Payment date for the second preference dividend for 2018

12 October 2018*
Payment date of the ordinary interim dividend for 2018

1 November 2018*
Q3 Trading Update

*provisional date

JARGON BUSTER & ALTERNATIVE PERFORMANCE MEASURES

Set out below are explanations of the key technical terms and alternative performance measures (APMs) used within this report. APMs are complementary to measures defined within International Financial Reporting Standards (IFRS) and are used by management to explain the Group's business performance and financial position. They include common insurance industry metrics, as well as measures management and the Board consider are more representative of its underlying trading performance and that provide more meaningful comparisons between periods and business segments. APMs are identifiable within Group tables by the symbol ◊, and those used to determine management and executive remuneration are identified below with ◊*. A reconciliation of APMs to their nearest IFRS Income Statement equivalents, detailing the adjustments made, can be found below.

Term	Definition	APM	Reconciliation	
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.			
Attritional Loss Ratio	This is the underlying loss ratio (net incurred claims and claims handling expense as a proportion of net earned premium) of our business prior to volatile impacts from weather, large losses and prior-year reserve developments.	◊	1	R
Claims Frequency	Average number of claims per policy over the year.			
Claims Handling Expenses	The administrative cost of processing a claim (such as salary costs, costs of running claims centres, allocated share of the costs of head office units) which are separate to the cost of settling the claim itself with the policyholder.			
Claims Ratio (Loss Ratio)	Percentage of net earned premiums that is paid out in claims and claims handling expenses.	◊	1	V
Claims Reserve (Provision for Losses and Loss Adjustment Expenses)	A provision established to cover the estimated cost of claims payments and claims handling expenses that are still to be settled and incurred in respect of insurance cover provided to policyholders up to the reporting date.			
Claims Severity	Average cost of claims incurred over the period.			
Combined Operating Ratio (COR)	A measure of underwriting performance calculated on an 'earned' basis as follows: COR = loss ratio + commission ratio + expense ratio, where Loss ratio = net incurred claims / net earned premiums Commission ratio = commissions / net earned premiums Expense ratio = operating expenses / net earned premiums	◊*	1	Y
Commission	An amount paid to an intermediary such as a broker for introducing business to the Group.			
Constant Exchange (CFX)	Prior period comparative retranslated at current period exchange rates.	◊	4	N/a
Controllable Costs / Expenses	A measure of operating expenses incurred by the Group in undertaking business activities, predominantly underwriting and policy acquisition costs, excluding commission and premium related costs such as levies. They are adjusted to include claims handling costs that are reported within net claims incurred.	◊*	5	N/a
Current Year Underwriting Result	The profit or loss earned from business for which insurance cover has been provided during the current financial period.	◊	1	Q
Expense Ratio	Underwriting and policy expenses expressed as a percentage of net earned premium.	◊	1	X
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 with responsibility for the conduct of the UK financial services industry.			
Gross Written Premium (GWP)	Total revenue generated through sale of insurance products. This is before taking into account reinsurance and is stated irrespective of whether payment has been received.			
IBNR (Incurred But Not Yet Reported)	An estimated reserve for amounts owed to all valid claimants who have had a covered loss but have not yet reported it and for claims that have been reported but the cost is not yet known.			
Interest Costs	Interest costs represent the cost of Group debt excluding any debt buy back costs.	◊	1	O

Term	Definition	APM	Reconciliation	
Investment Result	Investment result is the money we make from our investments on a management basis. It comprises the major component of net investment return, investment income, in addition to unwind of discount and investment expenses.	◊	1	AA
Large Losses	Single claim or all claims arising from a single loss event with a net cost of £500k or higher.			
Large Loss Ratio	The large loss ratio is an expression of claims incurred in the period with a net cost of £500k or higher as a percentage of net earned premium over the same period.	◊	1	T
Net Asset Value (NAV) per Share	Net asset value per share is calculated as closing shareholders' funds, less preference share capital, divided by the number of shares in issue at the end of the period.	◊	3	E
Net Earned Premium (NEP)	The proportion of premium written, net of the cost of associated reinsurance, which represents the consideration charged to policyholders for providing insurance cover during the reporting period.			
Net Incurred Claims (NIC)	The total claims cost incurred in the period less any share that is borne by reinsurers. It includes both claims payments and movements in claims reserves and claims handling expenses in the period.			
Net Written Premium (NWP)	Premium written or processed in the period, irrespective of whether it has been paid, less the amount shared with reinsurers.			
Non-Operating Charges	Non-operating charges represent items that are excluded to arrive at the underlying profit after tax measure.	◊	1	AD
	Item: Gains and losses arising from the disposal of businesses — Reason for classification: To allow assessment of the performance of ongoing business activities			
	Item: Amortisation of intangible assets — Reason for classification: To allow meaningful assessment of segmental performance where similar internally generated assets are not capitalised			
	Item: Impairment of intangible assets — Reason for classification: Where the impairment arises from restructuring activities			
	Item: Reorganisation costs — Reason for classification: To allow assessment of the performance of ongoing business activities	◊	1	AD
	Item: Pension administration and net interest costs — Reason for classification: Costs that are dependent on the level of defined benefit pension scheme plan funding and arise from servicing past pension commitments			
	Item: Realised and unrealised gains and losses on investments / foreign exchange gains and losses — Reason for classification: To remove the impact of market volatility and investment rebalancing activity			
	Item: Debt buy back costs — Reason for classification: To allow meaningful assessment of ongoing finance costs			
Operating Profit	Operating profit is profit before tax less non-operating charges.	◊	1	AC
Payout Ratio	Ordinary dividends expressed as a percentage of underlying profit after tax attributable to ordinary shareholders.			
Policies in Force	The number of active insurance policies for which Group is providing cover.			
Prior Year Underwriting Result	Updates to premium, claims, commission and expense estimates relating to prior years.	◊	1	P
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.			
Pull to par	The movement of a bond's price toward its face value as it approaches its maturity date.			
Rate	The price of a unit of insurance based on a standard risk for one year. Actual premium charged to the policyholder may differ from the rate due to individual risk characteristics and marketing discounts.			
Reinsurance	The practice whereby part or all of the risk accepted is transferred to another insurer (the reinsurer).			

Jargon Buster & Alternative Performance Measures *continued*

Term	Definition	APM	Reconciliation	
Reported Exchange (RFX)	Prior period comparative translated at exchange rates applicable at that time.			
Return on Equity	Profit attributable to ordinary shareholders (profit after tax excluding non-controlling interests, coupon on tier 1 notes and preference dividend) expressed in relation to opening ordinary shareholders' funds (opening ordinary shareholders funds less preference share capital).	◊	2	F
Return on Tangible Equity	Profit attributable to ordinary shareholders (profit after tax excluding non-controlling interests, coupon on tier 1 notes and preference dividend) expressed in relation to opening tangible net asset value.	◊	2	H
Solvency II	Capital adequacy regime for the European insurance industry which commenced in 2016 and is based on a 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 would issue new shares to meet the scrip demand.			
Tangible Net Asset Value (TNAV)	Tangible net asset value comprises shareholders' equity, less preference share capital and goodwill and intangible assets.	◊*	3	C
Tangible Net Asset Value (TNAV) per Share	Tangible net asset value, divided by the number of shares in issue at the end of the period.	◊	3	F
Underlying Profit after Tax	This provides a key measure of shareholder value and one that informs overall valuation in the insurance sector. It takes profit after tax, excluding the proportion that is attributable to non-controlling interests, preference shareholders and Tier 1 note holders and adds back the after tax impact of non-operating charges.	◊*	2	B
Underlying Return on Equity	Underlying profit after tax expressed in relation to opening shareholders funds excluding preference share capital.	◊	2	G
Underlying Return on Tangible Equity	A key measure of shareholder value and one that informs overall valuation in the insurance sector. Underlying profit after tax expressed in relation to opening tangible net asset value.	◊*	2	I
Underlying Tax Rate	The underlying Core Group tax rate mainly comprising the local statutory tax rates in the Group's territories applied to underlying regional profits (operating profits less interest costs).	◊	6	A
Underlying Earnings per Share (EPS)	A key measure of the underlying earnings power of the Group as it excludes shorter-term and temporary changes, such as restructuring costs. Underlying earnings per share is calculated as underlying profit after tax, divided by the weighted average number of shares in issue during the period.	◊	2	K
Underwriting Result	A measure of underwriting performance calculated as net earned premium less net claims and underwriting and policy acquisition costs.	◊	1	Z
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 claims incurred with a net cost of £500k or higher.			
Weather Loss Ratio	The weather loss ratio is an expression of weather losses in the period with a net cost of £500k or higher as a percentage of earned premium.	◊	1	S
Yield	Rate of return on an investment in percentage terms. The dividend payable on a share expressed as a percentage of the market price.			

1. Reconciliation between IFRS and management P&L

For the 12 months ended 31st December 2017

£m	Continuing	Discontinued	Total		Under-writing result	Investment result	Central costs	Operating result	Non-operating charges	Profit before tax
	IFRS				Management					
Income										
Gross written premiums	7,599	–	7,599		7,599					
Less: reinsurance premiums	(921)	–	(921)		(921)					
Net written premiums	6,678	–	6,678		6,678					
Change in gross provision for unearned premiums	(16)	–	(16)		(16)					
Less: change in provision for unearned reinsurance premiums	(57)	–	(57)		(57)					
Change in provision for unearned premiums	(73)	–	(73)		(73)					
Net earned premiums, analysed as	6,605	–	6,605	A	6,605					
Current year				B	6,590					
Prior year				C	15					
					6,605					
Investment income	331		331	D		331				
Realised gains on investments	19		19						19	
Gains/(losses) on exchange derivatives	(5)		(5)						(5)	
Unrealised gains/(losses)	1		1						1	
Impairments	4		4						4	
Net investment return	350	–	350							
Other insurance income	146		146	E	146					
Other non-insurance income	4		4				4			
Foreign exchange gain	–		–						–	
Other operating income	150	–	150							
Total income	7,105	–	7,105							
Expenses										
Gross claims incurred	(5,136)	–	(5,136)		(5,136)					
Less: claims recoveries from reinsurers	786	–	786		786					
Net claims, analysed as	(4,350)	–	(4,350)	F	(4,350)					
Attritional				G	(3,642)					
Weather				H	(168)					
Large				I	(713)					
Prior year				J	173					
					(4,350)					
Earned CY commission	(883)		(883)	K	(883)					
Earned PY commission	(28)		(28)	L	(28)					
Earned CY operating expenses	(1,093)		(1,093)	M	(1,093)					
Earned PY operating expenses	(3)		(3)	N	(3)					
Underwriting and policy acquisition costs	(2,007)	–	(2,007)		(2,007)					
Unwind of discount	(34)	–	(34)			(34)				
Investment expenses	(13)		(13)			(13)				
Non-insurance expenses	(3)		(3)				(3)			
Central expenses	(17)		(17)				(17)			
Amortisation of intangible assets	(15)		(15)						(15)	
Pension net interest and administration costs	(7)		(7)						(7)	
Reorganisation costs	(155)		(155)						(155)	
Foreign exchange losses	(1)		(1)						(1)	
Impairment of intangibles	(23)		(23)						(23)	
Other operating expenses	(234)	–	(234)							
	(6,625)	–	(6,625)							
Interest costs	(43)		(43)						(43)	
Debt buy back costs	(59)		(59)						(59)	
Finance costs	(102)	–	(102)						(102)	
Acquisitions and disposals	69	–	69						69	
Net share of profit after tax of associates	1	–	1				1			
Profit/(loss) before tax	448	–	448		394	284	(15)	663	(215)	448
Income tax expense	(126)	–	(126)		Z	AA	AB	AC	AD	
Profit/(loss) for the year	322	–	322							

	C+J+L+N	P	157 PY Underwriting
	Z – P	Q	237 CY Underwriting
			394

Attritional loss ratio	G / B	R	55.3%
Weather loss ratio	H / B	S	2.6%
Large loss ratio	I / B	T	10.8%
Prior year loss ratio	V–R–S–T	U	(2.8%)
Loss ratio	F/A	V	65.9%
Commission ratio	(K+L) / A	W	13.7%
Expense ratio	(E+M+N) / A	X	14.4%
Combined operating ratio	V + W + X	Y	94.0%

1. Reconciliation between IFRS and management P&L

For the 12 months ended 31st December 2016

£m	Continuing	Discontinued	Total		Under-writing result	Investment result	Central costs	Operating result	Non-operating charges	Profit before tax	
	IFRS				Management						
Income											
Gross written premiums	7,220	256	7,476		7,476						
Less: reinsurance premiums	(981)	(87)	(1,068)		(1,068)						
Net written premiums	6,239	169	6,408		6,408						
Change in gross provision for unearned premiums	109	38	147		147						
Less: change in provision for unearned reinsurance premiums	(8)	(19)	(27)		(27)						
Change in provision for unearned premiums	101	19	120		120						
Net earned premiums, analysed as	6,340	188	6,528	A	6,528						
Current year				B	6,542						
Prior year				C	(14)						
					6,528						
Investment income	355	14	369	D		369					
Realised gains on investments	28	2	30						30		
Gains/(losses) on exchange derivatives	(41)		(41)						(41)		
Unrealised gains/(losses)	(3)		(3)						(3)		
Impairments	8		8						8		
Net investment return	347	16	363								
Other insurance income	133		133	E	133						
Other non-insurance income	5		5				5				
Foreign exchange gain	32		32						32		
Other operating income	170	–	170								
Total income	6,857	204	7,061								
Expenses											
Gross claims incurred	(4,826)	(304)	(5,130)		(5,130)						
Less: claims recoveries from reinsurers	707	208	915		915						
Net claims, analysed as	(4,119)	(96)	(4,215)	F	(4,215)						
Attritional				G	(3,605)						
Weather				H	(166)						
Large				I	(583)						
Prior year				J	139						
					(4,215)						
Earned CY commission	(873)	(56)	(929)	K	(929)						
Earned PY commission	(12)		(12)	L	(12)						
Earned CY operating expenses	(1,088)	(33)	(1,121)	M	(1,121)						
Earned PY operating expenses	(4)		(4)	N	(4)						
Underwriting and policy acquisition costs	(1,977)	(89)	(2,066)		(2,066)						
Unwind of discount	(59)	(5)	(64)			(59)			(5)	*	
Investment expenses	(12)		(12)			(12)					
Non-insurance expenses	(5)		(5)				(5)				
Central expenses	(23)		(23)				(23)				
Amortisation of intangible assets	(16)		(16)						(16)		
Pension net interest and administration costs	(4)		(4)						(4)		
Reorganisation costs	(161)	(7)	(168)						(168)		
Solvency II costs	(7)		(7)						(7)		
Economic assumption changes	(1)		(1)						(1)	*	
Other operating expenses	(229)	(7)	(236)								
	(6,384)	(197)	(6,581)								
Interest costs	(99)		(99)						(99)		
Debt buy back costs	(39)		(39)						(39)		
Finance costs	(138)	–	(138)						(138)		
Acquisitions and disposals	(234)	(17)	(251)						(251)		
Net share of profit after tax of associates	–	–	–				–				
Profit/(loss) before tax	101	(10)	91		380	298	(23)	655	(564)	91	
Income tax expense	(54)	(17)	(71)		Z	AA	AB	AC	AD		
Profit/(loss) for the year	47	(27)	20								

	C+J+L+N	P	109 PY Underwriting
	Z – P	Q	271 CY Underwriting
			380

Attritional loss ratio	G / B	R	55.2%
Weather loss ratio	H / B	S	2.5%
Large loss ratio	I / B	T	8.9%
Prior year loss ratio	V–R–S–T	U	(2.0%)
Loss ratio	F/A	V	64.6%
Commission ratio	(K+L) / A	W	14.4%
Expense ratio	(E+M+N) / A	X	15.2%
Combined operating ratio	V + W + X	Y	94.2%

Notes:
* £5m of discount unwind reported as economic assumption changes

2. Metric calculations

			2017 £m	2016 £m
		Profit after tax	**322**	20
		Less: non-controlling interest	**(33)**	7
Note 21		Less: coupon on 2017 issued restricted tier 1 instrument	**(11)**	–
Note 21		Less: preference dividend	**(9)**	(9)
	A	**Profit attributable to ordinary shareholders**	**269**	18
APM Rec 1		Add: non-operating charges	**215**	564
		Add: non-controlling interest of non-operating charges	**13**	(19)
APM Rec 1		Less: interest costs	**(43)**	(99)
APM Rec 6		Less: underlying tax differential	**(10)**	(62)
	B	**Underlying profit after tax attributable to ordinary shareholders**	**444**	402
		Opening shareholders' funds	**3,715**	3,642
		Less: preference share capital	**(125)**	(125)
	C	**Opening ordinary shareholders' funds**	**3,590**	3,517
Note 22		Less: opening goodwill and intangibles	**(728)**	(679)
	D	**Opening tangible ordinary shareholders' funds**	**2,862**	2,838
	E	**Weighted average no. share issue during the period (un-diluted)**	**1,021**	1,018
		Return on equity		
A/C	F	**Reported**	**7.5%**	0.5%
B/C	G	**Underlying**	**12.4%**	11.4%
		Return on tangible equity		
A/D	H	**Reported**	**9.4%**	0.6%
B/D	I	**Underlying**	**15.5%**	14.2%
		Earnings per share		
A/E	J	**Basic earnings per share**	**26.3**	1.8
B/E	K	**Underlying earnings per share**	**43.5**	39.5

3. Balance sheet reconciliations

			2017 £m	2016 £m
	A	Closing shareholders' funds	**3,653**	3,715
		Less: preference share capital	**(125)**	(125)
	B	**Ordinary shareholders funds**	**3,528**	3,590
Note 22		Less: closing goodwill and intangibles	**(763)**	(728)
	C	**Tangible net asset value**	**2,765**	2,862
	D	**Shares in issue at period end**	**1,023**	1,019
B/D	E	**Net asset value per share**	**345**	352
C/D	F	**Tangible net asset value per share**	**270**	281

4. Net written premium movement and constant exchange

			2017 £m	2016 £m
		Total net written premium	**6,678**	6,408
		Discontinued net written premium	**–**	(169)
		Continuing net written premium	**6,678**	6,239
		Disposals of continuing operations	**–**	42
Note 8	A	**Core net written premiums**	**6,678**	6,281
		YOY movement	**397**	378
		Comprised of:		
		Volume change including portfolio actions and reinsurance	**(25)**	(137)
		Rate increases	**163**	141
	B	**Movement at constant exchange**	**138**	4
		Foreign exchange	**259**	374
		Total movement	**397**	378
B/A	C	**% movement at constant exchange**	**2%**	0%

5. Controllable expenses

			2017 £m	2016 £m
		Underwriting and policy admin costs	**(2,007)**	(2,066)
APM Rec I		Less: commission	**911**	941
		Less: non controllable premium related costs eg levies	**130**	112
		Add: claims expenses within net claims	**(406)**	(424)
APM Rec I		Add: investment expenses	**(13)**	(12)
APM Rec I		Add: central expenses	**(17)**	(23)
		Add: other	**(23)**	(43)
	A	**Written controllable expense base**	**(1,425)**	(1,515)
		Less: controllable deferred acquisition costs	**8**	(6)
	B	**Earned controllable expense base**	**(1,417)**	(1,521)
	C	Net written premiums	**6,678**	6,408
	D	Net earned premiums	**6,605**	6,528
A/C	E	**Written controllable expense ratio**	**21.3%**	23.7%
B/D	F	**Earned controllable expense ratio**	**21.5%**	23.3%

6. Underlying tax rate

			2017 %	2016 %
		Effective tax rate (ETR)	**28**	78
		Less tax effect of:		
		Withholding tax on intercompany dividend	**(5)**	–
		Unrecognised tax losses	**(1)**	(11)
		Underlying versus IFRS regional profit mix	**(1)**	(27)
		Tax on disposals	**–**	(13)
		Other	**1**	(3)
	A	**Underlying tax rate**	**22**	24

			£m	£m
APM Rec I		Operating profit	**663**	655
APM Rec I		Less interest costs	**(43)**	(99)
	B	**Underlying profit before tax**	**620**	556
AxB	C	**Underlying tax**	**(136)**	(133)
		Tax	**(126)**	(71)
	D	**Underlying tax differential**	**(10)**	(62)

7. COR proforma

			Reported	Ogden	GVC	Proforma
UK & International						
	A	Net earned premium £m	3,196		(23)	3,173
	B	Underwriting result £m	(82)	23	43	(16)
1–(B/A)	C	**COR %**	**102.6**			**100.5**
UK						
	A	Net earned premium £m	2,684		(23)	2,661
	B	Underwriting result £m	(116)	20	43	(53)
1–(B/A)	C	**COR %**	**104.3**			**102.0**

Notes

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