2016 PRELIMINARY RESULTS

RSA Insurance Group plc 23 February 2017

RSA announces excellent 2016 Results.

Underlying EPS 39.5p, up 42%. Operating profit £655m, up 25%.

Record underwriting profit and combined ratio (£380m, up 73%, 94.2% vs 96.9%).

Final dividend 11p/share (16p total for 2016, up 52%).

Statutory net profit £20m, impacted by non-capital charges for Legacy disposal.

Stephen Hester, RSA Group Chief Executive, commented:

"In 2016 RSA took major strides forward, moving seamlessly from 'successful turnaround' to organic outperformance. Our improvements are both strategic and operational. They are delivering high quality sustainable results.

Our ambition now is to drive RSA's performance towards 'best in class' levels. Industry and financial market conditions will remain tough. We plan to outperform through continuing self-help measures on customer service, underwriting and costs."

2016 Trading results

- Group operating profit £655m up 25% (2015: £523m): Scandinavia £311m; Canada £140m; UK £259m.
- Record[1] Group underwriting profit of £380m, up 73% (2015: £220m). Core Group combined ratio of 93.8% (2015: 96.0%). Scandinavia 86.2%; Canada 94.9%; and the UK 95.4%.
- Record[1] Group current year underwriting profit of £271m (2015: £129m): Core Group attritional loss ratio 1.4pts better than last year, weather and large losses 0.3pts worse. Group prior year underwriting profit of £109m (2015: £91m).
- Core Group premiums of £6.3bn up 6%, although down slightly on an underlying basis[2].
- Investment income £369m (2015: £403m), fell 8% reflecting impact of disposals and low bond yields, partly offset by FX translation benefits.
- Non-capital charge of £204m for disposal of legacy liabilities[3]; Other non-operating charges[3] of £261m (c.90% non-capital in nature);
- Post tax statutory profit of £20m reflecting the non-capital accounting charges above (2015: £244m benefited from disposal gains).
- Underlying earnings per share[1] (EPS) 39.5p up 42% (2015: 27.8p).
- Final dividend of 11p/ordinary share proposed, bringing total 2016 dividends to 16p/ordinary share (up 52%).

[1]Underlying or alternative performance measure, refer to pgs 28-29 for further explanation; [2] At CFX, excluding Group Re; [3] Refer to page 11 for further explanation.

Capital & balance sheet

- Solvency II coverage ratio of 158% after final dividend (31 December 2015: 143%), at upper end of 130-160% target range; resilient in testing market conditions. Legacy disposal will add a further 17-20 coverage points.
- Reserve margin was also strengthened to 5.5% (2015: 5.0%).
- Tangible equity[1] £2.9bn (31 December 2015: £2.8bn), 281p per share.
- Underlying return on opening tangible equity[1] of 14.2% (2015: 9.7%), at upper end of 12-15% target range.

Strategic update

- Strategic restructuring and turnaround of RSA delivered ahead of expectations.
- Completed the disposals of our businesses in Latin America and Russia in the first half. This brings to a close our principal disposal programme (total proceeds £1.2bn 2014-16), achieving the desired strategic focus.
- RSA's balance sheet and capital position are stronger and more resilient. In July, we commenced actions to optimise the composition of capital. We retired £200m of subordinated debt, reducing both leverage and interest costs. During the first half of the year we also completed a de-risking of the asset mix in our UK pension schemes.
- On 7 February 2017, we announced the disposal of £834m UK Legacy liabilities to Enstar. This boosts Solvency II coverage by 17-20 points, to be used to accelerate debt retirement in 2017 thereby reducing risk, improving capital quality and improving earnings. Further details on the non-capital charge for this disposal are set out on pages 11 and 30.
- RSA's financial and operational performance is now healthy, and we are focused on moving performance towards 'best in class' for our markets. Our many performance improvement initiatives are proceeding well, targeted at improving customer service, underwriting and costs.
- Core business controllable costs[1] for 2016 were reduced 6% year-on-year at constant exchange to £1,455m (comprising 8% cost reductions, offset by 2% inflation). Core Group FTE down 7% year-on-year 2016 vs 2015 and down 19% since start of 2014.
- Our cost reduction programme is ahead of original targets with c.£290m of gross annualised savings achieved by the end of 2016 (original 2016 target of >£180m). Today we are upgrading the cost savings target for a third time to >£400m gross annualised savings by 2018 (previous target >£350m by 2018). 'Costs to achieve' now expected to be lower than originally planned at c.1.3 times.
- We are also increasing our medium term ROTE[1] target range to 13-17% (from 12-15% previously) reflecting the progress RSA has made and the impact of the Legacy sale. While market moves make the denominator volatile, we hope to perform in the upper part of this range. Indeed if our 'best in class' ambitions are reached, there is scope to do better still. This implies performance better than most competitors and should be prized as an ambition but not taken for granted.
- Dividend policy unchanged: medium term ordinary dividend payout of 40-50% with additional 'special' payouts where justified.
- RSA is relatively insulated from Brexit impacts with c.70% non-Sterling profits and separate, locally regulated, European subsidiaries.

Note: The Group uses alternative performance measures, including certain underlying measures, to help explain business performance and financial position. Further information on these is set out in the appendix.
[1]Underlying or alternative performance measure, refer to pgs 28-29 for further explanation.

MANAGEMENT REPORT – KEY FINANCIAL PERFORMANCE DATA

Management basis

£m (unless stated)	FY 2016	FY 2015
Profit and loss		
Net written premiums		
Core Group	6,281	5,903
Total Group	6,408	6,825
Underwriting result		
Core Group	392	245
Total Group	380	220
Combined operating ratio		
Core Group	93.8%	96.0%
Total Group	94.2%	96.9%
Investment result	298	322
Operating result	**655**	**523**
Profit before tax	91	323
Underlying profit before tax[1]	**556**	**417**
Profit after tax	20	244
Metrics		
Stated earnings / share (pence)	1.8p	22.3p
Underlying earnings / share (pence)[1]	**39.5p**	**27.8p**
Interim dividend / share (pence)	5.0p	3.5p
Final dividend / share (pence)	11p	7.0p
Return on tangible equity (%)	0.6%	7.8%
Underlying return on tangible equity (%)[1]	**14.2%**	**9.7%**
Balance sheet		
Net asset value (£m)	3,715	3,642
Tangible net asset value (£m)[1]	2,862	2,838
Net asset value per share (pence)	352p	346p
Tangible net asset value per share (pence)[1]	281p	279p
Capital		
Solvency II surplus (£bn)	1.1	0.9
Solvency II coverage ratio	**158%**	**143%**

[1] *Underlying or alternative performance measure, refer to pgs 28-29 for further explanation.*

CHIEF EXECUTIVE'S STATEMENT

From 'Turnaround' towards 'Outperformance'

The strategic restructuring and turnaround of RSA started three years ago. Since then we have accomplished everything, and more, that was targeted.

1. The Group is now focused on its strongest businesses, a key to future outperformance. Divestments to achieve this focus have raised £1.2bn.
2. RSA's balance sheet is transformed. Credit Ratings are restored, regulatory capital and related capital ratios are at the upper end of our target ranges.
3. Performance is transformed. 2016 record underwriting profits of £380m compare to a 2013 profit of £1m[1]. Underlying return on tangible equity[1] of 14.2% in 2016, is now in the upper part of the 12-15% target range we originally set. Dividends are restored and growing.

The quality of the foundations laid during this period, underpinned by the franchise strengths of RSA's 300 year history, gave us confidence at the start of 2016 to lay out new ambitions for the future.

We now aspire to move RSA's performance levels towards 'best in class' for our markets, for customers and shareholders. If we succeed we will outperform over the coming years. 2016 performance provides an encouraging down payment on this aspiration, delivering a combined ratio ('COR') of 94.2%, a record[1] for RSA.

Strategy & Focus

RSA is a strong and focused international insurer. We have complementary leadership positions in the major general insurance markets of the UK, Scandinavia and Canada. We have valuable franchise strength and balance across these regions, between commercial and personal customers and across product lines.

The history, dynamics and structure of our markets show that focused regional market leaders can both successfully sustain customer appeal (market position) and achieve superior shareholder performance. This is the course we have set out upon.

External Conditions

The general insurance markets we operate in are relatively mature, consolidated and stable. Attractive performance is possible despite slow growth, economic and competitive challenges. It requires intense operational focus within a disciplined strategic framework.

Financial markets are also important for all insurers. Low interest rates hurt. But they force a greater concentration on the core business of underwriting which can yield significant improvements. 2016 is the first year for RSA where underwriting profits have grown to exceed investment income, a trend we expect to continue.

2016 was a year of volatile financial markets, testing both capital resilience and profits. Bond yields at year end were below those of a year ago in our major markets. Credit spreads were narrower (hurting UK pension accounting). But conversely, a significant Brexit induced weakening of Sterling since June helps RSA, as c.70% of our operating profit is earned outside the UK.

2016 Actions

Strategic Focus: RSA's 3 year 'focus' programme was completed with the sale of our businesses in Latin America and Russia which closed in 2016. Evidence is mounting that the concentration of management focus and resource onto our core businesses will be a key enabler of future performance gains.

[1] *Underlying or alternative performance measure, refer to pgs 28-29 for further explanation*

Financial Strength: Our 'A' grade credit ratings are strong and stable. Our Solvency II capital ratio has been improved from 143% (2015) to 158% at the end of 2016 (target range 130-160%), despite retirement of £200m of high cost subordinated debt. Risk reduction in our UK pension scheme assets has also been successfully completed. And 2016 saw testing financial and insurance event volatility which RSA withstood well. Since year end our disposal of UK Legacy liabilities has given us an important boost to capital and the opportunity to improve capital quality still further.

Business Improvement: Our goal is to systematically and determinedly hunt down performance improvement opportunities across our business. We have taken RSA's performance from below that of competitors in 2013 and prior, to 'in the pack'. All efforts are now concentrated on moving towards our 'best in class' ambitions. The plan is substantially the same across our businesses. Focus on improving service to customers, on underwriting and on costs.

Across the Group, our many customer initiatives have sustained retention rates and above average satisfaction measures. Core premiums were up in 2016 but on lower policy volumes. We are determined to compete on quality, with competitive but profitable pricing. We will not chase unprofitable growth. However, there are encouraging signs that continuing underwriting and service capability improvements will restore modest volume growth and we hope to deliver good evidence of that in 2017.

RSA's most important performance lever is our underwriting judgement. Across the Group portfolio disciplines, skills enhancement, data and model improvement and indemnity initiatives are producing strong benefits. Attritional loss ratios for the Core Group improved 1.4 points on 2015 and are 4 points better than those of 2013. We target further improvement still.

Cost efficiency is the other crucial performance ingredient. We have achieved c.£290m of gross annual savings (vs original 2016 target of >£180m). We believe we can raise our savings target for the third time and now expect to deliver over £400m p.a. by 2018. Headcount has reduced 19% since 2013 in our core businesses as our people have become more productive. We expect to enhance their productivity further with continued business re-engineering, enabled by technology and infrastructure renewal programmes covering digitisation, robotics, infrastructure replacement and software upgrades which continue successfully in each region.

Financial Results 2016

Operating profits - our key ongoing measure - rose 25% to £655m. Underlying earnings per share (EPS) rose 42% to 39.5p. Statutory profit after tax of £20m reflects a particularly 'noisy' year in accounting terms. The very strong underlying results were optically offset by planned restructuring costs, debt buy-back costs and non-capital accounting charges. We plan that 2017 should be much cleaner and be the last year of material 'below-the-line' costs.

Core premium income was up 6%, but adjusting for FX and price changes, volumes were modestly down. Premium income was in line with our plan on that basis.

Underwriting profits, the litmus test of performance, rose 73% to a record[1] £380m. This represents a combined ratio of 94.2%, also a record[1] for RSA. Reserve margins were strengthened to 5.5% (2015: 5%) building some additional cushion against future challenges.

Underlying quality of results was excellent. Current year underwriting profits were a record £271m, up 110%. And volatile weather/large loss items did not help us out, being 0.3 points higher than 2015 at core group level.

[1]*Underlying or alternative performance measure, refer to pgs 28-29 for further explanation*

Particularly pleasing was the spread of performance. Each region hit or exceeded its operating plan targets. Scandinavia supplied 47% of operating profits with a COR of 86.2%. The UK recorded its first significant underwriting profit in a decade (£123m). And Canada did well (94.9% COR), despite natural catastrophes in the region. The one sub-regional disappointment was Ireland. Despite dramatic improvement to breakeven on current year operating profit, further prior year reserve strengthening was required taking the Irish COR to 116.2%.

Reflecting RSA's strong progress, a final dividend of 11p/share is proposed making 16p/share total for the year, up 52%. This represents a 41% pay out of underlying EPS (in line with stated policy). It remains our belief that RSA will generate attractive free capital, net of organic growth needs and regular dividend pay outs, once restructuring actions complete and bond 'pull to par' impacts reduce, probably in 2018.

Looking Forward

Our performance target of 12-15% return on tangible net assets[1] is still good by industry standards and represents a creditable achievement level for RSA, implying better ongoing underwriting performance than any year prior to 2016. However, given our progress and the Legacy sale, we are raising the target range to 13-17% ROTE[1]. Additionally the supplementary ambition we have set of moving towards 'best in class' combined ratio performance in our markets, if achieved, should allow us to exceed even this higher range in time. We will try to do just that.

Thanks

RSA is making terrific progress. This is thanks to the efforts of our people and the support of customers, brokers and other stakeholders. Our performance gains are not easy things to achieve, especially with a tough industry backdrop. Sincere thanks and appreciation go to all involved.

RSA has a proud history, despite bumps along the way. We are determined, in performance terms, that the future can be brighter still.

Stephen Hester
Group Chief Executive
22 February 2017

[1]*Underlying or alternative performance measure, refer to pgs 28-29 for further explanation*

MANAGEMENT REPORT

SEGMENTAL INCOME STATEMENT

Management basis – 12 months ended 31 December 2016

	Scandinavia £m	Canada £m	UK & International £m	Central functions £m	**Core Group £m**	Total 'non-core'[1] £m	**Group FY 2016 £m**
Net Written Premiums	**1,721**	**1,443**	**3,081**	**36**	**6,281**	**127**	**6,408**
Net Earned Premiums	1,735	1,454	3,173	(22)	6,340	188	6,528
Net Incurred Claims	(1,181)	(948)	(1,998)	18	(4,109)	(106)	(4,215)
Commissions	(60)	(191)	(636)	-	(887)	(54)	(941)
Operating expenses	(255)	(241)	(451)	(5)	(952)	(40)	(992)
Underwriting result	**239**	**74**	**88**	**(9)**	**392**	**(12)**	**380**
Investment income	98	71	161	-	330	39	369
Investment expenses	(3)	(2)	(7)	-	(12)	-	(12)
Unwind of discount	(23)	(3)	(5)	-	(31)	(28)	(59)
Investment result	**72**	**66**	**149**	**-**	**287**	**11**	**298**
Central expenses	-	-	-	(23)	(23)	-	(23)
Operating result	**311**	**140**	**237**	**(32)**	**656**	**(1)**	**655**
Interest[2]							(99)
Adjustment for Legacy sale[3,4]							(204)
Other non-operating charges[3,5]							(261)
Profit before tax							**91**
Tax							(71)
Profit after tax							**20**
Underlying profit before tax[6]							**556**
Loss ratio (%)	68.0	65.2	63.0	-	64.8	-	64.6
Weather loss ratio	*0.4*	*5.7*	*2.7*	-	*2.6*	-	*2.5*
Large loss ratio	*5.0*	*6.4*	*12.1*	-	*9.2*	-	*8.9*
Current year attritional loss ratio	*64.2*	*57.8*	*49.0*	-	*55.2*	-	*55.2*
Prior year effect on loss ratio	*(1.6)*	*(4.7)*	*(0.8)*	-	*(2.2)*	-	*(2.0)*
Commission ratio (%)	3.4	13.1	20.0	-	14.0	-	14.4
Expense ratio (%)	14.8	16.6	14.2	-	15.0	-	15.2
Combined ratio (%)	**86.2**	**94.9**	**97.2**	**-**	**93.8**	**-**	**94.2**

Note:

UK & International comprises the UK, Ireland and the Middle East

Please refer to appendix for FY 2015 comparatives

[1] *Total 'non-core' comprises discontinued operations of Latin America and Russia; and non-core operations of UK Legacy.*

[2] *On a statutory basis, interest costs are £138m which include £39m premium on debt buyback (included within other non-operating charges above).*

[3] *Refer to pg 11 for further breakdown and explanation.*

[4] *Non-capital charge.*

[5] *Over £230m of which is non-capital in nature.*

[6] *Underlying or alternative performance measure, refer to pgs 28-29 for further explanation.*

Premiums

2016 Core Group net written premiums of £6.3bn were up 6% (though flat year-on-year at constant exchange rates).

	Scandinavia	Canada	UK & International	**Total**
Net Written Premiums (£m)	**1,721**	**1,443**	**3,081**	
% changes in NWP				
Volume change including portfolio actions	(7)	(4)	(4)	(2)
Rate increases	3	1	3	2
Foreign exchange	11	9	2	6
Core Group FY 2016 movt.	**7**	**6**	**1**	**6**[1]
Impact of non-core businesses/disposals				(12)
Total Group FY 2016 movt.				**(6)**

We are pleased with the solid 'topline' performance in 2016, reflecting good customer retention and satisfaction levels. Recent evidence points to a strengthening of underlying customer activity as capability improvements take effect. We target this to continue.

Our goal is to serve customers well but profitably. This means that premium volumes have suffered as we introduced tougher underwriting disciplines over the last 3 years. However, across the Group, customer focused capability improvements are strengthening our ability to compete successfully and profitably, and we expect that to show through in stronger volume trends over time.

Regional trends for 2016 include:

- Scandinavian premiums up 7%, though down 4% at constant fx, with growth in Sweden offset by reductions in Denmark and Norway. Premiums were down 1% on an underlying basis[2];
- Canadian premiums up 6%, though down 3% at constant fx with Personal down 4% and Commercial flat, reflecting underwriting discipline in competitive market conditions;
- UK & International premiums were up 1% (down 1% at constant fx). UK premiums were down 1% with Personal down 6% and Commercial up 2%. Premiums in Ireland were up 6% driven by continued rating actions. Middle East premiums were down 8% reflecting economic challenges and contract terminations.

Retention trends remained broadly stable with overall retention across our Core regions of around 80%.

[1] *After impact of Group Re (NWP £148m higher in 2016 mainly due to purchase of 3 year Group aggregate reinsurance cover for £139m in 2015)*
[2] *Underlying or alternative performance measure, refer to pgs 28-29 for further explanation.*

Underwriting result

Group underwriting profit of £380m, up 73% year-on-year (2015: £220m, or £232m at constant fx) and comprised £392m from core operations.

	Total UW result		Current Year UW		Prior Year UW	
£m	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Scandinavia	239	94	213	127	26	(33)
Canada	74	116	6	35	68	81
UK & International	88	(15)	82	(58)	6	43
Of which: UK	*123*	*12*	*72*	*(34)*	*51*	*46*
Group Re	(9)	50	(28)	37	19	13
Total Core	**392**	**245**	**273**	**141**	**119**	**104**
Non-core & discontinued	(12)	(25)	(2)	(12)	(10)	(13)
Total Group	**380**	**220**	**271**	**129**	**109**	**91**

Current year profit of £271m (2015: £129m):

- The Core Group attritional loss ratio was 55.2% which showed a 1.4 point improvement from 2015. There were good improvements across all key regions with Canada 2.5 points better (although c.1 point of the improvement is due to better 'attritional' weather in 2016 v 2015), UK 1.8 points better and Scandinavia 0.3 points better. We target further improvements still.
- Total Group weather costs were £166m or 2.5% of net earned premiums (2015: £219m; 3.1%). Core Group weather costs were £165m representing a weather loss ratio of 2.6% (2015: £194m or 3.2%; five year average: 3.1%).

  Included within this are net claims costs of £42m for the Alberta wildfires in May, £33m for the UK & European floods in June, and £26m for Hurricane Matthew in October.
- Total Group large losses were £583m or 8.9% of net earned premiums (2015: £556m; 7.9%). Core Group large losses were £582m or 9.2% of premiums (2015: £508m or 8.3%), which was marginally above the five year average of 8.5%. Lower than trend levels in Scandinavia and UK were more than offset by more elevated levels in Canada and Ireland.

Prior year profit was £109m, with prior year development providing a 2.0 point benefit to the Group combined ratio. This included positive development from the UK, Canada, and Scandinavia and negative results in Ireland.

Pleasingly, current year underwriting results in Ireland improved to a small profit from a £29m loss in 2015, on the back of strong pricing action, attritional loss ratio improvement and expense reduction. However, Irish prior year reserves required further strengthening of £50m, principally for accident years 2014/15 where trend data was hard to identify due to the remediation actions we have had to take post 2013. We target a return to profitability overall in Ireland in 2017.

Our assessment of the margin in reserves for the Group (the difference between our actuarial indication and the booked reserves in the financial statements) is 5.5% of booked claims reserves (2015: 5.0%).

Underwriting operating expenses

The overall Group underwriting expense ratio improved 0.5 points to 15.2% in 2016 and at a Core Group level was 0.5 points better. There were improvements of 1.6 points in Scandinavia and 0.2 points in Canada, whilst the UK ratio was 0.3 points higher. We expect continued improvements in the expense ratio over the coming years.

Commissions

The Group commission ratio in 2016 of 14.4% was down from 15.9% in 2015, driven mainly by the disposal of Latin America which carried a higher commission ratio. The Core Group commission ratio 14.0% was down 0.3 points (2015: 14.3%). We expect the Core Group's commission ratio to be broadly stable in 2017.

Investment result

The investment result was £298m (2015: £322m, or £335m at constant fx) with investment income of £369m (2015: £403m), investment expenses of £12m (2015: £14m) and the liability discount unwind of £59m (2015: £67m).

Investment income is down 8% on prior year, primarily reflecting the impact of the Latin American disposal and continued low bond yield environment, partly offset by the benefit from the weakening of Sterling. The average book yield across our major bond portfolios was down slightly to 2.5% (2015: 2.8%).

At current market forward rates, and updating for the Legacy sale, we expect investment income of £300m, £275m, and £265m in 2017, 18 & 19 respectively. Discount unwind is now expected to be in the range £30-35m per annum. The sale of legacy liabilities has reduced investment income but this has been broadly offset by a lower discount unwind. Refer to page 17 for further details.

Total controllable costs[1]

As at the end of 2016 our cost reduction programme has delivered total gross annualised cost reductions of around £290m, ahead of our original 2016 target of >£180m. We are raising our target for a third time to greater than £400m cost reductions by the end of 2018 (up from our previous target of greater than £350m). 'Costs to achieve' is now expected to be lower than originally planned at around 1.3 times the annual cost savings once fully achieved, and we still expect 2017 to be the last year of these 'below-the-line' costs.

Total Group controllable costs[1] were down 16% year-on-year at constant exchange to £1,515m. Core business controllable costs were down 6% in the same period at constant exchange to £1,455m (comprising 8% cost reductions, offset by 2% inflation).

The majority of the year-on-year core business cost reduction has come from our Canadian and Scandinavian business (both delivering 'real' reductions of 10%). UK delivered 3% 'real' reductions.

Core Group FTE[2] is down 19% since the start of 2014 to 13,394 at December 2016, and is down 7% FY 2016 v 2015.

[1] *Underlying or alternative performance measure, refer to pgs 28-29 for further explanation.*
[2] *Full time equivalent employees.*

Non-operating items

Provision for sale of legacy liabilities:

- As announced on 7 February 2017, we have booked in 2016 a £204m charge (non-capital) ahead of the sale of the UK Legacy book, primarily reflecting the difference between the reinsurance premium of £799m to be paid and the IFRS carrying value of the legacy liabilities (the IFRS accounts hold the legacy liabilities using a 4% discount to face value, £567m v £834m undiscounted).
- In 2017, we expect to recognise an IFRS gain of c.£65m in respect of this transaction mainly relating to the realised gains on the mark-to-market of the bonds transferred to the buyer.

  Please refer to Appendix (page 30) for further details on this transaction and the associated impacts.
- The sale of the legacy liabilities means the Group's Adverse Development Cover reinsurance protection bought in 2014 to partly protect these liabilities, is no longer valuable. Accordingly, we have agreed to commute it for a one-time charge in 2017 of £22m.

Other non-operating charges:

£m	2016	2015
Tangible disposal gains	159	184
FCTR[1] recycle & intangibles	(176)	-
Realised investment gains	30	20
Debt buyback premium	(39)	-
Goodwill/intangible write-down	(30)	(51)
Restructuring costs	(168)	(183)
Solvency II costs	(7)	(26)
Discount rate change	(6)	-
Amortisation	(16)	(27)
Pension net interest cost	(4)	(8)
Other	(4)	(3)
Total	**(261)**	**(94)**

- Tangible disposal gains in 2016 of £159m, relate to the completed Latin America and Russian disposals (and as included in our H1 2016 results);
- £176m non-capital charge relating to the Latin American and Russian disposals (£165m for Latin America of which £100m recycling of foreign exchange losses (in the FCTR[1]), and £65m of intangibles disposed; and £11m of FCTR[3] recycling in respect of Russia, all of which was included in our H1 2016 results);
- Realised investment gains were £30m, mainly relating to bond sales;
- £39m premium (non-capital) paid on the July buyback of £200m nominal value subordinated debt;
- £30m goodwill write-down (RSA share £10m) relating to the requirement to IPO our Oman business in 2017;

[1] *Foreign currency translation reserve.*

- Reorganisation costs were £168m and included £49m in respect of redundancy and £119m in respect of transformation activities. Linked to our remaining and increased cost savings targets we expect to record the last of our reorganisation costs in 2017 of c.£100m;
- Solvency II costs were £7m. We expect these costs to fall to zero in 2017 and thereafter;
- Economic assumption changes relate to a £6m charge taken in the first half for a change in the rate used to discount Danish long-tail liabilities (discount rate reduced from 1.75% to 1.5%). This follows a decline in market yields for the assets we hold backing these liabilities;
- £16m of amortisation of customer related intangible assets.

Tax

The Group has reported a tax charge of £71m for 2016, giving an effective tax rate (ETR) of 78%. The Group underlying tax rate in 2016 was 24%.

The £71m tax charge largely comprises of tax on overseas profits and other overseas tax charges; net local tax costs of £12m on the Latin American disposals; partly offset by a £52m upward revaluation of UK deferred tax assets, an amount dampened by expected new UK rule changes slowing the utilisation of tax losses.

RSA's ETR is impacted by the IFRS loss on the sale of the UK Legacy liabilities. Although this loss is tax deductible in the UK, no immediate tax credit arises due to RSA's existing unrecognised UK tax losses.

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

In 2017, we expect the Group's ETR to return to a rate closer to the statutory tax rates in our Core territories. The underlying tax rate, given the scale of unrecognised UK tax assets (which given expected changes in UK legislation are likely to last well over 10 years) may trend towards 20% over the next few years.

Dividend

We are pleased to propose a final dividend of 11p per ordinary share, up 57% year-on-year (2015: 7.0p). Together with the interim dividend of 5.0p, this brings the total dividend for the year to 16p (up 52%), representing 41% payout of underlying EPS.

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

[1] *Underlying or alternative performance measure, refer to pgs 28-29 for further explanation.*

BALANCE SHEET

Movement in Net Assets

	Shareholders' funds £m	Non controlling interests £m	Loan capital £m	Equity plus loan capital £m	TNAV[1] £m
Balance at 1 January 2016	3,642	129	1,254	**5,025**	**2,838**
Profit/(loss) after tax	27	(7)	-	**20**	**115**
Exchange gains/(losses) net of tax	323	19	1	**343**	**229**
Fair value gains/(losses) net of tax	158	-	-	**158**	**159**
Pension fund gains/(losses) net of tax	(316)	-	-	**(316)**	**(316)**
Repayment & amortisation of loan capital	-	-	(187)	**(187)**	**-**
Share issue	5	-	-	**5**	**5**
Changes in shareholders' interests in subsidiaries	(9)	(6)	-	**(15)**	**(10)**
Share based payments	16	-	-	**16**	**16**
2015 final/2016 interim dividend	(122)	(3)	-	**(125)**	**(122)**
Preference dividend	(9)	-	-	**(9)**	**(9)**
Goodwill and intangible additions	-	-	-	**-**	**(43)**
Balance at 31 December 2016	**3,715**	**132**	**1,068**	**4,915**	**2,862**
Per share (pence)					
At 1 January 2016	346				279
At 31 December 2016	**352**				**281**

Tangible net assets[1] have increased by 1% to £2.9bn during 2016. The increase was driven by profits in the period (including tangible disposal gains), positive foreign exchange movements, and fair value mark-to-market gains due to lower bond yields, partly offset by negative IAS 19 pension movements due to narrower credit spreads, disposal impacts (notably the sale of UK Legacy liabilities), the payment of the 2015 final and 2016 interim dividends, and intangible asset additions.

[1] *Underlying or alternative performance measure, refer to pgs 28-29 for further explanation.*

CAPITAL POSITION

Solvency II position[1]:	Requirement (SCR) £bn	Eligible Own Funds £bn	Surplus £bn	Coverage %
31 December 2016	**1.8**	**2.9**	**1.1**	**158%**
31 December 2015	2.0	2.9	0.9	143%

The Solvency II surplus[1] increased to £1.1bn (31 December 2015: £0.9bn) during 2016 with the coverage ratio of 158% (post final dividend) up 15 points.

Since the year end, the sale of UK Legacy liabilities has provided a boost to RSA's Solvency II position with coverage uplift of 17-20 points, giving pro forma coverage of 175-178%. Please refer to Appendix (page 30) for further details on this transaction and the associated capital impacts.

The key drivers of the increase in the year to 158% were as follows:

- Underlying capital generation added 29 points of coverage. This reflects tangible profit after tax adjusted for restructuring costs and other non-capital P&L items;
- Restructuring costs and other non-operating charges reduced the ratio by 10 points;
- Pull-to-par on unrealised bond gains accounted for a 8 point reduction;
- 12 points of benefit from the Latin American and Russian disposals, completed in the period;
- Market movements added 11 points of coverage, mainly driven by positive foreign exchange and narrower credit spreads;
- Pension movements, mainly reflecting narrower AA corporate bond spreads, reduced the coverage ratio by 15 points;
- 2016 interim and final dividends reduced the coverage ratio by 10 points;
- SCR modelling updates added 6 points of coverage.

Please refer to Appendix (page 31) for further Solvency II details (including sensitivities).

Debt retirement

On 12 July we completed the retirement of £200m (nominal value) of subordinated debt (the target instrument was our £500m subordinated notes with 9.4% coupon). The retirement was achieved at a small premium to the prevailing market value.

Our 2016 results include a one-off P&L non-capital charge of c.£39m reflecting the premium paid above market value to buyback the debt. Annualised run-rate interest costs will be lower by c.£19m.

Our ambition is to further improve the quality of our capital mix and reduce the cost of our debt. We are currently exploring the possibility of an issuance of restricted Tier 1 securities and opportunities for early debt retirement.

[1] *The Solvency II capital position at 31 December 2016 is estimated*

OUTLOOK

In 2017, our goal is unchanged: the further raising of performance levels.

Markets will remain competitive. Our priority is to maintain underwriting discipline. Nevertheless, we hope to report premium growth overall.

We target further attritional loss ratio improvements, albeit at a moderated pace, together with further reductions in controllable costs.

Costs from weather/large losses are inherently volatile though bounded by reinsurance protection at levels largely unchanged from 2016.

Investment income is expected to be c.£300m for 2017 assuming current market implied rates, with discount unwind in the range £30-35m. Both numbers have been adjusted for the UK Legacy sale with lower investment income broadly offset by reduced discount unwind. Financial market volatility remains a risk factor.

Non-operating items in 2017 are expected to include the last year of restructuring costs (associated with our increased cost savings target), together with legacy sale related impacts.

We expect to be able to use the capital generated from the Legacy sale to accelerate debt retirement in 2017 thereby further reducing risk, improving capital quality and improving earnings

Overall we target attractive performance in 2017, building from the quality base now established.

BUSINESS REVIEW – INVESTMENT PERFORMANCE

Management basis

Investment result	FY 2016 £m	FY 2015 £m	Change %
Bonds	300	332	(10)
Equities	28	25	12
Cash and cash equivalents	10	17	(41)
Property	23	22	5
Other	8	7	14
Investment income	**369**	**403**	**(8)**
Investment expenses	(12)	(14)	14
Unwind of discount	(59)	(67)	12
Investment result	**298**	**322**	**(7)**

Balance sheet unrealised gains (pre-tax)	31 Dec 2016 (£m)	31 Dec 2015 (£m)	Change %
Bonds	619	414	50
Equities	8	(1)	-
Other	2	2	-
Total	**629**	**415**	**52**

Investment portfolio	Value 31 Dec 2015 £m	Foreign exchange £m	Mark to market £m	Other movements £m	Transfer to assets held for sale £m	Value 31 Dec 2016 £m
Government bonds	3,707	424	40	(86)	(372)	3,713
Non-Government bonds	7,405	704	56	71	(404)	7,832
Cash	816	92	-	181	(104)	985
Equities	159	36	15	(40)	-	170
Property	365	-	(4)	(28)	-	333
Prefs & CIVs	426	29	6	61	-	522
Other	100	17	10	(39)	-	88
Total	**12,978**	1,302	123	120	**(880)**	**13,643**
Split by currency:						
Sterling	4,543					3,994
Danish Krone	936					1,081
Swedish Krona	2,207					2,565
Canadian Dollar	2,706					3,232
Euro	1,247					1,345
Other	1,339					1,426
Total	**12,978**					**13,643**

Credit quality – bond portfolio	Non-government		Government	
	31 Dec 2016 %	31 Dec 2015 %	**31 Dec 2016 %**	31 Dec 2015 %
AAA	35	33	65	89
AA	22	15	30	6
A	30	37	4	5
BBB	11	14	1	-
< BBB	2	1	-	-
Non rated	-	-	-	-
Total	**100**	**100**	**100**	**100**

INVESTMENT PERFORMANCE

Investment income of £369m (2015: £403m) was offset by investment expenses of £12m (2015: £14m) and the liability discount unwind of £59m (2015: £67m). Investment income was down 8% on prior year, primarily reflecting the impact of the Latin American disposal and continued low bond yield environment, partly offset by favourable FX movements.

The average book yield over the period on the total portfolio was 2.6% (2015: 2.9%), with average yield on the bond portfolios of 2.5% (2015: 2.8%). Reinvestment rates in the Group's major bond portfolios over the year was approximately 1.4%.

Average duration of the Group's bond portfolios is 3.7 years (31 December 2015: 4.0 years) with the reduction driven by the movement of assets associated with UK legacy business to a held-for-sale basis.

The investment portfolio grew by 5% during 2016 to £13.6bn. The movement was driven primarily by the impact of weakening of Sterling, positive mark-to-market on bond holdings, and positive cash flow, including proceeds from completed disposals in the year, partly offset by the transfer of legacy assets to held-for-sale.

At 31 December 2016, high quality widely diversified fixed income securities represented 85% of the portfolio (31 December 2015: 86%). Equities represented 1% (31 December 2015: 1%) and cash 7% of the total portfolio (31 December 2015: 6%).

The quality of the bond portfolio remains very high with 98% investment grade and 70% rated AA or above. We remain well diversified by sector and geography.

Unrealised bond gains and pull-to-par

Balance sheet unrealised gains of £629m (pre-tax) increased by £214m during the year (31 December 2015: £415m) driven by lower bond yields and positive foreign exchange movements, partly offset by the pull-to-par of existing bonds.

In 2017 we expect to realise c.£80m of these gains on the transfer of bonds to the buyer of our Legacy liabilities. We expect the remaining gains to largely unwind over the next 4 years, based on current forward yields.

Outlook

Based on current forward[1] bond yields and foreign exchange rates it is estimated that investment income will be c.£300m for 2017, c.£275m for 2018 and c.£265m for 2019. These projected income numbers are, however, sensitive to changes in market conditions. We expect a discount unwind in the range £30-35m per annum. The sale of legacy liabilities has reduced investment income but this has been broadly offset by a lower discount unwind.

[1] *If current yields and FX were kept flat, instead of using forward rates, our guidance would be unchanged for 2017&18, and c.£15m lower for 2019. A +/-5% movement in Sterling against all other currencies would move investment income by around +/-£10m.*

REGIONAL REVIEW – SCANDINAVIA

Management basis

	Net written premiums		Change (%)		Underwriting result	
	FY 2016 £m	FY 2015 £m	**RFX**[1]	**CFX**[1]	**FY 2016 £m**	FY 2015 £m
Split by country						
Sweden	990	874	13	2	174	101
Denmark	588	585	1	(11)	63	(11)
Norway	143	147	(3)	(10)	2	4
Total Scandinavia	**1,721**	**1,606**	**7**	**(4)**	**239**	**94**
Split by class						
Household	336	295	14	2	46	35
Personal Motor	332	313	6	(5)	92	89
Personal Accident & Other	313	275	14	2	37	(16)
Total Scandinavia Personal	**981**	**883**	**11**	**-**	**175**	**108**
Property	295	297	(1)	(11)	12	7
Liability	151	129	17	4	32	(11)
Commercial Motor	202	184	10	(1)	14	4
Marine & Other	92	113	(19)	(28)	6	(14)
Total Scandinavia Commercial	**740**	**723**	**2**	**(9)**	**64**	**(14)**
Total Scandinavia	**1,721**	**1,606**	**7**	**(4)**	**239**	**94**
Investment result					72	69
Scandinavia operating result					**311**	**163**

Operating Ratios (%)	Claims		Commission		Op Expenses		Combined	
	FY'16	FY'15	**FY'16**	FY'15	**FY'16**	FY'15	**FY'16**	FY'15
Household							86.2	87.9
Personal Motor							72.2	71.6
Personal Accident & Other							88.1	105.9
Total Scandinavia Personal	**66.9**	**71.3**	**2.9**	**3.2**	**12.2**	**13.2**	**82.0**	**87.7**
Property							96.2	97.5
Liability							76.0	108.4
Commercial Motor							93.3	98.1
Marine & Other							94.3	112.0
Total Scandinavia Commercial	**69.5**	**77.0**	**4.1**	**4.7**	**18.0**	**20.4**	**91.6**	**102.1**
Total Scandinavia	**68.0**	**73.8**	**3.4**	**3.8**	**14.8**	**16.4**	**86.2**	**94.0**
Of which:			***5yr ave***					
Weather loss ratio	*0.4*	*1.0*	*1.4*					
Large loss ratio	*5.0*	*6.3*	*5.6*					
Current year attritional loss ratio	*64.2*	*64.5*						
Prior year effect on loss ratio	*(1.6)*	*2.0*						

YTD rate changes[2] **(%)**	**At Dec 2016**	At Sept 2016	At June 2016	At March 2016
Personal Household	**4**	4	4	3
Personal Motor	**2**	2	3	2
Commercial Property	**3**	3	2	(1)
Commercial Liability	**3**	3	3	8
Commercial Motor	**3**	4	4	2

[1] *RFX = reported foreign exchange rates; CFX = constant foreign exchange rates*

[2] *Rate changes reflect changes for risks renewing in the year-to-date versus comparable risks renewing in the same period the previous year*

SCANDINAVIA

In 2016 Scandinavia delivered a 130% increase in underwriting profits (at constant fx) driven by strong current year profitability, with record current year profits in Sweden.

We have also made good progress with our customer agenda. In Denmark we've seen positive development in customer 'trust' scores, and we've increased our engagement with lower 'trust' score customers to gain fresh insights. We're ranked 2nd for SME customer satisfaction in Denmark, and first for overall customer satisfaction in Norway. Our retention rates across the region have remained steady at almost 80%.

Net written premiums of £1,721m were up 7% but down 4% on a constant exchange rate basis (2015: £1,606m as reported), with volumes down 7% and rate up 3%.

Excluding the impact of the transfer of the Marine portfolio to the UK and the non-repeat of two large multi-year deals (as previously flagged at H1 2016), underlying[1] Scandinavian premiums were down 1% (Personal up 1% underlying; Commercial down 3% underlying), reflecting slow market conditions overall.

The underwriting result was £239m (2015: £94m as reported) with a strong current year profit of £213m.

The current year attritional loss ratio was 64.2%, better than 2015 at 64.5%. Benign weather and large losses across the regions reduced weather losses to 0.4% compared to 1.0% in 2015, while large losses of 5.0% compared to 6.3% in 2015. The prior year effect on the loss ratio was a benefit of 1.6%. The overall combined ratio was 86.2% (2015: 94.0%).

After including an investment result of £72m (2015: £69m), the total operating profit was £311m, up 91%.

The Scandinavian transformation programme has delivered well in 2016, with particular success in pricing and claims sophistication improvements, process automation, online quote capabilities, and customer satisfaction.

Total controllable expenses were down 8% year-on-year, with 10% cost reductions offset by 2% inflation. Headcount was down 7% in 2016 and is now down 16% since the end of 2013.

Scandinavia – Outlook

We continue to expect the Scandinavian P&C markets to grow in line with local GDP growth and we target growth broadly in line with the market, subject to maintaining underwriting discipline.

Our focus remains on further improving the underlying performance of the business, particularly attritional loss ratios and cost improvements, as we drive towards our ambition COR of <85%.

[1] *Underlying or alternative performance measure, refer to pgs 28-29 for further explanation.*

REGIONAL REVIEW – CANADA

Management basis

	Net written premiums		Change (%)		Underwriting result	
	FY 2016	FY 2015	**RFX[1]**	**CFX[1]**	**FY 2016**	FY 2015
	£m	£m			**£m**	£m
Household	445	421	6	(3)	57	62
Personal Motor	549	529	4	(5)	34	42
Total Canada Personal	**994**	**950**	**5**	**(4)**	**91**	**104**
Property	194	176	10	1	(34)	6
Liability	102	99	3	(5)	4	(5)
Commercial Motor	102	85	20	10	4	7
Marine & Other	51	50	2	(7)	9	4
Total Canada Commercial	**449**	**410**	**10**	**-**	**(17)**	**12**
Total Canada	**1,443**	**1,360**	**6**	**(3)**	**74**	**116**
Investment result					66	66
Canada operating result					**140**	**182**

Operating Ratios (%)	**Claims**		**Commission**		**Op Expense**		**Combined**	
	FY'16	FY'15	**FY'16**	FY'15	**FY'16**	FY'15	**FY'16**	FY'15
Household							87.4	85.3
Personal Motor							93.6	92.3
Total Canada Personal	**64.0**	**62.4**	**11.0**	**11.1**	**16.0**	**15.7**	**91.0**	**89.2**
Property							117.4	96.7
Liability							96.0	105.2
Commercial Motor							96.2	91.2
Marine & Other							83.8	92.6
Total Canada Commercial	**67.9**	**59.2**	**18.0**	**18.8**	**17.9**	**19.2**	**103.8**	**97.2**
Total Canada	**65.2**	**61.5**	**13.1**	**13.4**	**16.6**	**16.8**	**94.9**	**91.7**
Of which:			***5yr ave***					
Weather loss ratio	*5.7*	*2.3*	*4.3*					
Large loss ratio	*6.4*	*4.7*	*3.6*					
Current year attritional loss ratio	*57.8*	*60.3*						
Prior year effect on loss ratio	*(4.7)*	*(5.8)*						

YTD rate changes[2] (%)	**At Dec 2016**	At Sept 2016	At June 2016	At March 2016
Personal Household	**5**	5	5	6
Personal Motor	**(1)**	(1)	-	-
Commercial Property	**2**	2	2	2
Commercial Liability	**2**	2	2	2
Commercial Motor	**-**	-	1	-

[1] *RFX = reported foreign exchange rates; CFX = constant foreign exchange rates*

[2] *Rate changes reflect changes for risks renewing in the year-to-date versus comparable risks renewing in the same period the previous year*

CANADA

We have had a strong and resilient year in Canada, absorbing our share of losses from Fort McMurray, the largest natural catastrophe in Canadian history, yet still delivering an underwriting profit of £74m and COR of 94.9%.

We have been working hard to enhance our Customer offering. In Johnson our service and sales metrics have been outperforming benchmarks. In our broker distributed businesses, faster response times and new digital tools are being offered with promising early results. Customer retention rates have improved by 2pts year-on-year to 84%.

Net written premiums of £1,443m were up 6% but down 3% at constant exchange rate (2015: £1,360m as reported), with volumes down 4% and rate increases of 1%.

The portfolio actions of the last two years are now complete. However, conditions remain competitive, particularly in the Commercial Broker channel. Our priority continues to be on sustained underwriting discipline. Personal premiums were down 4%, driven by rate reductions in Personal Motor and lower volumes. Premium reduction trends have been gradually moderating and Q4 2016 saw flat premiums overall.

The underwriting profit for the year of £74m (£116m in 2015) was in line with our expectations, even after absorbing the impact of the Fort McMurray wildfire losses in May where our reinsurance programme limited our exposure to a net claims cost of £42m. The weather ratio was therefore elevated at 5.7% (1.4 points worse than long term averages). Large losses were higher than expected at 6.4% driven by a small number of large claims in Commercial Property.

The current year attritional loss ratio showed a strong improvement of 2.5 points from prior year to 57.8% demonstrating the benefits of our underwriting and portfolio actions. Current year profits of £6m were supported by a continued strong prior year performance with a £68m profit or 4.7% benefit to COR. We expect continued positive prior year development in Canada but at lower levels than the last two years. The overall combined ratio was 94.9%, 3.2 points higher than previous year mainly due to the wildfire losses.

Our transformation programme in Canada has progressed well during the year, delivering customer retention actions, deployment of new pricing tools, process simplification, and the implementation of the Guidewire claims system proceeding as planned.

Total controllable expenses were down 8% year-on-year (comprising 10% cost reductions, partly offset by 2% inflation). Headcount was down 7% in the year, and is down 19% since the end of 2013.

Canada – Outlook

We target a stabilisation of premiums in 2017 and continued progress towards our combined ratio ambition of <94%. Our focus continues to be on operational improvement (in underwriting, claims, technology and process simplification) and cost reduction.

REGIONAL REVIEW – UK

Management basis

	Net written premiums FY 2016 £m	FY 2015 £m	Change (%) RFX[1]	CFX[1]	Underwriting result FY 2016 £m	FY 2015 £m
Household	555	600	(8)	(8)	48	60
Personal Motor	235	255	(8)	(8)	(2)	(21)
Pet	278	278	-	-	2	8
Total UK Personal	**1,068**	**1,133**	**(6)**	**(6)**	**48**	**47**
Property	642	634	1	-	77	(8)
Liability	300	297	1	-	(11)	(4)
Commercial Motor	262	256	2	2	(22)	4
Marine & Other	316	286	10	10	31	(27)
Total UK Commercial	**1,520**	**1,473**	**3**	**2**	**75**	**(35)**
Total UK	**2,588**	**2,606**	**(1)**	**(1)**	**123**	**12**
Investment result					136	135
UK operating result					**259**	**147**

Operating Ratios (%)	Claims FY'16	FY'15	Commission FY'16	FY'15	Op Expenses FY'16	FY'15	Combined FY'16	FY'15
Household							91.7	90.3
Personal Motor							101.0	107.8
Pet							99.4	96.7
Total UK Personal	**57.8**	**59.0**	**21.2**	**21.3**	**16.7**	**15.6**	**95.7**	**95.9**
Property							88.2	101.3
Liability							103.7	101.5
Commercial Motor							107.4	99.1
Marine & Other							90.5	109.4
Total UK Commercial	**61.8**	**69.6**	**21.1**	**20.3**	**12.3**	**12.4**	**95.2**	**102.3**
Total UK	**60.2**	**65.1**	**21.2**	**20.7**	**14.0**	**13.7**	**95.4**	**99.5**
Of which:			***5yr ave***					
Weather loss ratio	*3.2*	*6.5*	*3.6*					
Large loss ratio	*13.2*	*12.4*	*13.6*					
Current year attritional loss ratio	*46.3*	*48.1*						
Prior year effect on loss ratio	*(2.5)*	*(1.9)*						

YTD rate changes[2] (%)	At Dec 2016	At Sept 2016	At June 2016	At March 2016
Personal Household	**1**	1	1	-
Personal Motor	**9**	10	9	9
Commercial Property	**(1)**	(1)	-	(2)
Commercial Liability	**-**	-	-	(1)
Commercial Motor	**5**	5	5	4

[1] *RFX = reported foreign exchange rates; CFX = constant foreign exchange rates*

[2] *Rate changes reflect changes for risks renewing in the year-to-date versus comparable risks renewing in the same period the previous year*

UK

The UK delivered the best underwriting result in over a decade at £123m and a COR of 95.4%. Continued delivery from our performance improvement programme has driven this strong result against a competitive landscape.

Customer satisfaction metrics remain strong with further improvements delivered from 2015. Of note More Than Net Promoter Scores ("NPS") increased by 39% from 2015 and Motability NPS remained at market leading levels of +80. The creation of two new trading divisions in Commercial Lines are enabling us to better serve customers and compete more effectively.

Premiums were down 1% overall which included the impact of portfolio remediation in personal broker motor and delegated business.

UK Personal net written premiums contracted by 6% following the exit of Broker Motor during 2016. The growth of our highly successful Telematics proposition continues at pace with 90% growth from 2015 and helped deliver underlying 15% growth in Personal Motor. Underlying shrinkage (excluding the exited business) was 1% driven by remediation of the Delegated Authority Home portfolio offsetting strong growth in Personal Motor enabled by Telematics performance.

UK Commercial net written premiums grew by 2% following the transfer of Scandinavian Marine portfolio during 2016. Excluding this transfer UK Commercial net written premium growth was flat to 2015.

The UK underwriting result of £123m was underpinned by improving attritional loss ratios (1.8 points better) demonstrating the continuing underwriting discipline across the business. Favourable weather experience (3.3 points better than last year) was offset by adverse large loss experience (0.8 points adverse), whilst prior year development of 2.5% included £14m of favourable development from the December 2015 Storms.

The UK Personal underwriting result of £48m was £1m favourable to 2015 with improvements in attritional loss ratios across Personal Motor and Pet. In Commercial, an underwriting profit of £75m was £110m favourable to 2015 with a 2.4 point improvement in the attritional loss ratio following improvements in Marine and Commercial Motor. The Marine large loss performance was 5.6pts improved from 2015 following the remediation programme in 2016, although this was offset by more elevated large loss levels in Motor and Liability.

The continuing change activity across the UK helped deliver further improvements to controllable expenses which were down 1%, comprising 3% gross cost reduction offset by 2% inflation. Headcount was down 5% in the year and is down 18% since the end of 2013.

UK – Outlook

January renewals have delivered in line with expectations and premium trends are expected to continue to deliver modest growth through 2017.

Despite a challenging external landscape, we have ambitious plans to continue transforming the UK business, investing in capabilities and delivering sustainable 'best in class' performance. Our medium target COR of below 94% remains.

REGIONAL REVIEW – IRELAND & MIDDLE EAST

Ireland - management basis

	Net written premiums		Change (%)		Underwriting result	
	FY 2016	FY 2015	**RFX[1]**	**CFX[1]**	**FY 2016**	FY 2015
	£m	£m			**£m**	£m
Personal	185	161	15	2	(14)	(22)
Commercial	121	100	21	12	(35)	(13)
Total Ireland	**306**	**261**	**17**	**6**	**(49)**	**(35)**
Investment result					7	9
Ireland operating result					**(42)**	**(26)**

Operating Ratios (%)	Claims		Commission		Op Expenses		Combined	
	FY'16	FY'15	**FY'16**	FY'15	**FY'16**	FY'15	**FY'16**	FY'15
Personal							107.6	113.8
Commercial							130.1	112.8
Total Ireland	**91.6**	**84.3**	**12.2**	**12.8**	**12.4**	**16.3**	**116.2**	**113.4**
Of which:			***5yr ave***					
Weather loss ratio	*0.0*	*1.5*	*4.3*					
Large loss ratio	*9.5*	*6.4*	*3.8*					
Current year attritional loss ratio	*66.2*	*74.2*						
Prior year effect on loss ratio	*15.9*	*2.2*						

YTD rate changes[2] (%)	**At Dec 2016**	At Sept 2016	At June 2016	At March 2016
Personal Household	**16**	16	14	14
Personal Motor	**35**	35	35	37
Commercial Property	**4**	3	2	1
Commercial Liability	**20**	22	22	21
Commercial Motor	**39**	33	25	18

Middle East - management basis

	Net written premiums		Change (%)		Underwriting result	
	FY 2016	FY 2015	**RFX[1]**	**CFX[1]**	**FY 2016**	FY 2015
	£m	£m			**£m**	£m
Personal	111	106	5	(8)	5	2
Commercial	76	75	3	(10)	9	6
Total Middle East	**187**	**181**	**3**	**(8)**	**14**	**8**
Investment result					6	3
Middle East operating result					**20**	**11**

Operating Ratios (%)	Claims		Commission		Op Expenses		Combined	
	FY'16	FY'15	**FY'16**	FY'15	**FY'16**	FY'15	**FY'16**	FY'15
Personal							95.7	98.3
Commercial							88.2	91.0
Total Middle East	**56.8**	**61.6**	**16.6**	**13.9**	**19.4**	**19.9**	**92.8**	**95.4**
Of which:			***5yr ave***					
Weather loss ratio	*1.0*	*0.0*	*0.4*					
Large loss ratio	*1.3*	*1.9*	*1.3*					
Current year attritional loss ratio	*57.2*	*61.9*						
Prior year effect on loss ratio	*(2.7)*	*(2.2)*						

[1] *RFX = reported foreign exchange rates; CFX = constant foreign exchange rates*

[2] *Rate changes reflect changes for risks renewing in the year-to-date versus comparable risks renewing in the same period the previous year*

IRELAND

In Ireland, while the headline underwriting loss of £49m is disappointing, the current year underwriting result has returned to profit with an improvement of £30m year on year. Full year premiums of £306m were up 6% at constant FX versus 2015 with significant rate being carried during 2016.

The underwriting loss of £49m comprises a £1m current year profit (2015: £29m loss) and a £50m prior year loss (2015: £6m loss). The current year improvement reflects an attritional loss ratio of 66.2% which was 8 points better than last year, significant rate increases, and further cost reductions.

The prior year loss is predominantly in the Republic of Ireland Commercial and Motor portfolios where a combination of higher than expected claims and the distortion of our reserving patterns following the events of 2013 have resulted in further strengthening of reserves during 2016. These issues have been amplified by a challenging Irish market, characterised by aggressive claims inflation and increasing litigation mitigated by a very hard rating environment.

Just over £30m of the development relates to three classes: Motor, Liability and SME where we put through significant price increases in 2016 ahead of our plans, with further increases planned for 2017. Much of the remainder of the adverse development relates to business we have now exited.

Within the underwriting result, the impact of weather and large losses, taken together, was broadly in line with long term averages although weather losses were nil while large losses were relatively high.

The performance improvement plan continues in Ireland. Irish FTE was down 9% in 2016 and is down 33% since the end of 2013, with total controllable expenses down 24% year-on-year.

Ireland - Outlook

We are targeting a return to operating profitability in 2017 through continued underwriting improvement, portfolio remediation and cost reduction. The challenging market environment, in particular for claims inflation with the Book of Quantum revision, PPO legislation and judicial reviews, demands that we continue our focus on securing adequate rate in each of our portfolios, and may give rise to additional reserve volatility.

MIDDLE EAST

The Middle East region delivered a sub-96% COR for the 5th consecutive year, against a backdrop of a sustained economic downturn and tough trading conditions.

Premiums of £187m were down 8% at constant FX as a result of the challenging trading conditions resulting from the macroeconomic difficulties and portfolio action taken in KSA.

The underwriting result of £14m is £6m better than 2015 and the COR improved by 2.6 points to 92.8%. Underwriting actions have been taken across the portfolios which have delivered 4.7 point improvement in the attritional loss ratio to 57.2% (2015: 61.9%).

The region secured a new major bank assurance partnership with First Gulf Bank and a new health partnership with NowHealth in Dubai, as well as the opening of new branches and the enhancement of digital offerings.

Middle East - Outlook

The medium term outlook for our Middle East business remains positive. Targeted growth plans are in place for 2017 and work is underway to further develop capabilities throughout the region including underwriting and pricing sophistication. With our affinity and bank assurance partnerships, we are well positioned to take early advantage of any economic upturn.

DISCONTINUED & NON-CORE OPERATIONS

	Net written premiums		Underwriting result	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
UK Legacy[1]	-	2	(10)	(39)
Other discontinued & non-core[2]	127	920	(2)	14
Total discontinued & non-core	**127**	**922**	**(12)**	**(25)**

[1] *Non-core*
[2] *Includes Latin America, Hong Kong, Singapore, China, India, Italy, UK Engineering, and Russia.*

Disposal programme

In 2014 we commenced a major disposal programme with the intention of focusing RSA on its strongest businesses. Significant progress has been made to date, as follows:

Completed disposals:

- **Baltics** (Lithuania, Latvia, Estonia): announced 17 April 2014, completed 30 June 2014 Latvia, 31 October 2014 Lithuania and Estonia. Total proceeds: £215m. Gain on sale: £124m.
- **Poland**: announced 17 April 2014, completed 15 September 2014. Total proceeds: £74m. Gain on sale: £29m.
- **Noraxis**: announced 19 May 2014, completed 2 July 2014. Total proceeds: £220m. Gain on sale: £164m.
- **Thailand associate**: announced and completed 19 December 2014. Total proceeds: £37m. Gain on sale: £21m.
- **Hong Kong & Singapore**: announced 21 August 2014, completed 31 March 2015. Total proceeds: £123m. Gain on sale: £103m.
- **China**: announced 3 July 2014, completed 14 May 2015. Total proceeds: £69m. Gain on sale: £28m.
- **India associate**: announced 18 February 2015, completed 29 July 2015. Total proceeds: £46m. Gain on sale: £21m.
- **Italy:** announced 17 October 2014, completed 31 December 2015. Total proceeds: £18m. Gain on sale: £29m.
- **UK Engineering Inspection:** Completed 1 November 2015. Gain on sale: £2m.
- **Russia:** announced 9 December 2015, completed 29 January 2016. Total proceeds: £5m. Tangible gain on sale: £1m. Total loss on sale: £10m.
- **Latin America:** announced 8 September 2015, completed during FY 2016. Total proceeds: £434m. Tangible gain on sale: £158m. Total loss on sale: £19m.

Announced disposals:

- **UK Legacy liabilities:** announced 7 February 2017. Disposal of £834m of undiscounted UK legacy insurance liabilities net of reinsurance. Transaction takes form of initial reinsurance agreement, to be effective at 31 December 2016, and which substantially effects economic transfer, to be followed by a subsequent legal transfer of the business. Further details included in Appendix (pg30).

APPENDIX

UNDERLYING AND ALTERNATIVE PERFORMANCE MEASURES

The Group uses alternative performance measures, including certain underlying measures, to help explain business performance and financial position. Where not defined in the body of this announcement, further information is set out below.

Note 7 on pages 61-63 of the condensed consolidated financial statements presents a reconciliation of the management basis to statutory income statement.

Underlying premiums

Underlying growth rate in Scandinavia has been calculated by adjusting Scandinavian 2015 premiums downwards by £26m for the non-repeat of two large multi-year deals and also by £33m for the transfer of Marine business from Scandinavia to the UK in FY 2016.

Combined operating ratio

The Group's combined operating ratio (COR) is 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

Underlying profit before tax

Underlying profit before tax is calculated as operating profit less interest costs.

Underlying Core Group tax rate

The underlying Core Group tax rate mainly comprises the local statutory tax rates in our territories applied to underlying regional profits (operating profits less interest costs).

Net asset value and tangible net asset value per share

Net asset value per share data at 31 December 2016 was based on total shareholders' funds of £3,715m, adjusted by £125m for preference shares. Tangible net asset value per share was based on a tangible book value of £2,862m (equal to shareholders' funds of £3,715m, less goodwill & intangible assets of £728m, less £125m preference share capital).

Earnings per share

The earnings per share (EPS) is calculated using the result attributable to the ordinary shareholders of the Parent Company and the weighted average number of shares in issue during the period. On a basic and diluted basis these were 1,018,174k and 1,024,449k respectively (net of RSA owned shares). The number of shares in issue at 31 December 2016 was 1,019,555k (net of RSA owned shares).

Stated EPS uses profit attributable to ordinary shareholders (profit after tax less non-controlling interests and preference share dividends). Underlying EPS uses an underlying profit measure calculated as operating profit less interest costs taxed at an underlying tax rate of 24% for FY 2016, less non-controlling interests and preference share dividends.

Constant exchange (CFX)

Prior period comparative translated at current period exchange rates.

Controllable costs

Total controllable costs are stated on a 'written' basis, and include underwriting operating expenses, claims expenses, investment expenses, central expenses, and Solvency II costs.

Current year underwriting result

The profit or loss earned from business for which protection has been provided in the current financial period.

Prior year underwriting result

The profit or loss arising from settling claims incurred in previous years at a better or worse level than the previous estimated costs.

'Record' underwriting performance

Record FY Group underwriting profit and combined ratio considers the FY periods for 2006-2016. In order to compare on a 'like-for-like' basis, historical periods have been adjusted for central expense reallocation changes made in 2015, Scandinavian discount rate changes made in 2014, and IAS 19 pension net interest cost changes made in 2012. In the case of the expense reallocations and IAS 19 changes, the restatement value applied in the year of change has been applied to all preceding years back to 2006.

Return on equity and tangible equity

		FY 2016 £m	FY 2015 £m
	Profit after tax	**20**	**244**
	Less: non-controlling interest	7	(9)
	Less: preference dividend	(9)	(9)
A	**Profit attributable to ordinary shareholders**	**18**	**226**
	Operating profit before tax	**655**	**523**
	Less: interest costs	(99)	(106)
	Underlying profit before tax	**556**	**417**
	Less: tax[1]	(133)	(117)
	Less: non-controlling interest	(12)[2]	(9)
	Less: preference dividend	(9)	(9)
B	**Underlying profit after tax attributable to ordinary shareholders**	**402**	**282**
	Opening shareholders' funds	**3,642**	**3,825**
	Less: preference share capital	(125)	(125)
C	**Opening ordinary shareholders' funds**	**3,517**	**3,700**
	Less: goodwill & intangibles	(679)	(800)
D	**Opening tangible ordinary shareholders' funds**	**2,838**	**2,900**
	Return on equity		
A/C	Reported	0.5%	6.1%
B/C	Underlying	11.4%	7.6%
	Return on tangible equity		
A/D	Reported	0.6%	7.8%
B/D	Underlying	14.2%	9.7%

[1] *Using underlying assumed tax rate of 24% in FY 2016 and 28% in FY 2015*

[2] *Stated non-controlling interest adjusted for share of goodwill write down in Oman*

We expect the underlying assumed tax rate to continue to fall next year to a rate broadly in line with the statutory tax rates in our Core territories. Given the scale of unrecognised UK tax assets it may trend towards 20% over the next few years.

LEGACY DISPOSAL

On 7 February 2017, RSA signed contracts, to dispose £834m of UK legacy insurance liabilities to Enstar Group Limited ('Enstar').

The transaction initially takes the form of a reinsurance agreement, effective at 31 December 2016, and which substantially[1] effects economic transfer, to be followed by completion of a subsequent legal transfer of the business by Part VII Transfer.

The Reinsurance is effected via a 100% quota share policy[1], subject to finalising and effecting certain security arrangements. It covers all claims payments, net of reinsurance, arising in respect of the Business on and after 31 December 2016. The Part VII Transfer is subject to court, regulatory and other approvals and is expected to be completed within 18-24 months.

The transaction covers £834m of undiscounted liabilities, net of reinsurance (£957m gross of reinsurance), relating to business written in 2005 & prior. Around 75% of these liabilities relate to asbestos, with the balance mainly comprising abuse, deafness, marine and aviation liabilities. Around £35m of net discounted post-2005 legacy liabilities will remain with RSA after the transaction.

The reinsurance premium paid by RSA to Enstar is £799m[2], settled through the transfer of a £682m portfolio of investment grade assets with the balance in cash. No further consideration will be due in respect of the subsequent Part VII Transfer.

Capital impacts:

- Solvency II coverage gain of c.17-20 points as follows:
  - The majority of the gain comes through an increase in Core Tier 1 available capital. This is because that part of the Group's Solvency II balance sheet relating to Legacy risk comprises amounts to support the Legacy reserves as well as a risk margin and provision for 'events not in data'. Execution of this deal substantially removes the risk exposures from the Solvency II balance sheet, and with it the need for associated reserves.
  - The boost to Core Tier 1 capital also allows more of RSA's Tier 3 capital to become eligible in the Solvency II coverage calculation. This impact represents c.3 points of the overall coverage gain.
  - The Group's solvency capital requirement (SCR) is not expected to change materially on completion of the Part VII Transfer, as the risk reduction achieved is mostly offset by lost benefit of diversification versus RSA's other SCR risks.
- The significant majority of the overall coverage benefit is realised immediately.

Accounting impacts:

- An IFRS non-cash charge of c.£145m booked partly in 2016 and partly in 2017 as follows:
  - RSA's 2016 financial results include a non-capital charge of £204m primarily due to the IFRS accounts holding the legacy liabilities using a 4% discount rate to face value (£567m v £834m undiscounted), whereas Solvency II discounts the same liabilities for capital purposes at a range of 1.0-1.5%. The buyer is taking on the liabilities at a discount rate in between these figures reflecting its own targeted return profile.
  - RSA's 2017 financial results will include a net realised gain of c.£65m mainly on the mark-to-market of the bonds transferred to the buyer.
- The IFRS loss is tax deductible in the UK, and will add to RSA's existing unrecognised tax losses.

[1] *Interim Reinsurance has a limit of 175% of net undiscounted reserves*

[2] *Subject to final adjustment*

CAPITAL

We maintain a measured approach to capital management, targeting a single 'A' capital rating. This involves considering a range of indicators relating to capital, to operating results, and to qualitative factors.

RSA is a diversified, multi-channel, multi-product general insurer and its business mix reduces exposure to significant volatility.

However, the UK pension scheme provides a degree of IAS 19 volatility under Solvency II for RSA.

We currently consider a target coverage ratio under Solvency II reporting of 130-160% to be appropriate for the Group's risk profile.

Solvency II sensitivities[1]

FY 2016 coverage ratio	**158%**	
FY 2016 coverage ratio proforma for Legacy sale	**175-178%**	
Sensitivities (change in coverage ratio):	Incl. pensions	Excl. pensions
Interest rates: +1% non-parallel[2] shift	+6%	0%
Interest rates: -1% non-parallel[2] shift	-7%	-2%
Equities: -15%	-8%	-1%
Foreign exchange: GBP +10% vs all currencies	-4%	-4%
Cat loss of £75m net	-4%	-4%
Credit spreads: +0.25% parallel shift	+9%	-4%
Credit spreads: -0.25% parallel shift	-13%	+4%

The above sensitivities have been considered in isolation. The impact of a combination of sensitivities may be different to the individual outcomes stated above.

Reconciliation of IFRS total capital to Eligible Own Funds

	31 Dec 2016 £bn
Shareholders' funds (incl. preference shares)	3.7
Loan capital	1.1
Non-controlling interests	0.1
Total IFRS capital	**4.9**
Less: goodwill & intangibles	(0.7)
Adjust technical provisions to SII basis	(0.7)
Other	0.1
Basic Own Funds	**3.6**
Tiering & availability restrictions	(0.6)
Forseeable dividends	(0.1)
Eligible Own Funds	**2.9**

[1] Sensitivities exclude second order impacts from the application of Tier 1 eligibility rules.
[2] We have updated our approach to interest rate sensitivities, from a parallel shift in the yield curve to a non-parallel shift. This is to reflect that the long end of the yield curve is typically more stable than the short end.

Capital requirement (SCR) by risk type[1]:

Excluding Legacy	**31 Dec 2016**
	%
Underwriting risk	14
Catastrophe risk	16
Reserve risk	16
Market & credit risk	15
Currency risk	3
Pension risk	26
Operational risk	10
Total	**100**

Diversification benefit

The level of diversification benefit generated within our SII model, resulting from the nature of the different types of business written and the non-correlation of risk events affecting the group, is between 35%-45% of the undiversified capital requirement (SCR).

[1] *Shown as a proportion of the undiversified solvency capital requirement.*

PENSIONS

The table below provides a reconciliation of the movement in the Group's pension fund position under IAS 19 (net of tax) from 1 January 2016 to 31 December 2016.

	UK £m	non-UK £m	Group £m
Pension fund surplus/(deficit) at 1 January 2016	**117**	**(53)**	**64**
Actuarial gains/(losses)[1]	(295)	(39)	(334)
Deficit funding	54	-	54
Other movements[2]	11	8	19
Pension fund surplus/(deficit) at 31 December 2016	**(113)**	**(84)**	**(197)**

At an aggregate level the pension fund position under IAS 19 deteriorated during the year from £64m surplus to a deficit of £197m.

The UK position deteriorated by £230m during the year driven largely by adverse market movements (in particular tightening of credit spreads). Losses were partly offset by deficit funding contributions (£66m pre-tax) and actual pension increases being lower than expected.

The non-UK schemes' deficit deteriorated by £31m during the year, also driven mainly by market movements – in particular declining yields and the impact of foreign exchange movements.

IAS 19 sensitivities

	Assets	**Liabilities**
IAS 19 position at 31 December 2016 (£bn)	**8.2**	**8.3**
Sensitivities (£bn change in assets/liabilities):		
Interest rates: -1%	+1.7	+1.8
Inflation: +1%	+1.1	+1.0
Equities: -15%	-0.1	-
'AA' credit spreads: -0.25%	+0.1	+0.4

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

REINSURANCE

The main elements of our 2017 reinsurance programme are outlined below.

The 3 year Group aggregate reinsurance deal that commenced in 2015 remains in place. The key terms are as follows:

- Events or individual net losses greater than £10m are added together across our financial year (when a loss exceeds £10m it is included in full);
- Cover attaches when total of these retained losses is greater than £150m;
- Limit of cover is £150m in 2017;
- £150m limit can also be used if Cat cover is exceeded; and
- Counterparties are high credit quality reinsurers (80% AA- and 20% A or better).

Retentions for our existing Cat and Risk treaties remain unchanged from 2016. The key retentions are £75m for UK Cat; £50m for non-UK Cat (Canada up from C$50m to C$75m); £50m for Property Risk.

The sale of the legacy liabilities means the Group's Adverse Development Cover reinsurance protection bought in 2014 to partly protect these liabilities, is no longer valuable. Accordingly, we have agreed to commute it for a one-time charge in 2017 of £22m.

LOSS DEVELOPMENT TABLES & RESERVE MARGIN

The table below (for continuing operations) presents the general insurance claims provisions net of reinsurance for the accident years 2006 and prior through to 2016. The top half of the table shows the estimate of cumulative claims at the end of the initial accident year and how these have developed over time. The bottom half of the table shows the value of claims paid for each accident year in each subsequent year. The current year provision for each accident year is calculated as the estimate of cumulative claims at the end of the current year less the cumulative claims paid.

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

£m	2006 and prior	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of Cumulative claims												
At end of accident year	7,507	2,215	2,299	2,199	2,351	2,494	2,463	2,639	2,410	2,290	2,142	
1 year later	7,158	2,210	2,289	2,256	2,422	2,492	2,493	2,739	2,434	2,290		
2 years later	6,766	2,180	2,290	2,217	2,399	2,477	2,467	2,667	2,396			
3 years later	6,438	2,095	2,244	2,189	2,413	2,429	2,427	2,635				
4 years later	6,132	2,026	2,233	2,220	2,419	2,386	2,392					
5 years later	5,936	2,016	2,203	2,222	2,386	2,362						
6 years later	5,734	2,012	2,183	2,201	2,365							
7 years later	5,663	1,994	2,171	2,198								
8 years later	5,675	1,984	2,169									
9 years later	5,857	1,983										
10 years later	5,903											
2016 movement	**(46)**	**1**	**2**	**3**	**21**	**24**	**35**	**32**	**38**	**-**		**110**
Claims paid												
1 year later	1,645	928	1,074	1,066	1,223	1,127	1,148	1,262	1,122	1,069		
2 years later	975	325	337	347	372	393	387	414	354			
3 years later	638	238	231	230	246	258	235	233				
4 years later	512	146	171	184	191	170	187					
5 years later	335	124	102	126	97	103						
6 years later	258	66	67	68	58							
7 years later	299	35	34	32								
8 years later	230	14	29									
9 years later	98	20										
10 years later	157											
Cumulative claims paid	**5,147**	**1,896**	**2,045**	**2,053**	**2,187**	**2,051**	**1,957**	**1,909**	**1,476**	**1,069**		
Current year provision before discounting	**756**	**87**	**124**	**145**	**178**	**311**	**435**	**726**	**920**	**1,221**	**2,142**	**7,045**
Exchange adjustment to closing rates												292
Discounting												(104)
Annuities												696
Present value recognised in the statement of financial position												**7,929**
Held for sale												624
Total Group												**8,553**

Reconciliation to prior year underwriting result:

	£m
2016 net loss development	**110**
Discounting	8
Annuities	2
Held for sale/disposals	19
Prior year net incurred claims	**139**
Prior year premiums	(24)
Prior year commissions	(2)
Prior year expenses	(4)
Prior year underwriting result	**109**

Reserve margin

Our own assessment of the margin in reserves for the Group (the difference between our actuarial indication and the booked reserves in the financial statements) is 5.5% of booked claims reserves (2015: 5.0%).

SEGMENTAL ANALYSIS

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

	Scandinavia £m	Canada £m	UK & International £m	Central functions £m	Core Group £m	Total 'non-core'[1] £m	**Group FY 2015 £m**
Net Written Premiums	**1,606**	**1,360**	**3,048**	**(111)**	**5,903**	**922**	**6,825**
Net Earned Premiums	1,566	1,387	3,174	(24)	6,103	909	7,012
Net Incurred Claims	(1,156)	(852)	(2,111)	78	(4,041)	(538)	(4,579)
Commissions	(60)	(186)	(625)	(2)	(873)	(240)	(1,113)
Operating expenses	(256)	(233)	(453)	(2)	(944)	(156)	(1,100)
Underwriting result	**94**	**116**	**(15)**	**50**	**245**	**(25)**	**220**
Investment income	91	72	159	-	322	81	403
Investment expenses	(2)	(3)	(7)	-	(12)	(2)	(14)
Unwind of discount	(20)	(3)	(5)	-	(28)	(39)	(67)
Investment result	**69**	**66**	**147**	**-**	**282**	**40**	**322**
Central expenses	-	-	-	(18)	(18)	(1)	(19)
Operating result	**163**	**182**	**132**	**32**	**509**	**14**	**523**
Interest							(106)
Other non-operating charges[2]							(94)
Profit before tax							**323**
Tax							(79)
Profit after tax							**244**
Underlying profit before tax[3]							**417**
Loss ratio (%)	73.8	61.5	66.5	-	66.2	-	65.3
Weather loss ratio	*1.0*	*2.3*	*5.7*	-	*3.2*	-	*3.1*
Large loss ratio	*6.3*	*4.7*	*11.3*	-	*8.3*	-	*7.9*
Current year attritional loss ratio	*64.5*	*60.3*	*51.1*	-	*56.6*	-	*55.7*
Prior year effect on loss ratio	*2.0*	*(5.8)*	*(1.6)*	-	*(1.9)*	-	*(1.4)*
Commission ratio (%)	3.8	13.4	19.7	-	14.3	-	15.9
Expense ratio (%)	16.4	16.8	14.3	-	15.5	-	15.7
Combined ratio (%)	**94.0**	**91.7**	**100.5**	**-**	**96.0**	**-**	**96.9**

[1] *Total 'non-core' comprises discontinued operations of Italy, Hong Kong, Singapore, China, India, Russia and Latin America; and non-core continuing operations of UK Legacy.*
[2] *Refer to pg 11 for further breakdown and explanation.*
[3] *Underlying or alternative performance measure, refer to pgs 28-29 for further explanation.*

COMBINED RATIO DETAIL

Core Group

£m unless stated		Current year		Prior year		FY 2016 total		Current year	Prior year	FY 2015 total
Net Written Premiums	1	**6,269**		**12**	7	**6,281**	13	**5,912**	**(9)**	**5,903**
Net Earned Premiums	2	6,353	8	(13)	14	6,340		6,134	(31)	6,103
Net Incurred Claims	3	(4,258)	9	149	15	(4,109)		(4,180)	139	(4,041)
Commissions	4	(874)	10	(13)	16	(887)		(873)	-	(873)
Operating expenses	5	(948)	11	(4)	17	(952)		(940)	(4)	(944)
Underwriting result	6	**273**	12	**119**	18	**392**		**141**	**104**	**245**
CY attritional claims	19	(3,511)						(3,478)		
Weather claims	20	(165)						(194)		
Large losses	21	(582)						(508)		
Net incurred claims	22	(4,258)						(4,180)		
Loss ratio (%)			=15 / 14		23	*64.8*				66.2
Weather loss ratio			=20 / 2		24	*2.6*				*3.2*
Large loss ratio			=21 / 2		25	*9.2*				*8.3*
Current year attritional loss ratio			=19 / 2		26	*55.2*				*56.6*
Prior year effect on loss ratio			=23 - 24 - 25 - 26		27	*(2.2)*				*(1.9)*
Commission ratio (%)			=16 / 14		28	14.0				14.3
Expense ratio (%)			=17 / 14		29	15.0				15.5
Combined ratio (%)			=23 + 28 + 29		30	**93.8**				**96.0**

Scandinavia

£m unless stated	Current year	Prior year	FY 2016 total	Current year	Prior year	FY 2015 total
Net Written Premiums	**1,721**	**-**	**1,721**	**1,606**	**-**	**1,606**
Net Earned Premiums	1,735	-	1,735	1,572	(6)	1,566
Net Incurred Claims	(1,207)	26	(1,181)	(1,129)	(27)	(1,156)
Commissions	(60)	-	(60)	(60)	-	(60)
Operating expenses	(255)	-	(255)	(256)	-	(256)
Underwriting result	**213**	**26**	**239**	**127**	**(33)**	**94**
CY attritional claims	(1,114)			(1,015)		
Weather claims	(6)			(15)		
Large losses	(87)			(99)		
Net incurred claims	(1,207)			(1,129)		
Loss ratio (%)			*68.0*			73.8
Weather loss ratio			*0.4*			*1.0*
Large loss ratio			*5.0*			*6.3*
Current year attritional loss ratio			*64.2*			*64.5*
Prior year effect on loss ratio			*(1.6)*			*2.0*
Commission ratio (%)			3.4			3.8
Expense ratio (%)			14.8			16.4
Combined ratio (%)			**86.2**			**94.0**

COMBINED RATIO DETAIL

Canada

£m unless stated	Current Year	Prior year	FY 2016 total	Current year	Prior year	FY 2015 total
Net Written Premiums	**1,447**	**(4)**	**1,443**	**1,360**	**-**	**1,360**
Net Earned Premiums	1,458	(4)	1,454	1,387	-	1,387
Net Incurred Claims	(1,018)	70	(948)	(933)	81	(852)
Commissions	(196)	5	(191)	(189)	3	(186)
Operating expenses	(238)	(3)	(241)	(230)	(3)	(233)
Underwriting result	**6**	**68**	**74**	**35**	**81**	**116**
CY attritional claims	(842)			(837)		
Weather claims	(83)			(31)		
Large losses	(93)			(65)		
Net incurred claims	(1,018)			(933)		
Loss ratio (%)			*65.2*			61.5
Weather loss ratio			*5.7*			*2.3*
Large loss ratio			*6.4*			*4.7*
Current year attritional loss ratio			*57.8*			*60.3*
Prior year effect on loss ratio			*(4.7)*			*(5.8)*
Commission ratio (%)			13.1			13.4
Expense ratio (%)			16.6			16.8
Combined ratio (%)			**94.9**			**91.7**

Total UK (excluding Legacy)

£m unless stated	Current year	Prior year	FY 2016 total	Current year	Prior year	FY 2015 total
Net Written Premiums	**2,579**	**9**	**2,588**	**2,614**	**(8)**	**2,606**
Net Earned Premiums	2,679	(2)	2,677	2,742	(8)	2,734
Net Incurred Claims	(1,681)	70	(1,611)	(1,838)	57	(1,781)
Commissions	(550)	(17)	(567)	(564)	(2)	(566)
Operating expenses	(376)	-	(376)	(374)	(1)	(375)
Underwriting result	**72**	**51**	**123**	**(34)**	**46**	**12**
CY attritional claims	(1,243)			(1,319)		
Weather claims	(85)			(179)		
Large losses	(353)			(340)		
Net incurred claims	(1,681)			(1,838)		
Loss ratio (%)			*60.2*			65.1
Weather loss ratio			*3.2*			*6.5*
Large loss ratio			*13.2*			*12.4*
Current year attritional loss ratio			*46.3*			*48.1*
Prior year effect on loss ratio			*(2.5)*			*(1.9)*
Commission ratio (%)			21.2			20.7
Expense ratio (%)			14.0			13.7
Combined ratio (%)			**95.4**			**99.5**

COMBINED RATIO DETAIL

UK Personal

£m unless stated	Current year	Prior year	FY 2016 total	Current year	Prior year	FY 2015 total
Net Written Premiums	**1,069**	**(1)**	**1,068**	**1,134**	**(1)**	**1,133**
Net Earned Premiums	1,093	(1)	1,092	1,153	(2)	1,151
Net Incurred Claims	(650)	20	(630)	(706)	26	(680)
Commissions	(232)	-	(232)	(241)	(4)	(245)
Operating expenses	(182)	-	(182)	(179)	-	(179)
Underwriting result	**29**	**19**	**48**	**27**	**20**	**47**
CY attritional claims	(567)			(605)		
Weather claims	(46)			(65)		
Large losses	(37)			(36)		
Net incurred claims	(650)			(706)		
Loss ratio (%)			57.8			59.0
Weather loss ratio			*4.2*			*5.6*
Large loss ratio			*3.4*			*3.1*
Current year attritional loss ratio			*51.9*			*52.5*
Prior year effect on loss ratio			*(1.7)*			*(2.2)*
Commission ratio (%)			21.2			21.3
Expense ratio (%)			16.7			15.6
Combined ratio (%)			**95.7**			**95.9**

UK Commercial

£m unless stated	Current year	Prior year	FY 2016 total	Current year	Prior year	FY 2015 total
Net Written Premiums	**1,510**	**10**	**1,520**	**1,480**	**(7)**	**1,473**
Net Earned Premiums	1,586	(1)	1,585	1,589	(6)	1,583
Net Incurred Claims	(1,031)	50	(981)	(1,132)	31	(1,101)
Commissions	(318)	(17)	(335)	(323)	2	(321)
Operating expenses	(194)	-	(194)	(195)	(1)	(196)
Underwriting result	**43**	**32**	**75**	**(61)**	**26**	**(35)**
CY attritional claims	(676)			(714)		
Weather claims	(39)			(114)		
Large losses	(316)			(304)		
Net incurred claims	(1,031)			(1,132)		
Loss ratio (%)			61.8			69.6
Weather loss ratio			*2.4*			*7.2*
Large loss ratio			*19.9*			*19.1*
Current year attritional loss ratio			*42.6*			*45.0*
Prior year effect on loss ratio			*(3.1)*			*(1.7)*
Commission ratio (%)			21.1			20.3
Expense ratio (%)			12.3			12.4
Combined ratio (%)			**95.2**			**102.3**

REPORTING AND DIVIDEND TIMETABLE

Reporting:	
Q1 2017 trading update	4 May 2017
Annual General Meeting	5 May 2017
Dividend:	
Final ordinary dividend for the period ended 31 December 2016	
Announcement date	23 February 2017
Ex-dividend date	2 March 2017
Record date	3 March 2017
Dividend payment date	12 May 2017
1st Preference Dividend	
Announcement date	23 February 2017
Ex-dividend date	2 March 2017
Record date	3 March 2017
Dividend payment date	3 April 2017

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

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Further information

A live webcast of the analyst presentation, including the question and answer session, will be broadcast on the website at 09:00am on 23 February 2017. A webcast and transcript of the presentation will be available via the company website (www.rsagroup.com).

Important disclaimer

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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CONDENSED CONSOLIDATED INCOME STATEMENT
STATUTORY BASIS
for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Income			
Gross written premiums		**7,220**	6,858
Less: reinsurance premiums		**(981)**	(906)
Net written premiums	**7**	**6,239**	5,952
Change in the gross provision for unearned premiums		**109**	(97)
Less: change in provision for unearned reinsurance premiums		**(8)**	305
Change in provision for unearned premiums		**101**	208
Net earned premiums		**6,340**	6,160
Net investment return		**347**	381
Other operating income		**170**	142
Total income		**6,857**	6,683
Expenses			
Gross claims incurred		**(4,826)**	(4,496)
Less: claims recoveries from reinsurers		**707**	367
Net claims		**(4,119)**	(4,129)
Underwriting and policy acquisition costs		**(1,977)**	(1,986)
Unwind of discount		**(59)**	(52)
Other operating expenses		**(229)**	(308)
		(6,384)	(6,475)
Finance costs		**(138)**	(106)
Remeasurement of disposal groups and gains on disposals of businesses	**5(iii)**	**(234)**	3
Net share of profit after tax of associates		**-**	1
Profit before tax	**7**	**101**	106
Income tax expense	**8**	**(54)**	(18)
Profit after tax from continuing operations		**47**	88
(Loss)/profit from discontinued operations	**5(i)**	**(27)**	156
Profit for the year		**20**	244
Attributable to:			
Equity holders of the Parent Company		**27**	235
Non-controlling interests		**(7)**	9
		20	244
Earnings per share on profit/(loss) attributable to the ordinary shareholders of the Parent Company			
Basic			
From continuing operations	**9**	**4.4p**	6.9p
From discontinued operations	**9**	**(2.6)p**	15.4p
		1.8p	22.3p
Diluted			
From continuing operations	**9**	**4.4p**	6.9p
From discontinued operations	**9**	**(2.6)p**	15.3p
		1.8p	22.2p
Ordinary dividends paid and proposed for the year			
Interim dividend paid	**10**	**5.0p**	3.5p
Final dividend proposed	**10**	**11.0p**	7.0p

The attached notes on pages **49** to **81** form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
STATUTORY BASIS
for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Profit for the year		**20**	244
Items from continuing operations that may be reclassified to the income statement:			
Exchange gains/(losses) net of tax on translation of foreign operations		**228**	(120)
Fair value gains/(losses) on available for sale financial assets net of tax		**151**	(211)
		379	(331)
Items from continuing operations that will not be reclassified to the income statement:			
Pension - remeasurement of net defined benefit asset/liability net of tax		**(316)**	65
Movement in property revaluation surplus net of tax		**1**	3
		(315)	68
Other comprehensive income/(expense) for the year from continuing operations		**64**	(263)
Other comprehensive income/(expense) for the year from discontinued operations	**5(i)**	**120**	(106)
Total other comprehensive income/(expense) for the year		**184**	(369)
Total comprehensive income/(expense)for the year from continuing operations		**111**	(175)
Total comprehensive income for the year from discontinued operations	**5(i)**	**93**	50
Total comprehensive income/(expense) for the year		**204**	(125)
Attributable to:			
Equity holders of the Parent Company			
from continuing operations		**98**	(189)
from discontinued operations		**94**	51
		192	(138)
Non-controlling interests			
from continuing operations		**13**	14
from discontinued operations		**(1)**	(1)
		12	13
		204	(125)

The attached notes on pages 49 to 81 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
STATUTORY BASIS
for the year ended 31 December 2016

	Ordinary share capital	Ordinary share premium	Own shares	Preference shares	Revaluation reserves	Capital redemption reserve	Foreign currency translation reserve	Retained earnings	Share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2015	1,015	1,075	(1)	125	527	389	(46)	741	3,825	108	3,933
Total comprehensive income											
Profit for the year	-	-	-	-	-	-	-	235	235	9	244
Other comprehensive (expense)/income	-	-	-	-	(234)	-	(204)	65	(373)	4	(369)
	-	-	-	-	(234)	-	(204)	300	(138)	13	(125)
Transactions with owners of the Group											
Contribution and distribution											
Dividends (note 10)	-	-	-	-	-	-	-	(65)	(65)	(3)	(68)
Shares issued for cash (note 16)	1	2	-	-	-	-	-	-	3	-	3
Share based payments (note 16)	1	-	-	-	-	-	-	13	14	-	14
Other reserve transfer	-	-	-	-	-	-	29	(29)	-	-	-
	2	2	-	-	-	-	29	(81)	(48)	(3)	(51)
Changes in shareholders' interests in subsidiaries	-	-	-	-	-	-	-	3	3	11	14
Total transactions with owners of the Group	2	2	-	-	-	-	29	(78)	(45)	8	(37)
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)	**-**	**-**	**-**	**-**	**181**	**-**	**299**	**(315)**	**165**	**19**	**184**
	-	**-**	**-**	**-**	**181**	**-**	**299**	**(288)**	**192**	**12**	**204**
Transactions with owners of the Group											
Contribution and distribution											
Dividends (note 10)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(131)**	**(131)**	**(3)**	**(134)**
Shares issued for cash (note 16)	**2**	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**-**	**5**
Share based payments (note 16)	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**15**	**16**	**-**	**16**
Other reserve transfer[1]	**-**	**-**	**-**	**-**	**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 31 December 2016	**1,020**	**1,080**	**(1)**	**125**	**496**	**389**	**78**	**528**	**3,715**	**132**	**3,847**

1. During the year a reclassification was made between retained earnings and the revaluation reserve of £28m primarily as a result of the changes to UK tax treatment of unrealised investment gains of available for sale securities.

The attached notes on pages **49** to **81** form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
STATUTORY BASIS
as at 31 December 2016

	Notes	2016 £m	2015 £m
Assets			
Goodwill and other intangible assets	**11**	**728**	616
Property and equipment		**109**	109
Investment property		**333**	365
Investments in associates		**12**	13
Financial assets	**12**	**12,325**	11,797
Total investments		**12,670**	12,175
Reinsurers' share of insurance contract liabilities	**13**	**2,252**	1,988
Insurance and reinsurance debtors		**2,823**	2,653
Deferred tax assets	**14**	**270**	163
Current tax assets	**14**	**65**	51
Other debtors and other assets		**430**	693
Other assets		**765**	907
Cash and cash equivalents	**15**	**985**	816
		20,332	19,264
Assets of operations classified as held for sale	**5(ii)**	**807**	1,347
Total assets		**21,139**	20,611
Equity and liabilities			
Equity			
Shareholders' equity		**3,715**	3,642
Non-controlling interests		**132**	129
Total equity		**3,847**	3,771
Liabilities			
Loan capital		**1,068**	1,254
Insurance contract liabilities	**17**	**12,676**	12,191
Insurance and reinsurance liabilities	**17**	**954**	945
Borrowings		**251**	11
Deferred tax liabilities	**14**	**54**	40
Current tax liabilities	**14**	**32**	31
Provisions		**420**	261
Other liabilities		**1,087**	1,017
Provisions and other liabilities		**1,593**	1,349
		16,542	15,750
Liabilities of operations classified as held for sale	**5(ii)**	**750**	1,090
Total liabilities		**17,292**	16,840
Total equity and liabilities		**21,139**	20,611

The attached notes on pages 49 to 81 form an integral part of these condensed consolidated financial statements.

The financial statements were approved on 22 February 2017.

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS
STATUTORY BASIS
for the year ended 31 December 2016

	Notes	2016 £m	2015 Re-presented[1] £m
Cashflows from operating activities			
Net profit for the year before tax from continuing operations		**101**	106
Adjustments for non cash movements in net profit for the year			
Depreciation		**20**	21
Amortisation and impairment of intangible assets		**83**	80
Amortisation of available for sale assets		**70**	64
Fair value gains/ (losses) on disposal of financial assets		**15**	(37)
Impairment on available for sale financial assets		**(8)**	7
Share of (profit)/loss of associates		**-**	(1)
Loss/ (profit) on disposal of businesses		**234**	(3)
Foreign exchange (loss)/ gain[1]		**(87)**	41
Other non-cash movements[1]		**17**	49
Changes in operating assets/liabilities			
Loss and loss adjustment expenses		**(308)**	(77)
Unearned premiums		**(76)**	(179)
Movement in working capital[1]		**(69)**	299
Reclassification of investment income and interest paid		**(212)**	(232)
Tax paid		**(88)**	(108)
Dividend income		**28**	25
Interest and other investment income		**328**	322
Pension deficit funding		**(65)**	(65)
Net cashflows from operating activities - continuing operations		**(17)**	312
Net cashflows from operating activities - discontinued operations		**(18)**	11
Cashflows from investing activities			
Proceeds from sales or maturities of:			
Financial assets		**3,747**	3,931
Investment property		**28**	3
Property and equipment		**10**	1
Sale of subsidiaries (net of cash disposed of)		**-**	14
Purchase of:			
Financial assets		**(3,589)**	(4,118)
Property and equipment		**(25)**	(14)
Intangible assets		**(139)**	(48)
Net cashflows from investing activities - continuing operations		**32**	(231)
Net cashflows from investing activities - discontinued operations		**333**	219
Cashflows from financing activities			
Proceeds from issue of share capital		**5**	3
Dividends paid to ordinary shareholders		**(122)**	(56)
Dividends paid to preference shareholders		**(9)**	(9)
Dividends paid to non-controlling interests		**(3)**	(3)
Redemption of debt instruments		**(200)**	(299)
Issue of debt instruments		**242**	-
Interest paid		**(150)**	(107)
Net cashflows from financing activities - continuing operations		**(237)**	(471)
Net cashflows from financing activities - discontinued operations		**-**	-
Net increase/(decrease) in cash and cash equivalents		**93**	(160)
Cash and cash equivalents at the beginning of the year		**902**	1,135
Effect of changes in foreign exchange on cash and cash equivalents		**92**	(73)
Cash and cash equivalents at the end of the year	**15**	**1,087**	902

1. Following a review of other non-cash movements and foreign exchange adjustments, specific balances have been further analysed and classified as movements in working capital for 2016 and 2015. These adjustments have no impact on the overall reported cash flow from operating activities in either year, or any other notes to the financial statements.

The attached notes on pages 49 to 81 form an integral part of these condensed consolidated financial statements.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

1) BASIS OF PREPARATION

The financial statements within the full Annual Report and Accounts, from which the financial information within this preliminary announcement has been extracted, have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU). The condensed consolidated financial information in this report has been prepared by applying the accounting policies used in the 2016 Annual Report and Accounts.

These condensed consolidated financial statements have been prepared by applying the accounting policies used in the Annual Report and Accounts 2016 (see note 19). Certain amounts in the prior years have been reclassified to conform to the current year presentation.

In line with industry practice, the Group's statement of financial position is not presented using current and non-current classifications, but broadly in increasing order of liquidity. 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 set out in the respective notes or in the Risk and Capital Management note (note 4).

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

Estimation techniques and assumptions are presented in the relevant note in order to provide context to the figures presented. The most significant estimates and assumptions are those used in determining Insurance contract liabilities (note 17), Deferred tax (note 14) and Defined benefit pension scheme liabilities (note 18). With the exception of the re-presentation of the Segmental information (note 7), all of the information previously disclosed continues to be presented, where material, on a basis consistent with prior year.

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 2016, none of which have had a significant impact on the consolidated financial statements.

3) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

IFRS 9 'Financial Instruments' and IFRS 17 'Insurance Contracts'

The IASB currently expects to publish IFRS 17 'Insurance Contracts' during the first half of 2017 and that the latest adoption date for the new standard will be 2021.

This timescale is anticipated to be consistent with the latest date of adoption of IFRS 9 'Financial Instruments' as permitted by the amendment to IFRS 4 'Insurance Contracts'. The amendment (which has still to be adopted by the EU) provides the option to defer the normal adoption date of 2018 for up to three years.

The Group plans to take advantage of the deferral approach available under IFRS 4, thereby adopting the standard from 1 January 2021.

IFRS 15 'Revenue Recognition'

IFRS 15 'Revenue Recognition' becomes effective from 1 January 2018. Revenue arising from insurance contracts and from financial instruments is outside the scope of IFRS 15. The impact on the recognition of revenue from other services delivered to customers by the Group is expected to be insignificant.

IFRS 16 'Leases'

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

The main change under IFRS 16 is that it requires the recognition of the lease obligations, together with an asset representing the right to the use of the leased asset during the term of the lease. Under IAS 17, for leases qualifying as operating leases, the lease obligations are not recognised in the statement of financial position.

The Group is currently in the process of assessing the impact of IFRS 16 on the financial statements.

Other pronouncements

There are a number of amendments to IFRS that have been issued by the IASB that become mandatory during 2017 or in a subsequent accounting period. The Group has evaluated these changes and none are expected to have a significant impact on the consolidated financial statements.

RISK AND CAPITAL MANAGEMENT

4) RISK AND CAPITAL MANAGEMENT

Insurance Risk

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

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

A) Underwriting risk

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

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

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

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

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

B) Reinsurance risk

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

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 maximum level of risk to be retained by the Group as a whole and, therefore, the amount of central reinsurance cover purchased. This is then distributed across the Group in accordance with deemed risk appetite. Local operations may also purchase additional reinsurance within agreed local reinsurance appetite parameters.

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

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

C) Reserving risk

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

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

There is a risk to the Group from the inherent uncertainty in estimating provisions at the end of the reporting period for the eventual outcome of outstanding notified claims as well as estimating the number and value of claims that are still to be notified. In particular, the estimation of the provisions for the ultimate costs of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of business due to the slow emergence and longer settlement period for these claims.

The Group seeks to reduce its reserving risk through the use of experienced regional actuaries who estimate the actuarial indication of the required reserves based on claims experience, business volume, anticipated change in the claims environment and claims cost. This information is used by local reserving committees to recommend to the Group Reserving Committee the appropriate level of reserves for each region – which will include adding a margin onto the actuarial indication as a provision for unforeseen developments such as future claims patterns differing from historical experience, future legislative changes and the emergence of latent exposures such as asbestosis. The Group Reserving Committee review these local submissions and recommend the final level of reserves to be held by the Group. The Group has a Group Reserving Committee which is chaired by the Group Chief Financial Officer and includes the Group Chief Executive, Group Underwriting Director, Group Chief Actuary and Group Chief Risk Officer. A similar committee has been established in each of the Group's major operating segments. The Group Reserving Committee monitors the decisions and judgements made by the business units as to the level of reserves to be held. It then recommends to the Group Board via the Group Audit Committee for the final decision on the level of reserves to be included within the consolidated financial statements. In forming its collective judgement, the Committee considers the following information:

- The actuarial indication of ultimate losses together with an assessment of risks and possible favourable or adverse developments that may not have been fully reflected in calculating these indications. At the end of 2016, these risks and developments include: the possibility of future legislative change having retrospective effect on open claims; changes in claims settlement procedures potentially leading to future claims payment patterns differing from historical experience; the possibility of new types of claim, such as disease claims, emerging from business written several years ago; general uncertainty in the claims environment; the emergence of latent exposures such as asbestos; the outcome of litigation on claims received; failure to recover reinsurance and unanticipated changes in claims inflation;
- The views of internal peer reviewers of the reserves and of other parties including actuaries, legal counsel, risk directors, underwriters and claims managers;
- The outcome from independent assurance reviews performed by the Group actuarial function to assess the reasonableness of regional actuarial indication estimates;
- How previous actuarial indications have developed.

Financial risk

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

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

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

Credit risk

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

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

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

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

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

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

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

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 2016 the extent of collateral held by the Group against reinsurers' share of insurance contract liabilities was **£159m** (2015: £69m). The UK Legacy reinsurance announced on 7 February 2017 will involve additional extensive collateral arrangements.

The Group's use of reinsurance is sufficiently diversified that it is not concentrated on a single reinsurer, or any single reinsurance contract. The Group regularly monitors its aggregate exposures by reinsurer group against predetermined reinsurer Group limits, in accordance with the methodology agreed by the BRC. The Group's largest reinsurance exposures to active reinsurance groups are Munich Re, Lloyd's, and Berkshire Hathaway Inc. At 31 December 2016 the reinsurance asset recoverable from these groups does not exceed **2.4%** (2015: 2.8%) 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 **6.1%** (2015: 7.1%) 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 2016 and 2015.

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[1]	**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**

Notes:
[1] The insurance and reinsurance debtors classified as not rated comprise personal policyholders and small corporate customers that do not have individual credit ratings. The overall 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 2015

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

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

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

Ageing of financial assets that are past due but not impaired

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired as at 31 December 2016, excluding those assets that have been classified as held for sale.

As at 31 December 2016

		Financial assets that are past due but not impaired						
	Neither past due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Financial assets that have been impaired	Carrying value in the statement of financial position	Impairment losses charged/(reversed) to the income statement
	£m	£m	£m	£m	£m	£m	£m	£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**	**-**

As at 31 December 2015

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

Market risk

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

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

i. Price risk

The Group classifies its investment portfolio in debt securities and equity securities in accordance with the accounting definitions under IFRS.

At 31 December 2016 the Group held investments classified as equity securities of **£692m** (2015: £585m). These include interests in structured entities 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 **£170m** (2015: £159m) 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 in **£26m** (2015: £24m) 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 **£50m** (2015: £55m) in the income statement and **£5m** (2015: £6m) 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 2016, the table below illustrates the impact to the income statement and other comprehensive income of hypothetical 100bps change in interest rates on long-term debt and fixed income securities that are subject to interest rate risk.

Changes in the income statement and other comprehensive income:

	Increase in income statement		Decrease in other comprehensive income	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Increase in interest rate markets:				
Impact on fixed income securities and cash of an increase in interest rates of 100bps	**20**	25	**(452)**	(435)

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 2017 and 1 January 2016 on the following year's income statement and other comprehensive income.

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 2016, the Group's total shareholders' equity deployed by currency was:

	Pounds Sterling	Danish Krone/Euro	Canadian Dollar	Swedish Krona	Other	Total
	£m	£m	£m	£m	£m	£m
Shareholders' equity at 31 December 2016	**2,516**	**284**	**477**	**236**	**202**	**3,715**
Shareholders' equity at 31 December 2015	2,158	377	492	132	483	3,642

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	10% weakening in Pounds Sterling against Danish Krone/Euro	10% strengthening in Pounds Sterling against Canadian Dollar	10% weakening in Pounds Sterling against Canadian Dollar	10% strengthening in Pounds Sterling against Swedish Krona	10% weakening in Pounds Sterling against Swedish Krona
	£m	£m	£m	£m	£m	£m
Movement in shareholders' equity at 31 December 2016	**(25)**	**31**	**(43)**	**53**	**(21)**	**26**
Movement in Shareholders' equity at 31 December 2015	(34)	42	(45)	55	(12)	15

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

Liquidity risk

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

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

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

As at 31 December 2016

	Less than one year	**One to two years**	**Two to three years**	**Three to four years**	**Four to five years**	**Five to ten years**	**Greater than ten years**	**Total**	**Carrying value in the statement of financial position**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Subordinated guaranteed US$ bonds	-	-	-	-	-	-	**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**
Provision for unearned premium	**3,007**	**246**	**88**	**6**	**4**	**2**	-	**3,353**	**3,311**
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	**7,978**	**2,176**	**1,673**	**811**	**579**	**1,737**	**1,929**	**16,883**	**15,183**
Interest on perpetual bonds and notes	**63**	**49**	**32**	**21**	**21**	**81**	**2**	**269**	

As at 31 December 2015

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

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

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

SIGNIFICANT TRANSACTIONS AND EVENTS

5(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
Hong Kong	31 March 2015	Allied World Assurance Company
Singapore	31 March 2015	Allied World Assurance Company
Labuan	12 May 2015	Allied World Assurance Company
China	14 May 2015	Swiss Re Corporate Solutions
Indian associate	29 July 2015	Sundaram Finance Ltd
Italy	31 December 2015	ITAS Mutua
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 and 2015 relating to these discontinued operations is set out below.

The total loss on the sale of discontinued operations disposed of during the year after tax was **£29m** (2015: profit of £170m).

DISCONTINUED INCOME STATEMENT
for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Income			
Gross written premiums		**256**	1,365
Less: reinsurance premiums		**(87)**	(492)
Net written premiums	**7**	**169**	873
Change in the gross provision for unearned premiums		**38**	32
Less: change in provision for unearned reinsurance premiums		**(19)**	(53)
Change in provision for unearned premiums		**19**	(21)
Net earned premiums		**188**	852
Net investment return		**16**	60
Total income		**204**	912
Expenses			
Gross claims incurred		**(304)**	(672)
Less: claims recoveries from reinsurers		**208**	222
Net claims		**(96)**	(450)
Underwriting and policy acquisition costs		**(89)**	(366)
Unwind of discount		**(5)**	(15)
Other operating expenses		**(7)**	(45)
		(197)	(876)
(Loss)/gain on disposal		**(29)**	170
(Loss)/Profit before tax		**(22)**	206
Income tax expense		**(5)**	(50)
(Loss)/Profit after tax		**(27)**	156

DISCONTINUED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	2016 £m	2015 £m
(Loss)/Profit for the year from discontinued operations	**(27)**	156
Items from discontinuing operations that may be reclassified to the income statement:		
Exchange losses/(gains) recycled on disposal of discontinued operations net of tax	**111**	(39)
Exchange gains/ (losses) net of tax	**3**	(53)
Exchange losses on non-controlling interests net of tax	**-**	(3)
	114	(95)
Fair value gains/(losses) recycled on disposal of discontinued operations net of tax	**1**	(6)
Fair value gains/(losses) on available for sale financial assets net of tax	**3**	(9)
	4	(15)
Items from discontinuing operations that will not be reclassified to the income statement:		
Movement in property revaluation, net of tax	**2**	4
Other comprehensive income/(expense) for the year from discontinued operations	**120**	(106)
Total comprehensive income for the year from discontinued operations	**93**	50

5(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.

As at 31 December 2016

	UK Legacy £m	Oman £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**

As at 31 December 2015

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

Discontinued operations disposed of during the year
Year ended 31 December 2016

	Latin America	Russia	Total
	£m	£m	£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)**

Year ended 31 December 2015

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

5(iii) (LOSS)/GAINS ON DISPOSAL OF BUSINESSES NOT CLASSIFIED AS DISCONTINUED

In 2016, the assets and liabilities of the Oman and UK Legacy business are classified as held for sale. Upon classification as held for sale, the net assets are measured at the lower of carrying amount and fair value less costs to sell. This valuation adjustment results in a **£234m** loss which is recognised in the continuing income statement.

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

6) REORGANISATION COSTS

In 2016, the reorganisation costs of **£160m** (note 7) are directly associated with continuing operations (2015: £183m). The amounts were directly attributable in respect of redundancy **£49m** (2015: £59m) and other restructuring activity of **£111m** (2015: £124m). Restructuring costs in 2016 relate to amounts incurred across the Group for activities such as process re-engineering, office footprint consolidation, reducing spans of control, and renegotiation of supplier contracts. These include the transition to a new IT infrastructure provider, Wipro, in the UK, Ireland and Scandinavia.

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

7) SEGMENTAL INFORMATION

The Group's operating segments comprise Scandinavia, Canada, UK & International, Central functions and non-core, 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.

Core businesses

The Group's principal core businesses are Scandinavia, Canada, and UK & International. These represent separate operating segments, and the major geographical areas in which the Group continues to operate through established businesses in mature markets.

Each operating segment is managed by a member of the Group Executive Committee who is directly accountable to the Group Chief Executive and Board of Directors, who together form the central decision making function in respect of the operating activities of the Group. The UK is the Group's country of domicile and one of its principle markets.

Amounts attributable to Central Functions are also included within the core business results.

During 2016, following a reorganisation change, the Middle East was combined with the UK and Ireland regions to form the 'UK & International' segment. Previously the Middle East operations were reported under non-core. The 2015 segmental results have been re-presented accordingly.

Non-core segment

The Group's non-core segment is comprised of the Group's UK legacy business, which is managed as part of the UK operations. The UK Legacy business is not presented as a discontinued operation as it is not a separate geographical area nor a major line of business.

When businesses become classified as discontinued (see note 5) their results on a segmental basis are re-presented from non-core and into discontinued operations, and the comparatives are re-presented on the same basis. During 2016, no further operations were classified as discontinued and as such, the 2015 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 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 2016

	Core									
			UK & International							
	Scandi-navia	Canada	UK (excluding Legacy)	Ireland	Middle East	Central Functions	Non-core	Continuing operations per income statement	Add discontinued operations	Total Group
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net written premiums	1,721	1,443	2,588	306	187	36	(42)	6,239	169	6,408
Underwriting result	239	74	123	(49)	14	(9)	(16)	376	4	380
Investment result	72	66	136	7	6	-	2	289	9	298
Central costs and other activities	-	-	-	-	-	(23)	-	(23)	-	(23)
Operating result (management basis)	311	140	259	(42)	20	(32)	(14)	642	13	655
Realised gains/(losses)								28	2	30
Unrealised gains, 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)
Losses on disposals of businesses								(234)	(17)	(251)
Profit before tax								101	(10)	91
Tax on operations								(54)	(5)	(59)
Tax on disposals of discontinued operations								-	(12)	(12)
Profit after tax								47	(27)	20
Combined operating ratio (%)	86.2	94.9	95.4	116.2	92.8					94.2

Year ended 31 December 2015 (re-presented)

	Core									
			UK & International							
	Scandin-avia	Canada	UK (excluding Legacy)	Ireland	Middle East	Central Functions	Non-core	Continuing operations per income statement	Add discontinued operations	Total Group
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net written premiums	1,606	1,360	2,606	261	181	(111)	49	5,952	873	6,825
Underwriting result	94	116	12	(35)	8	50	(60)	185	35	220
Investment result	69	66	135	9	3	-	1	283	39	322
Central costs and other activities	-	-	-	-	-	(18)	1	(17)	(2)	(19)
Operating result (management basis)	163	182	147	(26)	11	32	(58)	451	72	523
Realised gains/(losses)								21	4	25
Unrealised gains, impairments and foreign exchange								(9)	4	(5)
Interest costs								(106)	-	(106)
Amortisation of intangible assets								(25)	(2)	(27)
Pension net interest and administration costs								(8)	-	(8)
Solvency II costs								(26)	-	(26)
Reorganisation costs								(183)	-	(183)
Impairment of goodwill and intangible assets								(9)	(42)	(51)
Non-recurring charges								(3)	-	(3)
Gains on disposals of businesses								3	181	184
Profit before tax								106	217	323
Tax on continuing operations								(18)	(50)	(68)
Tax on disposals of discontinued operations								-	(11)	(11)
Profit after tax								88	156	244
Combined operating ratio (%)	94.0	91.7	99.5	113.4	95.4					96.9

8) INCOME TAX

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

	2016	2015
	£m	£m
Current tax	**90**	85
Deferred tax	**(36)**	(67)
Total taxation attributable to continuing operations	**54**	18
Tax on disposal of discontinued operations	**12**	11
Tax on profits of discontinued operations	**5**	50
Taxation attributable to the Group	**71**	79

Reconciliation of the income tax expense

	2016 £m	2015 £m
Profit before tax	**101**	106
Tax at the UK rate of 20% (2015: 20.2%)	**20**	21
Tax effect of:		
Income/gains not taxable	**(3)**	(8)
Expenses not deductible for tax purposes	**7**	7
Impairment and amortisation of goodwill	**6**	1
Movement in deferred tax assets not recognised	**(17)**	(26)
Increase/(release) of tax provided in respect of prior periods	**2**	(4)
Different tax rates of subsidiaries operating in other jurisdictions	**17**	8
Withholding tax on dividends from subsidiaries	**5**	5
Effect of change in tax rates	**16**	15
Other	**1**	(1)
Total income tax expense attributable to continuing operations	**54**	18
Total income tax expense attributable to discontinued operations	**17**	61
Income tax expense	**71**	79

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

	Current Tax		Deferred Tax		Total	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Fair value gains and losses	**5**	49	**(24)**	(33)	**(19)**	16
Remeasurement of net defined benefit pension liability	**-**	-	**64**	(16)	**64**	(16)
Total credited/(charged) to other comprehensive income	**5**	49	**40**	(49)	**45**	-

The aggregate current tax and deferred tax relating to items that are charged directly to equity is **£nil** (2015: £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.

	2016		2015	
	Current Tax	**Deferred Tax**	Current Tax	Deferred Tax
UK	**20.0 %**	**17.0 %**	20.2 %	18.0 %
Canada	**27.5 %**	**27.5 %**	26.8 %	26.8 %
Denmark	**22.0 %**	**22.0 %**	23.5 %	22.0 %
Ireland	**12.5 %**	**12.5 %**	12.5 %	12.5 %
Sweden	**22.0 %**	**22.0 %**	22.0 %	22.0 %

9) EARNINGS PER SHARE

The earnings per ordinary share are calculated by reference to the profit attributable to the ordinary shareholders and the weighted average number of shares in issue during the year. These were 1,018,173,824 for basic EPS and 1,024,448,507 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 2016 was 1,019,140,938 (excluding those held in ESOP and SIP trusts).

Basic EPS

	2016		2015	
	Continuing	**Discontinued**	Continuing	Discontinued
Profit/(loss) attributable to the shareholders of the Parent Company (£m)	**54**	**(27)**	79	156
Less: cumulative preference dividends (£m)	**(9)**	**-**	(9)	-
Profit/(loss) for the calculation of earnings per share	**45**	**(27)**	70	156
Weighted average number of ordinary shares in issue (thousands)	**1,018,174**	**1,018,174**	1,015,489	1,015,489
Basic earnings/(loss) per share (p)	**4.4**	**(2.6)**	6.9	15.4

	2016	2015
	£m	£m
Weighted average number of ordinary shares in issue (thousands)	**1,018,174**	1,015,489
Adjustments for share options and contingently issuable shares (thousands)	**6,275**	3,791
Total weighted average number of ordinary shares for diluted earnings per share (thousands) continuing operations	**1,024,449**	1,019,280
Diluted earnings/(loss) per share (p) relating to continuing operations	**4.4**	6.9
Diluted earnings per share (p) relating to discontinued operations	**(2.6)**	15.3

Note 16 includes further information of the outstanding share options and unvested share awards to Group employees that could potentially dilute basic earnings per share in the future, including those awards omitted from the calculation of diluted earnings per share because they were antidilutive in 2016 and 2015.

10) DIVIDENDS PAID AND PROPOSED

The final dividend to equity holders is recognised as a liability when approved at the Annual General Meeting. The Company and its subsidiaries may be subject to restrictions on the amount of dividends they can pay to shareholders as a result of regulatory requirements. However, based on the information currently available, the Group does not believe that such restrictions materially limit the ability to meet obligations or pay dividends. At the Annual General Meeting (AGM) on 5 May 2017, a final dividend in respect of the year ended 31 December 2016 of 11p per ordinary share amounting to a total dividend of £112m 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 2017.

	2016	2015	2016	2015
	p	p	**£m**	£m
Ordinary dividend:				
Final paid in respect of prior year	**7.0**	2.0	**71**	20
Interim paid in respect of current year	**5.0**	3.5	**51**	36
	12.0	5.5	**122**	56
Preference dividend			**9**	9
			131	65

11) GOODWILL AND INTANGIBLE ASSETS

	Goodwill	**Intangible assets arising from acquired claims provisions**	**Externally acquired software**	**Internally generated software**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Cost						
At 1 January 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**
Impairment charge	**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**
Less: Assets classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**
Carrying amount at 31 December 2016 net of held for sale	**345**	**-**	**14**	**287**	**82**	**728**

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

Amortisation

Amortisation expense of **£72m** (2015: £63m) has been charged to underwriting and policy acquisition costs with the remainder recognised in other operating expenses.

Impairments

During 2016 the software impairment charge is **£1m** (2015: £3m). In 2016 **£1m** (2015: £1m) of software impairment had been recognised within other operating expenses. In 2016 no software impairment was charged to underwriting and policy acquisition costs (2015: £2m).

When testing for goodwill impairment, the carrying value of the CGU to which goodwill has been allocated is compared to the recoverable amount as determined by a value in use calculation. These calculations use cashflow projections based on operating plans approved by management covering a three year period and 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. Cashflows beyond this period are extrapolated using the estimated growth rates which management deem appropriate for the CGU. The cashflow forecasts are adjusted by appropriate discount rates. Where a sales price has been agreed for 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 impairment charges of **£30m** (2015: £18m) have been recognised within other operating expenses, split between continuing operations **£30m** in Oman (2015: Scandinavian Marine £6m) and discontinued operations **£nil** (2015: Argentina £12m).

The Oman Government has issued legislation by royal decree, which requires a proportion of the company to be offered to the public which is currently expected to result in the Group losing control of the business. As a result of the expected loss of control, the business in Oman is classified as held for sale (HFS) measured at fair value less costs to sell resulting in a revaluation impairment of £30m of which £20m is attributable to Non Controlling Interest..

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

	2016	Re-presented 2015
	£m	£m
Scandinavia	**152**	131
Canada	**160**	130
UK and International	**33**	57
Non-core and discontinued	**-**	45
Total Goodwill	**345**	363

Impairment Sensitivity

Following completion of the Group impairment testing, it was identified that the Norwegian and the Canadian Commercial goodwill valuation models were sensitive to changes in key assumptions.

The sensitivities are listed below.

	Norway Potential headroom/ (Impairment)	Canadian Commercial Potential (Impairment)
	£m	**£m**
Impairment Sensitivity		
1% decrease in terminal value growth rate	**1**	**(55)**
1% increase to discount rate	**(21)**	**(69)**

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 2016 for the cash generating units within each operating segment are shown below. The growth rates include improvements in trade performance, where these are forecast in the three year operational plan for the CGU.

	Pre-tax discount rate		Weighted average growth rate	
	2016	2015	**2016**	2015
Scandinavia	**9%-10%**	9%-11%	**2%-3%**	2%-3%
Canada	**11%-12%**	10%-11%	**2%-4%**	3%-4%
UK & International	**9%-11%**	10%-11%	**2%**	2%

The key assumptions used by the cash generating unit (CGU) Trygg-Hansa, with goodwill of £115m, within the Scandinavia region were discount rate of 8% and growth rate of 2% and by CGU RSA Commercial, with goodwill of £82m, within the Canadian region were discount rate of 9% and growth rate of 4%. All other CGUs are not considered significant in comparison to the total value of goodwill.

12) FINANCIAL ASSETS

The following table analyses the Group's financial assets by classification as at 31 December 2016 and 31 December 2015.

As at 31 December 2016

	At FVTPL	Available for sale	Loans and receivables	Total
	£m	£m	£m	£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**

As at 31 December 2015

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

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

	2016				2015
	Cost / amortised cost	Unrealised gains	Unrealised losses and impairments	Fair value	Fair value
	£m	£m	£m	£m	£m
Equity securities	**689**	**48**	**(45)**	**692**	585
Debt securities	**11,794**	**627**	**(100)**	**12,321**	11,488
Financial assets measured at fair value	**12,483**	**675**	**(145)**	**13,013**	12,073
Loans and receivables	**88**	**-**	**-**	**88**	100
Total financial assets	**12,571**	**675**	**(145)**	**13,101**	12,173
Less: Assets classified as held for sale					
Debt securities	**776**	**-**	**-**	**776**	376
Total financial assets net of held for sale	**11,795**	**675**	**(145)**	**12,325**	11,797

Collateral

At 31 December 2016, the Group had pledged **£763m** (2015: £376m) of financial assets as collateral for liabilities or contingent liabilities. The nature of the assets pledged as collateral comprises government securities of **£636m** (2015: £314m), cash and cash equivalents of **£114m** (2015: £50m) and debt securities of **£13m** (2015: £12m). The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities.

At 31 December 2016, the Group has accepted **£101m** (2015: £554m) in collateral. The Group is permitted to sell or repledge collateral held in the event of default by the owner. The fair value of the collateral accepted is **£101m** (2015: £554m). 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 2016

	Notional Amount				Fair Value	
	Less than 1 year	**From 1 to 5 years**	**Over 5 years**	**Total**	**Asset**	**Liability**
	£m	**£m**	**£m**	**£m**	**£m**	**£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**

As at 31 December 2015

	Notional Amount				Fair Value	
	Less than 1 year	From 1 to 5 years	Over 5 years	Total	Asset	Liability
	£m	£m	£m	£m	£m	£m
Designated as hedging instruments						
Currency risk (net investment in foreign operation)	1,076	-	-	1,076	7	(8)
Cross currency interest swaps (fair value/ cash flow)	-	160	158	318	-	(39)
Total					7	(47)
At FVTPL						
Currency risk mitigation	252	39	-	291	-	(8)
Inflation risk mitigation	-	-	236	236	31	(34)
Total					31	(42)
Total derivatives					38	(89)

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 2016 or 2015.

The Group also applies hedge accounting to specified fixed interest assets in its investment portfolio. During 2014, the Group invested in a portfolio of high investment grade corporate bonds denominated in US dollars to allow it to invest in a more diversified range of issuers. These investments are used to cover the insurance liabilities in the UK business. In order to remove exchange risk from this portfolio of investments the Group also acquired cross currency interest rate swaps to swap the cashflows from the portfolio into cash flows denominated in pounds sterling. The Group applies fair value hedge accounting when using 'fixed to floating' interest rate swaps and cash flow hedge accounting when using 'fixed to fixed' interest rate swaps. The interest rate swaps exactly offset the timing and amounts expected to be received on the underlying investments. The investments have a remaining term of between two and eight years. There have been no default and no defaults are expected on the hedged investments.

The total gains/ losses on cash flow hedge instruments during 2016 was a **£6m gain** (2015: loss of £4m) in the consolidated statement of other comprehensive income, and the amount reclassified to the income statement was **£nil** (2015: £nil). The ineffectiveness recognised in the income statement was **£nil** (2015: £nil).

The total losses on the fair value hedge instruments recognised in the income statement were **£50m** (2015: £19m) and the offsetting gains related to the hedged risk were **£45m** (2015: £18m).

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 2016, the Group took out borrowings from credit institutions under repurchase agreements of **£249m**. 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.

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in statement of financial position			**Related items not offset**		
As at 31 December 2016	**Gross amounts**	**Amounts offset**	**Net amounts reported**	**Financial instruments**	**Financial collateral**	**Net amount**
	£m	**£m**	**£m**	**£m**	**£m**	**£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**

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in statement of financial position			Related items not offset		
As at 31 December 2015	Gross amounts	Amounts offset	Net amounts reported	Financial instruments	Financial collateral	Net amount
	£m	£m	£m	£m	£m	£m
Derivative financial assets	38	-	38	(34)	-	4
Reverse repurchase arrangements and other similar secured lending	-	-	-	-	-	-
Total	38	-	38	(34)	-	4
Derivative financial liabilities	89	-	89	(34)	(46)	9
Repurchase arrangements and other similar secured borrowing	-	-	-	-	-	-
Total	89	-	89	(34)	(46)	9

13) Reinsurers' share of insurance contract liabilities

	2016	2015
	£m	£m
Reinsurers' share of provisions for unearned premiums	**816**	837
Reinsurers' share of provisions for losses and loss adjustment expenses	**1,436**	1,151
Total reinsurers' share of insurance contract liabilities net of held for sale	**2,252**	1,988
To be settled within 12 months	**1,301**	998
To be settled after 12 months	**951**	990

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

	2016	2015
	£m	£m
Reinsurers' share of provision for unearned premiums at 1 January	**961**	709
Premiums ceded to reinsurers	**1,068**	1,398
Reinsurers' share of premiums earned	**(1,096)**	(1,145)
Changes in reinsurance asset	**(28)**	253
Reinsurers' share of portfolio transfers and disposals of subsidiaries	**(137)**	(2)
Exchange adjustment	**22**	1
Reinsurers' share of provision for unearned premiums at 31 December	**818**	961
Less: Assets classified as held for sale	**2**	124
Total Reinsurers' share of provision for unearned premiums at 31 December net of held for sale	**816**	837

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

	2016	2015
	£m	£m
Reinsurers' share of provisions for losses and loss adjustment expenses at 1 January	**1,264**	1,317
Reinsurers' share of total claims incurred	**915**	589
Total reinsurance recoveries received	**(414)**	(558)
Reinsurers' share of portfolio transfers and disposals of subsidiaries	**(356)**	(57)
Exchange adjustment	**113**	(35)
Other movements	**8**	8
Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	**1,530**	1,264
Less: Assets classified as held for sale	**94**	113
Total Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December net of held for sale	**1,436**	1,151

14) CURRENT AND DEFERRED TAX

Current Tax

	Asset		Liability	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
To be settled within 12 months	**60**	48	**25**	28
To be settled after 12 months	**5**	8	**11**	35
Net current tax position at 31 December	**65**	56	**36**	63
Less: Classified as held for sale	**-**	5	**4**	32
Net current tax position at 31 December net of held for sale	**65**	51	**32**	31

Deferred Tax

	Asset		Liability	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Deferred tax assets/liabilities	**270**	180	**54**	54
Less: Classified as held for sale	**-**	17	**-**	14
Net deferred tax position at 31 December net of held for sale	**270**	163	**54**	40

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

	2016	2015
	£m	£m
Net unrealised gains on investments	**(54)**	(1)
Claims equalisation and other catastrophe reserves	**-**	(71)
Intangibles capitalised	**(28)**	(21)
Deferred acquisition costs	**(7)**	(24)
Tax losses and unused tax credits	**190**	123
Other deferred tax reliefs	**10**	11
Net insurance contract liabilities	**(15)**	(3)
Retirement benefit obligations	**55**	(3)
Provisions and other temporary differences	**65**	115
Net deferred tax asset at 31 December	**216**	126
Less: Net assets classified as held for sale	**-**	3
Net deferred tax asset at 31 December net of held for sale	**216**	123

Provisions and other temporary differences arise predominately in respect of UK deferred capital expenditure **£56m** (2015: £80m) and transitional UK tax relief due to the change in taxation of available for sale assets **£16m** (2015: £0m).

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

	2016	2015
	£m	£m
Net deferred tax position at 1 January	**123**	118
Amounts credited to income statement	**44**	79
Amounts credited/(charged) to other comprehensive income	**41**	(50)
Amounts charged to equity	**-**	(1)
Net arising on acquisition/disposal of subsidiaries and other transfers	**10**	(8)
Exchange adjustments	**7**	(4)
Effect of change in tax rates - income statement	**(8)**	(12)
- other comprehensive income	**(1)**	1
Net deferred tax asset at 31 December	**216**	123

At the end of the reporting period, the Group's continuing operations have unused tax losses of **£1,629m** (2015: £1,840m) for which no deferred tax asset is being recognised. This includes **£nil** (2015: £4m) which will expire between 2017 and 2025 and **£1,194m** (2015: £1,210m) capital losses for which it is unlikely that a deferred tax asset would be recognised as most UK capital gains are exempt from tax. In addition, the Group has deductible temporary differences of **£654m** (2015: £486m) 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 **£1,006m** (2015: £1,053m) 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 **£216m** (2015: £123m) net deferred tax asset recognised by the Group's continuing operations, **£179m** (2015: £117m) 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.

15) CASH AND CASH EQUIVALENTS

The interest bearing financial assets included in cash and cash equivalents had an effective interest rate of 0.99% (2015: 1.65%) and had an average maturity of 26 days (2015: 32 days).

	2016	2015
	£m	£m
Cash and cash equivalents and bank overdrafts (Condensed Consolidated Statement of Cashflows)	1,087	902
Add: Overdrafts reported in Borrowings	2	11
Total cash and cash equivalents	**1,089**	913
Less: Assets classified as held for sale	**104**	97
Total Cash and cash equivalents (Condensed Consolidated Statement of Financial Position)	**985**	816

16) 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 2016 is:

	2016	2015
	£m	£m
Issued and fully paid		
1,019,554,986 Ordinary Shares of £1 each (2015: 1,017,059,842 Ordinary Shares of £1 each)	**1,020**	1,017
125,000,000 Preference Shares of £1 each (2015: 125,000,000 Preference Shares of £1 each)	**125**	125
	1,145	1,142

During 2016, the Company issued a total of 2,495,144 new Ordinary Shares of £1 each ranking pari passu with Ordinary Shares in issue (2015: 1,572,969 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 2015	1,015,486,873	1,015	1,075
Issued in respect of employee share options and employee share awards	1,572,969	2	2
At 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 31 December 2016	**1,019,554,986**	**1,020**	**1,080**

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

414,049 Ordinary Shares (2015: 741,636 Ordinary Shares) are held by various employee share trusts 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 2016, the total number of options over Ordinary Shares outstanding under the Group employee share option plans is 5,047,441 (2015: 6,784,365) and the total number of potential shares outstanding under the long term incentive plan and under the Sharebuild is 12,638,394 Ordinary Shares (2015: 13,941,035 Ordinary Shares).

17) 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 **£8,784m** (2015: £8,766m).

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

		Discount rate		Average number of years to settlement from reporting date	
		2016	2015	**2016**	2015
	Category	%	%	**Years**	Years
UK	Asbestos and environmental	**4.0**	4.0	**11**	11
Scandinavia	Disability	**1.3**	1.3	**7**	8

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 2016, the value of the discount on net claims liability reserves is **£388m** (2015: £403m) excluding annuities and periodic payment orders. All other factors remaining constant, a decrease of 1% in the discount rates would reduce the value of the discount by approximately **£120m** (2015: £127m).

A decrease of 1% in the real discount rate for UK & Scandinavia annuities would reduce the value of the discount by approximately **£110m** (2015: £86m). The sensitivity calculation has taken into consideration the undiscounted provisions for each class of business and the respective average settlement period.

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

The 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
	2016	2016	2016
	£m	£m	£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

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

Provision for unearned premiums, gross of acquisition costs

The provision for unearned premiums is shown net of deferred acquisition costs of **£663m** (2015: £631m). The movement in deferred acquisition costs during 2016 is attributed to **£1,010m** (2015: £1,026m) increase due to acquisition costs deferred during the year, **£1,037m** (2015: £1,023m) decrease due to amortisation charged during the year, **£56m** exchange gains (2015: £45m exchange losses), **£6m** (2015: £10m) increase due to other movements, and **£3m** (2015: £124m) reduction due to assets transferred to held for sale. The reinsurers' share of deferred acquisition costs is included within accruals and deferred income.

	2016	2015
	£m	£m
Provision for unearned premiums (gross of acquisition costs) at 1 January	4,200	4,388
Premiums written	7,477	8,224
Less: Premiums earned	(7,624)	(8,158)
Changes in provision for unearned premiums	(147)	66
Gross portfolio transfers and acquisitions	(418)	(154)
Exchange adjustment	357	(94)
Other movements	2	(6)
Provision for unearned premiums (gross of acquisition costs) at 31 December	3,994	4,200
Less: Liabilities classified as held for sale	20	462
Provision for unearned premiums (gross of acquisiton costs) at 31 December net of held for sale	3,974	3,738

Provisions for losses and loss adjustment expenses

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

	2016	2015
	£m	£m
Provisions for losses and loss adjustment expenses at 1 January	**9,457**	10,336
Gross claims incurred and loss adjustment expenses	**5,130**	5,169
Total claims payments made in the year net of salvage and other recoveries	**(5,001)**	(5,250)
Gross portfolio transfers, acquisitions and disposals	**(578)**	(459)
Exchange adjustment	**994**	(404)
Other movements	**81**	65
Provisions for losses and loss adjustment expenses at 31 December	**10,083**	9,457
Less: Liabilities classified as held for sale	**718**	373
Provisions for losses and loss adjustment expenses at 31 December net of held for sale	**9,365**	9,084

Claims development tables

The tables below present changes in the historical provisions for losses and loss adjustment expenses that were established in 2006 and the provisions for losses and loss adjustment expenses arising in each subsequent accident year. The tables are presented at current year average exchange rates on an undiscounted basis and have been adjusted for operations that have been disposed of.

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

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

Consolidated claims development table gross of reinsurance

	2006 and prior	2007	2008	2009	2010	2011	2012	2013	2014	2015	**2016**	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	**£m**	£m
Estimate of cumulative claims												
At end of accident year	8,890	2,577	2,522	2,426	2,658	2,853	2,714	3,018	2,725	2,718	**2,700**	
One year later	8,460	2,573	2,536	2,517	2,782	2,903	2,751	3,083	2,816	2,789		
Two years later	7,994	2,542	2,515	2,474	2,731	2,930	2,726	3,007	2,733			
Three years later	7,670	2,454	2,458	2,433	2,759	2,858	2,717	2,968				
Four years later	7,382	2,383	2,452	2,460	2,747	2,797	2,675					
Five years later	7,199	2,373	2,412	2,455	2,712	2,766						
Six years later	6,986	2,363	2,397	2,417	2,675							
Seven years later	6,917	2,345	2,384	2,427								
Eight years later	6,888	2,325	2,381									
Nine years later	7,073	2,323										
Ten years later	7,112											
2016 Movement	**(39)**	**2**	**3**	**(10)**	**37**	**31**	**42**	**39**	**83**	**(71)**		**117**
Claims paid												
One year later	1,997	1,109	1,205	1,161	1,443	1,307	1,274	1,413	1,292	1,271		
Two years later	1,151	393	384	406	401	474	475	530	408			
Three years later	770	266	243	261	276	318	277	262				
Four years later	661	166	181	193	206	184	182					
Five years later	417	135	119	145	112	104						
Six years later	295	83	69	71	62							
Seven years later	340	35	38	39								
Eight years later	261	16	36									
Nine years later	129	22										
Ten years later	121											
Cumulative claims paid	**6,142**	**2,225**	**2,275**	**2,276**	**2,500**	**2,387**	**2,208**	**2,205**	**1,700**	**1,271**		
Reconciliation to the statement of financial position												
Current year provision before discounting	970	98	106	151	175	379	467	763	1,033	1,518	**2,700**	8,360
Exchange adjustment to closing rates												348
Discounting												(114)
Annuities												771
Present value recognised in the consolidated statement of financial position												**9,365**
Held for sale												718
Total Group												**10,083**

Consolidated claims development table net of reinsurance

	2006 and prior	2007	2008	2009	2010	2011	2012	2013	2014	2015	**2016**	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	**£m**	£m
Estimate of cumulative claims												
At end of accident year	7,507	2,215	2,299	2,199	2,351	2,494	2,463	2,639	2,410	2,290	**2,142**	
One year later	7,158	2,210	2,289	2,256	2,422	2,492	2,493	2,739	2,434	2,290		
Two years later	6,766	2,180	2,290	2,217	2,399	2,477	2,467	2,667	2,396			
Three years later	6,438	2,095	2,244	2,189	2,413	2,429	2,427	2,635				
Four years later	6,132	2,026	2,233	2,220	2,419	2,386	2,392					
Five years later	5,936	2,016	2,203	2,222	2,386	2,362						
Six years later	5,734	2,012	2,183	2,201	2,365							
Seven years later	5,663	1,994	2,171	2,198								
Eight years later	5,675	1,984	2,169									
Nine years later	5,857	1,983										
Ten years later	5,903											
2016 Movement	**(46)**	**1**	**2**	**3**	**21**	**24**	**35**	**32**	**38**	**-**		**110**
Claims paid												
One year later	1,645	928	1,074	1,066	1,223	1,127	1,148	1,262	1,122	1,069		
Two years later	975	325	337	347	372	393	387	414	354			
Three years later	638	238	231	230	246	258	235	233				
Four years later	512	146	171	184	191	170	187					
Five years later	335	124	102	126	97	103						
Six years later	258	66	67	68	58							
Seven years later	299	35	34	32								
Eight years later	230	14	29									
Nine years later	98	20										
Ten years later	157											
Cumulative claims paid	**5,147**	**1,896**	**2,045**	**2,053**	**2,187**	**2,051**	**1,957**	**1,909**	**1,476**	**1,069**		
Reconciliation to the statement of financial position												
Current year provision before discounting	756	87	124	145	178	311	435	726	920	1,221	**2,142**	7,045
Exchange adjustment to closing rates												292
Discounting												(104)
Annuities												696
Present value recognised in the consolidated statement of financial position												**7,929**
Held for sale												624
Total Group												**8,553**

Insurance and reinsurance liabilities

	2016	2015
	£m	£m
Direct insurance creditors	**110**	229
Reinsurance creditors	**849**	891
Total insurance and reinsurance liabilities	**959**	1,120
Less: Liabilities classified as held for sale	**5**	175
Total	**954**	945

18) POST-RETIREMENT BENEFITS AND OBLIGATIONS

Movement in surplus/(deficit) during the year:

	2016	2015
	£m	£m
Surplus/(deficit) at 1 January	**67**	(98)
Current service costs	**(23)**	(30)
Past service costs	**(5)**	(4)
Pension net interest cost	**6**	-
Administration costs	**(9)**	(7)
Total pension expense	**(31)**	(41)
Contributions by the Group	**110**	113
Return on scheme assets less amounts included in pension net interest cost	**1,279**	(343)
Effect of changes in financial assumptions	**(1,770)**	322
Effect of changes in demographic assumptions	**1**	(24)
Experience gains and losses	**120**	140
Investment expenses	**(10)**	(14)
Remeasurements of net defined benefit liability	**(380)**	81
Exchange adjustment	**(18)**	12
Pension and post retirement (deficit)/surplus	**(252)**	67
Deferred tax in respect of net pension and post retirement (deficit)/surplus	**55**	(3)
Net pension and post retirement (deficit)/surplus at 31 December	**(197)**	64

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

	2016			2015
	UK	**Other**	**Total**	Total
	£m	**£m**	**£m**	£m
Present value of funded obligations	**8,314**	**460**	**8,774**	7,030
Present value of unfunded obligations	**7**	**112**	**119**	96
Present value of obligations	**8,321**	**572**	**8,893**	7,126
Equities	**597**	**167**	**764**	723
Government debt	**5,157**	**132**	**5,289**	4,113
Non government debt	**3,151**	**125**	**3,276**	2,495
Derivatives	**808**	**-**	**808**	476
Other (including infrastructure, commodities, hedge funds, loans)	**-**	**27**	**27**	-
Securities with quoted market price in an active market	**9,713**	**451**	**10,164**	7,807
Property	**164**	**-**	**164**	166
Cash	**55**	**6**	**61**	73
Other (including infrastructure, commodities, hedge funds, loans)	**484**	**-**	**484**	744
Other investments	**703**	**6**	**709**	983
Value of asset and longevity swaps	**(2,232)**	**-**	**(2,232)**	(1,597)
Total assets in the schemes	**8,184**	**457**	**8,641**	7,193
Total surplus/(deficit)	**(137)**	**(115)**	**(252)**	67
Defined benefit pension schemes	**(137)**	**(59)**	**(196)**	111
Other post retirement benefits	**-**	**(56)**	**(56)**	(44)
Schemes in surplus	**58**	**12**	**70**	195
Schemes in deficit	**(195)**	**(127)**	**(322)**	(128)

19) RESULTS FOR THE YEAR 2016

This financial information set out above does not constitute statutory accounts for the years ended 31 December 2016 or 31 December 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies, and those for 2016 will be delivered in due course. The auditors' have reported on those accounts; their reports were (i) unqualified (ii) did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not include a statement under section 498(2) or (3) of the Companies Act 2006.

20) EVENTS AFTER THE REPORTING DATE

On 7 February 2017, the Group signed contracts to dispose of UK legacy insurance liabilities to Enstar Group Limited.

The transaction takes the form of an initial reinsurance agreement, effective at 31 December 2016, which substantially effects the economic transfer pending completion of a subsequent legal transfer of the business. These assets and liabilities have been presented as held for sale. In accordance with the Group's accounting policy, collateral will be held against the reinsurance contract.

For further information, see note 6(ii).

As a consequence of the sale of the UK legacy insurance liabilities, the Group's Adverse Development Cover reinsurance protection bought in 2014 to partly protect these liabilities is no longer required. The Group has therefore in February 2017 agreed to commute it for a one-time charge of £22m.

APPENDIX A: EXCHANGE RATES

Local currency/£	**12 Months 2016**		12 Months 2015	
	Average	**Closing**	Average	Closing
Canadian Dollar	1.79	1.66	1.95	2.05
Danish Krone	9.11	8.71	10.27	10.13
Swedish Krona	11.59	11.19	12.88	12.47
Euro	1.22	1.17	1.38	1.36

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

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

B) The management report within this preliminary announcement includes a fair review of the development and performance of the business and the position of the Group; and

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

Signed on behalf of the Board

Stephen Hester
Group Chief Executive

22 February 2017

Scott Egan
Group Chief Financial Officer

22 February 2017