Registered Number: 00093792

Royal & Sun Alliance Insurance plc

Annual Report and Accounts

for the year ended 31 December 2017

Royal & Sun Alliance Insurance plc

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Royal & Sun Alliance Insurance plc

Company Information

Directors

Mr. S Egan

Mr. S Lewis

Mr. W McDonnell

Mr. N Williams

Secretary

Roysun Limited

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

Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

Royal & Sun Alliance Insurance plc (the 'Company') is a part of RSA Insurance Group plc (the 'Group'). The Company transacts the majority of the Group's UK business, as described in the Annual Report and Accounts of the Group. The directors of the Company have concluded that the Group approach to strategy, risk management, performance review and custody of assets fully meets the needs of the Company as a separate regulated entity.

The directors present their annual report on the affairs of the Company and the audited financial statements for the year ended 31 December 2017.

Business review and principal activity

The principal activity of the Company, its subsidiaries and overseas branches is the transaction of insurance and related financial services in the United Kingdom and overseas. The subsidiaries and associated undertakings are listed in note 40 to the financial statements.

The results for the Company show a profit on ordinary activities before tax of £1,187m (2016: £323m) for the year, due principally to £1,522m (2016: £291m) of dividend income from subsidiary undertakings, offset by loss on the technical account of £(129)m (2016: £282m) and £(296)m (2016: £(42)m) of impairments of subsidiary undertakings following capital reductions and distributions. The previous year release of the claims equalisation reserve of £338m due to the cessation of the requirement to hold these reserves from 1 January 2016 was a significant contributing factor to the underwriting profit in 2016. Gross premiums written from continuing operations were £4,365m (2016: £3,531m). The funds attributable to equity holders of the Company were £7,942m as at 31 December 2017 (31 December 2016: £7,071m).

Key performance indicators

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

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

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

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

Solvency II coverage ratio
The Solvency II coverage ratio represents total eligible capital as a proportion of the Solvency Capital Requirement (SCR) under Solvency II. The Solvency II coverage ratio is a measure of the capital adequacy of insurance companies. Our SCR is calculated on our risk profile using the Company's internal capital model.

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

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

Carbon emissions per FTE
Gross tonnes of carbon dioxide equivalent per full-time equivalent (FTE). We endeavour to reduce our emissions as far as possible by operating efficiently, procuring sustainable alternatives and promoting sustainable business practices

Business Review – Core UK

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

In the UK, we are the second largest commercial insurer with key positions in property, motor, liability, and marine, and exposures across the SME, mid-market and global specialty customers. These global customers account for 53 percent of our UK Commercial Lines business, and include risks written through the 'London market' and our branches in France, Spain and Benelux.

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

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

UK market context

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

The implications of the EU referendum have brought a level of uncertainty for the UK market that will take time to play out. The Company is well placed to address any structural or passporting challenges as a result of the exit from the EU. In 2017, the UK market began to see inflationary trends in claims costs which are creating upward pressure on prices reflected industry wide.

Challenges in our UK business

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

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

In spite of these adverse market conditions, the underlying momentum of the UK business sustained through the year. Net written premiums increased 30%. Intragroup quota share arrangements contributed 27% of the increase and 3% related to growth in the underlying business, including 7% growth in Personal Lines, underpinned by strength in motor telematics. Policy count rose 2% in Personal and 1% in Commercial, and we saw net promoter scores rise. We anticipate that these positive trends will be sustained.

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

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

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

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

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

Our strategy

Our strategy in the UK market has been to invest in the business, develop our technical insurance capability, enhance our customer proposition and improve cost efficiency to enable RSA to compete in the top quartile of our competitor set.

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

Our business is building the agility it needs to meet the evolving needs of customers and a sustainable base from which to achieve best-in-class performance.

Principal risks and uncertainties

The Company's principal risks and uncertainties are integrated within and managed together with the principal risks of the Group. The principal risks and uncertainties of the Group, which include those of the Company, are set out in the Estimation techniques, uncertainties and contingencies note on pages 26 to 27 and the Risk management note on pages 28 to 37 of the Company's accounts and the Strategic report of the 2017 Annual Report & Accounts of the Group.

Employment Policy

The Company recognises and actively promotes the benefits of a diverse workforce and is committed to treating all employees with dignity and respect regardless of race, gender, disability, age, religion or belief. We therefore welcome applications from all sections of the community.

The Company is committed, wherever possible, to employing and supporting people who are disabled, or become disabled during their career with the Company. Our Equal Opportunities & Dignity at Work policies support this commitment to employees.

Employment Policy (continued)

The Group has a close working relationship with trade unions and employee associations in all parts of the business where they exist and consults with employees and representatives on relevant matters taking their views into consideration. There is also a European Works Council which consults with employee representatives on transnational matters across UK, Ireland, Sweden, Norway, Denmark, France, Spain, the Netherlands, Belgium and Germany. The annual meeting of the EWC took place in Rotterdam in March 2017. Regular consultations with employee representatives took place throughout the year.

In 2017, the Group also ran its annual employee opinion survey YOURSAY and responded to the feedback received from employees through various initiatives.

Anti-bribery and corruption

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

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

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

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

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

Human rights

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

By order of the Board

W L Hardy

W Hardy
For and on behalf of Roysun Limited
Secretary

Approved by the board of directors on 21 February 2018

Directors

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

Mr. D P Coughlan (resigned 20 April 2017)
Mr. S Egan
Mr. S Lewis
Mr. W McDonnell
Mr. N Williams
Ms. H Robinson (appointed 23 February 2017 / resigned 8 December 2017)

Directors' responsibilities

The directors' responsibilities statement appears on page 7 and is incorporated by reference into this report.

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

Dividends

No interim dividends (2016: £719m) were declared and paid during the year. The directors do not recommend payment of a final dividend (2016: £nil).

Information included within the Strategic Review

Information relating to overseas subsidiaries and branches of the Company, financial risk management, likely future developments and the Company's employment policy is contained within the Strategic report on pages 2 to 4 and is incorporated into this report by reference.

Political donations

The Company did not make any political donations during the financial year (2016: £nil).

Auditor

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

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

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

KPMG LLP were deemed re-appointed auditors of the Company at its Annual General Meeting on 24 March 2017 and a resolution for their reappointment will be proposed at the 2018 Annual General Meeting.

Essential Contracts and change of control

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

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

Directors' Indemnity

Article 82 and 83 of the Articles of Association provides that, among other things and insofar as permitted by law, the Company may indemnify its directors against any liability and may purchase and maintain insurance against any liability. The Company has granted an indemnity to each of the directors pursuant to the power conferred by Article 82 of the Articles of Association. The indemnities granted constitute qualifying third-party indemnity provisions, as defined by section 234 of the Companies Act 2006 and is in addition to appropriate insurance cover. The directors and officers of the Company and its subsidiaries also have the benefit of insurance which provides suitable cover in respect of legal actions brought against them.

Post Balance Sheet Events

Post balance sheet events are set out in note 39 on page 64 of the accounts.

Going concern

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

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

It is therefore concluded that the going concern basis is appropriate for the preparation of the 2017 financial statements.

Signed by order of the Board

W L Hardy

W Hardy
For and on behalf of Roysun Limited
Secretary

Approved by the board of directors on 21 February 2018

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the Financial statements

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

1 Our opinion is unmodified

We have audited the financial statements of Royal & Sun Alliance Insurance plc ("the Company") for the year ended 31 December 2017 which comprise the Balance Sheet, as at 31 December 2017, and the Profit and Loss Account, Statement of Other Comprehensive Income and Statement of Changes in Equity for the year then ended, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Company's Regulated Board.

We were appointed as auditor by the directors on 13 May 2013. The period of total uninterrupted engagement is for the five financial years ended 31 December, 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of claims outstanding
(2017 gross £4,527m, net £3,436m; 2016 gross £3,999m, net £3,084m)

Refer to page 22 (accounting policy) and pages 59 to 61 (financial disclosures).

The risk	Our response
Subjective Valuation: Valuation of claims outstanding is highly judgmental because it requires a number of assumptions to be made with high estimation uncertainty such as loss ratios, estimates of the frequency and severity of claims and, where appropriate, the discount rates for longer tail classes of business by territory and line of business. The determination and application of the methodology and performance of the calculations are also complex. Certain lines of business have greater inherent uncertainty, for example those where claims emerge more slowly over time, or where there is greater variability in claim settlement amounts. This includes Abuse, Deafness classes; and classes of business affected by emerging industry issues such as the impact of Periodic Payment Orders (which are akin to annuities with longevity and inflation risk) on UK motor business. **Completeness and accuracy of data** The valuation of claims outstandingdepends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating claims outstanding, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise. If the data used in calculating insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise.	With the assistance of our actuarial specialists, we performed the following procedures: — **Control design and observation:** Evaluation of the governance around the overall reserving process. We assessed qualifications and experience of those responsible and examined the output of the reviews to assess the scope and depth of these processes. Our evaluation of the methodologies and key assumptions for the most significant and subjective classes of business enabled us to assess the quality of challenge applied through the Company's reserving process. — **Independent re-performance:** Independent re-projection of the reserve balances using our own models for certain classes of business. The determination of which classes to re-project was based on risk assessment and consideration of the evidence available from other alternative data analysis procedures. — **Sector experience and Benchmarking:** Comparison of assumptions, reserving methodologies and estimates of losses to expectations based on the Company's historical experience, current trends and benchmarking to our own industry knowledge. — **Sensitivity analysis:** Evaluation of management's sensitivity analysis over key judgements and assumptions, such as the discount rates for longer tail classes of business and Periodic Payment Order projections. In addition to the above the audit team performed procedures to assess the completeness and accuracy of data: — **Control observation and re-performance:** Evaluation and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process (including both current and prior year case reserve data). The controls included reconciliations between data in the actuarial reserving systems and data in the policy administration systems. We tested controls through inspecting or re-performing the Company's reconciliations. **Our results** — We found the valuation of the claims outstanding to be acceptable.

IT systems and control environment	
The risk	**Our response**
Processing errors Many financial reporting controls depend on the correct functioning of operational and financial IT systems. If these systems or controls fail, a significant risk of error in reported financial information can arise from the failure to transfer data appropriately between systems or inappropriate changes being made to financial data or systems. This is an area of significant risk in our audit due to the complexity of the IT infrastructure, particularly where there are legacy systems which require increased manual inputs, relative to more automated processes.	With the assistance of our own IT audit specialists, our procedures included: — **Controls design and observation:** Assessing the design and implementation of general IT controls around system access, change management and computer operations within specific applications pertinent to the financial statements by assessing if appropriate policies are in place and adhered to by inspecting supporting evidence. Where general IT controls did not operate effectively, we addressed the increased risk of financial statement misstatement by extending the scope of our work. This included assessing the operation of controls over changes or transactions being recorded in the systems and testing manual compensating controls, such as reconciliations between systems and other information sources, through re-performance or inspection. — **Extended scope:** Where general IT controls and compensating manual controls did not operate to mitigate a risk, we performed additional substantive testing, such as using extended sample sizes and performing data analysis routines over impacted accounts. **Our results** Our testing identified deficiencies in the design and operation of controls. We compensated for this by extending our detailed testing over and above that originally planned, and this work was completed satisfactorily.

Valuation of shares in group undertakings **(2017: £12,798m; 2016: £13,189m)** *Refer to pages 21 to 22 (accounting policy) and pages 51 to 52 (financial disclosures).*	
The Risk	**Our Response**
Subjective Valuation The Company holds its shares in group undertakings at fair value. The estimation of the fair value of the group undertakings involves the application of judgement in the selection and application of valuation methodologies. The fair value of trading subsidiaries is determined using a variety of valuation models based on market or income approaches. Market approach include valuation techniques that use observable market data of comparable companies. The income approach includes valuation techniques that measure the present value of anticipated future cashflows.	With the assistance of our own valuation specialists, our procedures included; — **Benchmarking assumptions:** Comparing the key assumptions used by management in the application of the internal fair value models against externally derived market observable data, including price to book value and price to earnings ratios. — **Historical comparisons:** We compared the expected cash flows to the Group's operating plan, and considered the historical accuracy of previous projections. — **Sector experience:** We independently recalculated the weighted average cost of capital used to discount the cash flows. **Our results** — We found the valuation of investments in subsidiaries to be acceptable.

Valuation of defined benefit pension scheme and other post-retirement obligations **(2017: £8,320m; 2016: £8,311m)** *Refer to page 24 (accounting policy) and pages 43 to 47 (financial disclosures).*	
The Risk	**Our Response**
Subjective Valuation Small changes in the assumptions and estimates used can have significant effect on the valuation of the Company's pension schemes and therefore the Company's financial position. The valuation of defined benefit pension schemes is dependent upon complete and accurate data about the members of the pension scheme.	With the assistance of our own pension actuarial specialists, our procedures included: — **Membership data:** Compared the data received from the third party administrator of the pension scheme to the data sent to the third party external expert who valued the pension schemes. — **Benchmarking assumptions:** Comparing the key assumptions such as discount rate, inflation rate and life expectancy against externally derived data. — **Assessing valuer's credentials:** Evaluating the Company's external valuer's competence, objectivity, capability and scope of work. — **Assessing transparency:** Considering the adequacy of the Company's disclosures in respect of the sensitivity of the defined pension schemes to these assumptions. **Our results** — We found the valuation of the pension schemes to be acceptable.

Valuation of deferred tax assets **(2017: £190m; 2016: £215m)** *Refer to pages 23 to 24 (accounting policy) and page 56 (financial disclosures).*	
The Risk	**Our Response**
Forecast-based valuation The recoverability of the recognised deferred tax asset is dependent on future profitability. There is inherent uncertainty involved in developing the operational plan upon on which forecast future taxable profits are based. These forecasts determine the extent to which deferred tax assets are or are not recognised.	Our procedures included: — **Control design and observation:** Evaluating the internal review and challenge process the Company undertakes during the development of the operational plan, and the extent to which the Company considered alternative outcomes. — **Historical comparisons and our sector experience:** Comparing the expected growth rates to the Company's approved operating plan and assessing the accuracy of that forecasting process in the past. We considered whether projected margins are achievable with reference to the Company's recent performance and operating plans, as well as our own industry knowledge. — **Sensitivity testing:** Sensitivity testing of taxable profits to assumptions such as the Combined Operating Ratio. — **Own tax expertise:** With the support of our own tax specialists and their knowledge of tax legislation, we also assessed the extent to which projected profits were taxable, in particular the Company's assumptions about how accumulated tax losses and other associated tax attributes can be utilised against taxable profits. **Our results** — As a result of our work we found the valuation of deferred tax assets recognised to be acceptable.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £28m (2016: £28m), determined with reference to a benchmark of Net Earned Premiums, of which it represents 0.8% (2016: 1.0%).

We agreed to report to the Board any corrected or uncorrected identified misstatements exceeding £1m (2016: £1m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above.

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.
Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:
- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 7, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect
Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. We identified relevant areas of laws and regulations from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital, conduct and certain aspects of company legislation recognising the financial and regulated nature of the company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8 The purpose of our audit work and to whom we owe our responsibilities

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

Jessica S.S. Katsouris

Jessica Katsouris (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
21 February 2018

Profit and Loss Account

for the year ended 31 December 2017

Technical Account - General Business	Notes	Discontinued 2017 £m	Continuing 2017 £m	Total 2017 £m	Discontinued 2016 £m	Continuing 2016 £m	Total 2016 £m
Gross premiums written	4	-	4,365	4,365	6	3,531	3,537
Outward reinsurance premiums		-	(767)	(767)	(4)	(772)	(776)
Premiums written, net of reinsurance		-	3,598	3,598	2	2,759	2,761
Change in the gross provision for unearned premiums		-	(221)	(221)	3	102	105
Change in provision for unearned premiums, reinsurers' share		-	(48)	(48)	(3)	(25)	(28)
Earned premiums, net of reinsurance		-	3,329	3,329	2	2,836	2,838
Claims Paid							
Gross amount		-	(2,548)	(2,548)	(2)	(2,361)	(2,363)
Reinsurers' share		-	567	567	2	308	310
		-	(1,981)	(1,981)	-	(2,053)	(2,053)
Change in the provision for claims							
Gross amount		-	(545)	(545)	(3)	83	80
Reinsurers' share		-	185	185	3	162	165
		-	(360)	(360)	-	245	245
Claims incurred, net of reinsurance		-	(2,341)	(2,341)	-	(1,808)	(1,808)
Acquisition costs		-	(976)	(976)	(1)	(799)	(800)
Change in deferred acquisition costs	24	-	55	55	-	(22)	(22)
Administrative expenses		-	(222)	(222)	-	(278)	(278)
Reinsurance commissions and profit participation		-	26	26	-	14	14
Net operating expenses		-	(1,117)	(1,117)	(1)	(1,085)	(1,086)
Balance on the technical account before change in equalisation provision		-	(129)	(129)	1	(57)	(56)
Change in the equalisation provision	30	-	-	-	-	338	338
Balance on the technical account for general business		-	(129)	(129)	1	281	282

The attached notes on pages 18 to 69 form an integral part of these financial statements.

Profit and Loss Account (continued)

for the year ended 31 December 2017

Non-Technical Account	Notes	Discontinued 2017 £m	Continuing 2017 £m	Total 2017 £m	Discontinued 2016 £m	Continuing 2016 £m	Total 2016 £m
Balance on the technical account for general business		-	**(129)**	**(129)**	1	281	282
Investment income	7	-	**157**	**157**	1	175	176
Realised gains on investments	7	-	**10**	**10**	-	1	1
Unrealised gains/(losses) on investments	7	-	**7**	**7**	-	(4)	(4)
Investment expenses, charges and interest	7	-	**(415)**	**(415)**	-	(175)	(175)
Dividends from subsidiary undertakings	7	-	**1,522**	**1,522**	-	291	291
Other charges	15	-	**(11)**	**(11)**	-	-	-
Foreign exchange losses		-	**(2)**	**(2)**	(2)	(49)	(51)
Operating Profit		-	**1,139**	**1,139**	-	520	520
Profit/(loss) on disposals	5	-	**48**	**48**	(11)	(186)	(197)
Profit on ordinary activities before tax		-	**1,187**	**1,187**	(11)	334	323
Taxation on profit on ordinary activities	13	-	**(26)**	**(26)**	(3)	1	(2)
Profit for the financial year		-	**1,161**	**1,161**	(14)	335	321

The attached notes on pages 18 to 69 form an integral part of these financial statements.

Royal & Sun Alliance Insurance plc

Statement of Other Comprehensive Income

for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Profit from continuing operations		**1,161**	335
Loss for the year from discontinued operations		**-**	(14)
Profit for the financial year		**1,161**	321
Items from continuing operations that will be reclassified to profit or loss when specific conditions are met:			
Foreign exchange gains/(losses) net of tax		**1**	(3)
Unrealised (losses)/gains on other financial instruments classified as available for sale net of tax	27	**(248)**	906
		(247)	903
Items from continuing operations that will not be reclassified to profit or loss:			
Pension – re-measurement of net defined benefit liability net of tax	11	**37**	(295)
Movement in property revaluation surplus net of tax	16	**2**	1
		39	(294)
Other comprehensive (expense)/income for the year from continuing operations		**(208)**	609
Other comprehensive income for the year from discontinued operations		**-**	-
Total other comprehensive (expense)/income for the year	27	**(208)**	609
Total comprehensive income for the year from continuing operations		**953**	944
Total comprehensive expense for the year from discontinued operations		**-**	(14)
Total comprehensive income for the year		**953**	930

The attached notes on pages 18 to 69 form an integral part of these financial statements.

Royal & Sun Alliance Insurance plc

Statement of Changes in Equity

for the year ended 31 December 2017

	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Foreign currency translation reserve £m	Profit and loss account £m	**Shareholders' funds £m**
Balance at 1 January 2016	**1,215**	**2,954**	**1,235**	**41**	**1,342**	**6,787**
Profit for the Financial Year	-	-	-	-	321	**321**
Other comprehensive income (note 27)	-	-	907	(3)	(295)	**609**
Total comprehensive income for the year	-	-	**907**	**(3)**	**26**	**930**
Dividends paid (note 14)	-	-	-	-	(719)	**(719)**
Transfers	-	-	**19**	-	(19)	-
Interest on subordinated loan note	-	-	-	-	(5)	**(5)**
Balance at 1 January 2017	**1,215**	**2,954**	**2,161**	**38**	**625**	**6,993**
Profit for the Financial Year	-	-	-	-	1,161	**1,161**
Other comprehensive income (note 27)	-	-	(246)	1	37	**(208)**
Total comprehensive income for the year	-	-	**(246)**	**1**	**1,198**	**953**
Dividends paid (note 14)	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Interest on subordinated loan note	-	-	-	-	(4)	**(4)**
Balance at 31 December 2017	**1,215**	**2,954**	**1,915**	**39**	**1,819**	**7,942**

The attached notes on pages 18 to 69 form an integral part of the financial statements.

Balance Sheet
as at 31 December 2017

Assets	Notes	2017 £m	2016 £m
Intangible assets	15	**151**	152
Investments			
Land and Buildings	16	**341**	366
Investments in group undertakings and participating interests			
Shares in Group undertakings	17	**12,798**	13,189
Other financial investments			
Shares and other variable yield securities and units in unit trusts		**360**	397
Debt securities and other fixed income securities		**3,986**	4,030
Deposits with credit institutions		**153**	114
	18	**4,499**	4,541
Deposits with ceding undertakings		**179**	219
Total investments		**17,817**	18,315
Reinsurers' share of technical provisions			
Provision for unearned premiums	19	**691**	760
Claims outstanding	20	**1,091**	915
		1,782	1,675
Debtors			
Debtors arising out of direct insurance operations – policyholders		**327**	325
Debtors arising out of direct insurance operations – intermediaries		**1,275**	1,268
Debtors arising out of reinsurance operations		**170**	127
Amounts owed by group undertakings		**1,149**	225
Other debtors (including current taxation)	34	**335**	185
		3,256	2,130
Other assets			
Tangible assets	23	**33**	36
Deferred taxation	22	**190**	215
Cash at bank and in hand		**86**	65
		309	316
Prepayments and accrued Income			
Accrued interest and rent		**41**	45
Deferred acquisition costs	24	**438**	383
Other prepayments and accrued income		**38**	43
		517	471
		23,832	23,059
Assets held for sale and disposal groups	5	**644**	658
Total Assets		**24,476**	23,717

The attached notes on pages 18 to 69 form an integral part of these financial statements.

Balance Sheet (continued)

as at 31 December 2017

Liabilities	Notes	2017 £m	2016 £m
Capital and reserves			
Called up Share Capital	25	**1,215**	1,215
Share premium account		**2,954**	2,954
Revaluation reserve		**1,915**	2,161
Foreign currency translation reserve		**39**	38
Profit and loss account		**1,819**	625
Shareholders' funds		**7,942**	6,993
Other capital instruments			
Subordinated loan notes classified as equity instruments	26	**-**	78
Funds attributable to equity holders		**7,942**	7,071
Subordinated liabilities	26	**32**	292
Technical provisions			
Provision for unearned premiums	28	**2,300**	2,089
Claims outstanding	29	**4,527**	3,999
Equalisation provision	30	**-**	-
		6,827	6,088
Provisions for other risks	31	**233**	248
Creditors			
Creditors arising out of direct insurance operations		**70**	73
Creditors arising out of reinsurance operations		**780**	807
Amounts owed to credit institutions	32	**-**	96
Amounts owed to group undertakings		**7,404**	7,819
Other creditors (including taxation and social security)	33	**283**	285
		8,537	9,080
Accruals and deferred income		**261**	280
		23,832	23,059
Liabilities for disposal groups	5	**644**	658
Total Liabilities		**24,476**	23,717

The attached notes on pages 18 to 69 form an integral part of these financial statements.

The financial statements were approved on 21 February 2018 by the Board of Directors and are signed on its behalf by:

STEVE LEWIS
Director

Director
SCOTT EGAN

1. Basis of preparation

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

These financial statements have been prepared in accordance with Financial Reporting Standard (FRS 101) Reduced Disclosure Framework and in compliance with the Companies Act 2006.

The Company's financial statements are presented in Pounds Sterling (£), which is also the Company's functional currency, and rounded to the nearest million (m) except where otherwise indicated.

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

In considering the appropriateness of the going concern basis, the Board has reviewed the Company's ongoing financial commitments for the next twelve months and beyond. The Board's review included strategic plans and updated forecast, capital position, liquidity and credit facilities and investment portfolio. As a result of this review the directors have satisfied themselves that it is appropriate to prepare these financial statements on a going concern basis.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"), but makes amendments where necessary in order to comply with Companies Act 2006, having regard to the regulatory requirement for insurance companies to maintain equalization provisions which were required prior to the introduction of Solvency II (see note 30). The Company has set out below where advantage of FRS 101 exemptions has been taken.

The exemptions used by the Company are as follows:-

- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets, intangible assets and investment properties;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures in respect of transactions between two or more wholly owned subsidiaries of the group.

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

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

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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

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

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

Valuation of claims outstanding

The Company makes critical judgements when valuing claims outstanding. The methodology of measuring claims outstanding is described in Estimation techniques, uncertainties and contingencies. The results of applying this methodology and assumptions applied are set out in note 29.

1. Basis of preparation (continued)

Recognition and valuation of deferred tax assets

The Company makes judgements in its assessments on the likelihood of its ability to utilise deferred tax assets in the future when valuing deferred tax assets. This requires the use of models of the future profitability of the Company and assumptions on how these businesses will perform. The methodology employed is described in note 22.

Valuation of pension fund assets and liabilities

The Company exercises judgment in making assumptions when valuing pension and other post-retirement benefits accrued by its current and former employees. These assumptions include the estimation of the future mortality of its current and former employees, the value of the benefits that have been accrued and the appropriate discount rate used to value the obligations. These assumptions and the sensitivity of these assumptions are disclosed in note 11.

Assets and liabilities held for sale

Assets and liabilities are classified as held for sale if it is considered highly probable that the carrying amount of the assets and directly associated liabilities will be recovered principally through a sale, rather than through continuing operations. This includes the expectation that the sale will be completed within 12 months of the classification date as held for sale.

Assets and liabilities held for sale are each presented as a single line in the statement of financial position, at the lower of the carrying amount and fair value less costs to sell.

Where the asset or liability comprises a separate business operation (e.g. a subsidiary, an associate or a branch), the assets (including any goodwill allocated to the business) and the directly associated liabilities of the business are considered together as one disposal group. In the period when assets are recognised as held for sale on the face of the Balance Sheet for the first time, the comparative prior period is not re-presented. Further information can be found in note 5.

Discontinued operations

A discontinued operation is a component of the Company that has either been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operation.

The profit or loss from discontinued operations is shown separately on the face of the profit and loss account as a single amount. It comprises the profit or loss after tax from discontinued operations together with the gain or loss after tax recognised on completed sales or the gain or loss after tax on the discontinued operations arising from revaluing the carrying value of a held for sale operation to its fair value less costs to sell. Further information can be found in note 5. In the period in which an operation is first classified as discontinued, the profit and loss account, statement of other comprehensive income for the comparative prior period is re-presented to present those operations as discontinued.

In circumstances where the Company is entering into an arrangement to make a legal transfer of a book of business which includes an interim economic transfer of risk to the intended acquirer prior to obtaining court approval for the transfer, the accounting gain or loss arising from the reinsurance is considered as being incremental to the disposal and is consequently presented as a gain or loss arising from the disposal of the business.

Subsidiaries

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

(ii) Translation of foreign currencies

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

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

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

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. Non-monetary items are carried at historical cost and reported using the exchange rate at the date of the transaction.

1. Basis of preparation (continued)

(iii) Intangible assets

Goodwill

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

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

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

Other intangible assets

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

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

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

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

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

(iv) Tangible assets

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

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

Fixtures and fittings	10 years
Equipment	3-5 years

All of the above assets are classified as equipment within note 23. The asset's residual values and useful lives are reviewed and adjusted if appropriate.

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

(v) Land and buildings

Land and buildings comprise investment property and Company occupied property.

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

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

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

1. Basis of preparation (continued)

(vi) Investments

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

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

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

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

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

When assets that are classified at fair value through profit and loss are disposed of cumulative unrealised gains and losses recognised in the current and earlier accounting periods in respect of such assets are reversed and the difference between the sale proceeds and the initial purchase price is recognised in the profit and loss account. When assets that are classified as available for sale are disposed of the cumulative unrealised gains and losses included in the revaluation reserve are reversed and the difference between the sale proceeds and amortised cost is recognised in the profit and loss account.

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

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

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

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

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

(vii) Derivative financial instruments

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

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

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

- For fixed maturity securities, fair values are generally based upon quoted market prices. Where market prices are not readily available, fair values are estimated using either values obtained from quoted market prices of comparable securities or estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment
- For equity securities fair values are based upon quoted market prices where they are available. Where market prices are not readily available fair values are estimated using either values obtained from quoted market prices of comparable securities or estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment
- If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models

1. Basis of preparation (continued)

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

- For mortgage loans on real estate and collateral loans, fair values are estimated using discounted cash flow calculations based upon prevailing market rates
- For cash at bank and in hand, loans and receivables, deposits with credit institutions, commercial paper, other assets, liabilities and accruals, carrying amounts approximate to fair values
- For notes, bonds, loans payable and loan capital, fair values are determined by reference to quoted market prices or estimated using discounted cash flow calculations based upon prevailing market rates. Loan capital is carried at amortised cost and when different, fair value is disclosed in the relevant note. For borrowings that carry a variable rate of interest (other than loan capital), carrying values approximate to fair values
- For derivatives, fair values are based upon market prices where available. Where market prices are not directly available, fair values are estimated using models of future cash flows with all significant inputs based on observable market prices
- For shares in group undertakings, fair value is calculated by applying various valuation models to the major trading companies. These valuation models apply factors that are widely used to value similar companies in the area of operation of the business. The values calculated are benchmarked against external valuations of the particular business where these are available. For non-trading subsidiaries, the net asset value of the subsidiary, calculated using the Company's accounting policies, is used.

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

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

(ix) Insurance Contracts

Product classification

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

Income recognition

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

Technical provisions

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

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

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

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

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

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

1. Basis of preparation (continued)

Reinsurance ceded

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

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

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

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

Levies

Levies payable are treated as costs of underwriting business and are deducted from the associated unearned premium reserve (UPR). This treatment is consistent with the Group's policy for deferred acquisition costs (DAC).

(x) Other operating income

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

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

(xi) Cash at bank and in hand

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

(xii) Subordinated Loans

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

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

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

(xiii) Taxation and deferred tax

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

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

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

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

1. Basis of preparation (continued)

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

(xiv) Employee benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Termination benefits

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

Share based payments

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

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

1. Basis of preparation (continued)

(xv) Provisions

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

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

(xvi) Dividends to shareholders

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

(xvii) Leases

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

(xviii) Current and non-current distinction

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

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

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

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

2. Estimation techniques, uncertainties and contingencies

Introduction

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

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

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

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

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

Estimation techniques

(i) Technical provisions

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

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

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

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

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

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

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

(ii) Post-retirement benefits

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

Uncertainties and contingencies

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

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

2. Estimation techniques, uncertainties and contingencies (continued)

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

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

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

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

The sections below identify a number of specific risks relating to asbestos and environmental claims. There may be other classes of risk which could develop in the future and that could have a material impact on the Company's financial position. The Company evaluates the concentration of exposures to individual and cumulative insurance risk and establishes its reinsurance policy to reduce such exposure to levels acceptable to the Company.

Asbestos and environmental claims

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

Factors contributing to this higher degree of uncertainty include:

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

Acquisitions and disposals

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

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

Contracts with third parties

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

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

3. Risk Management

Introduction

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

Risk Management

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

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

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

- Underwriting risk
- Reserving risk

Underwriting risk

Underwriting risk refers to the risk that claims arising are higher (or lower) than assumed in pricing due to bad experience including catastrophes, weakness in controls over underwriting or portfolio management, or claims management issues.

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

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

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

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

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

Reinsurance arrangements in place include proportional, excess of loss, stop loss, catastrophe and adverse development coverage. These arrangements aim to prevent the Company suffering total net insurance losses beyond the Group's risk appetite in any one year.

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

Reserving risk

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

The Company establishes 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 Company as well as for the losses that have already occurred but are not yet reported losses together with a provision for the future costs of handling and settling the outstanding claims.

There is a risk to the Company from the inherent uncertainty in estimating provisions at the end of the reporting period for the eventual outcome of outstanding notified claims as well as estimating the number and value of claims that are still to be notified.

3. Risk Management (continued)

Reserving risk (continued)

The Company 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. The Group Reserving Committee review these local submissions and recommend the final level of reserves to be held by the Company. The Group has a Group Reserving Committee which is chaired by the Group Chief Financial Officer and includes the Group Chief Executive, Group Underwriting Director, Group Chief Actuary and Group Chief Risk Officer. A similar committee has been established in each of the Group's primary operating segments. The Group Reserving Committee monitors the decisions and judgements made by the business units as to the level of reserves to be held. It then recommends to the Group Board via the Group Audit Committee 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 2017, these risks and developments include: the possibility of future legislative change having retrospective effect on open claims; changes in claims settlement procedures potentially leading to future claims payment patterns differing from historical experience; the possibility of new types of claim, such as disease claims, emerging from business written several years ago; general uncertainty in the claims environment; the emergence of latent exposures 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 Company, 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 Company undertakes a number of strategies to manage these risks including the use of derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest rates, foreign exchange rates, equity prices and long term inflation. The Company does not use derivatives to leverage its exposure to markets and does not hold or issue derivative financial instruments for speculative purposes. The policy on use of derivatives is approved by the Group Board Risk Committee ('GBRC').

Credit risk

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

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

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

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

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

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

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

The Group Reinsurance Credit Committee oversees the management of credit risk arising from the reinsurer failing to settle its liability to the Company. Group standards are set such that reinsurers that have a financial strength rating of less than 'A-' with Standard & Poor's, or a comparable rating, are removed from the Group's authorised list of approved reinsurers unless the Group's internal review discovers exceptional circumstances in favour of the reinsurer. Collateral is taken, where appropriate, to mitigate exposures to acceptable levels.

3. Risk Management (continued)

Credit risk (continued)

The Group's use of reinsurance is sufficiently diversified that it is not concentrated on a single reinsurer, or any single reinsurance contract. The Group regularly monitors its aggregate exposures by reinsurer group against predetermined reinsurer Group limits, in accordance with the methodology agreed by the GBRC. The Company's largest reinsurance exposures to active reinsurance groups are Berkshire Hathaway Inc., Lloyds of London and Hannover Re Group. At 31 December 2017 the reinsurance asset recoverable from these groups does not exceed 6.6% of the Company's total financial assets. Stress tests are performed by reinsurer counterparty and the limits are set such that in a catastrophic event, the exposure to a single reinsurer is estimated not to exceed 6.4% of the Group's total financial assets.

The credit profile of the Company's assets exposed to credit risk is shown below. The credit rating bands are provided by independent rating agencies. The table below sets out the Company's aggregated credit risk exposure for its financial and insurance assets as at 31 December 2017 and 2016.

	Credit rating relating to financial assets that are neither past due not impaired								
	AAA	AA	A	BBB	<BBB	Not rated	Value including held for sale	Less: Amounts classified as held for sale	Total Financial Assets that are neither past due nor impaired
As at 31 December 2017	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities	798	1,285	1,292	517	94	-	3,986	-	3,986
Other financial assets	20	-	5	104	4	10	143	-	143
Short term investments	-	-	10	-	-	-	10	-	10
Reinsurance assets (2)	-	442	1,370	536	29	19	2,396	(614)	1,782
Insurance and reinsurance debtors (1)	44	21	744	65	44	601	1,519	-	1,519
Derivative assets	-	6	34	38	-		78	-	78
Cash at bank and in hand	-	4	72	5	5	-	86	(4)	82

Notes:

1. The insurance and reinsurance debtors classified as not rated comprise personal policyholders and small corporate customers that do not have individual credit ratings. The overall risk to the Company is deemed to be low as the cover could be cancelled if payments were not received on a timely basis.
2. The increase in BBB reinsurers' share of insurance contract liabilities reflects the UK Legacy reinsurance arrangement announced in 2017 which is fully collateralised.

	Credit rating relating to financial assets that are neither past due not impaired								
	AAA	AA	A	BBB	<BBB	Not rated	Value including held for sale	Less: Amounts classified as held for sale	Total Financial Assets that are neither past due nor impaired
As at 31 December 2016	£m	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	547	1,882	1,563	572	108	-	4,672	(642)	4,030
Other financial assets	-	-	-	-	-	-	-	-	-
Short term investments	-	50	64	-	-	-	114	-	114
Reinsurance assets	94	405	1,131	69	17	21	1,737	(63)	1,674
Insurance and reinsurance debtors (1)	61	16	815	91	93	585	1,661	-	1,661
Derivative assets	-	2	28	36	-	-	66	-	66
Cash at bank and in hand	90	32	40	-	4	-	166	(101)	65

Notes:

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

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

3. Risk Management (continued)

Credit risk (continued)

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired as at 31 December 2017, excluding those assets that have been classified as held for sale.

		Financial assets that are past due but not impaired						
	Neither past due nor impaired	0-3 months	3-6 months	6-12 months	Greater than 12 months	Impaired Financial Assets	Balance Sheet carrying value	Impairment losses charged to Profit and loss account
As at 31 December 2017	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities	**3,986**	-	-	-	-	-	**3,986**	-
Other financial assets	**143**	-	-	-	-	-	**143**	-
Short term investments	**10**	-	-	-	-	-	**10**	-
Reinsurance assets	**1,782**	-	-	-	-	**1**	**1,782**	**(5)**
Insurance and reinsurance debtors	**1,519**	**25**	**10**	**11**	**7**	**2**	**1,572**	-
Derivative assets	**78**	-	-	-	-	-	**78**	-
Cash at bank and in hand	**82**	-	-	-	-	-	**82**	-

		Financial assets that are past due but not impaired						
	Neither past due nor impaired	0-3 months	3-6 months	6-12 months	Greater than 12 months	Impaired Financial Assets	Balance Sheet carrying value	Impairment losses charged to Profit and loss account
As at 31 December 2016	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	4,030	-	-	-	-	-	4,030	-
Other financial assets	-	-	-	-	-	-	-	-
Short term investments	114	-	-	-	-	-	114	-
Reinsurance assets	1,674	-	-	-	-	1	1,675	-
Insurance and reinsurance debtors	1,661	33	7	12	4	3	1,720	-
Derivative assets	66	-	-	-	-	-	66	-
Cash at bank and in hand	65	-	-	-	-	-	65	-

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

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

At 31 December 2017, the Company had pledged £393m (2016: £513m) of financial assets as collateral for liabilities or contingent liabilities and had accepted £16m (2016: £63m) in collateral. The nature of the assets pledged as collateral comprises government securities of £339m (2016: £386m), cash at bank and in hand of £43m (2016: £114m) and debt securities of £10m (2016: £13m). The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities.

The Company is permitted to sell or re-pledge collateral held in the event of default by the owner, the fair value of which has been noted above at £16m. The terms and conditions of the collateral held are market standard. The assets held as collateral are readily convertible into cash.

The Company enters into short term sale and repurchase agreements for UK government securities. The Company recognised the debt securities on the balance sheet as the Company remains exposed to the risks and rewards of ownership. The carrying value of these debt securities recognised on the balance sheet at 31 December 2017 is £nil (2016: £96m) and the carrying value of the associated liabilities is £nil (2016: £96m).

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

The ISDA agreements do not meet the criteria for offsetting in the balance sheet. This is because the Company does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events.

3. Risk Management (continued)

Credit risk (continued)

As at 31 December 2017	Amounts subject to enforceable netting arrangements – Effect of offsetting in statement of financial position: Gross amounts	Amounts offset	Net amounts reported	Related items not offset: Financial instruments	Financial collateral	Net amount	Amounts not subject to netting arrangements	Net amount reported in statement of financial position
	£m	£m	£m	£m	£m	£m	£m	£m
Derivative financial assets	60	-	60	(44)	(14)	2	18	78
Total assets	**60**	**-**	**60**	**(44)**	**(14)**	**2**	**18**	**78**
Derivative financial liabilities	88	-	88	(44)	(41)	3	25	113
Total liabilities	**88**	**-**	**88**	**(44)**	**(41)**	**3**	**25**	**113**

As at 31 December 2016	Amounts subject to enforceable netting arrangements – Effect of offsetting in statement of financial position: Gross amounts	Amounts offset	Net amounts reported	Related items not offset: Financial instruments	Financial collateral	Net amount	Amounts not subject to netting arrangements	Net amount reported in statement of financial position
	£m	£m	£m	£m	£m	£m	£m	£m
Derivative financial assets	46	-	46	(45)	-	1	20	66
Total assets	46	-	46	(45)	-	1	20	66
Derivative financial liabilities	167	-	167	(45)	(113)	9	4	171
Total liabilities	167	-	167	(45)	(113)	9	4	171

Investments in structured entities

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

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

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

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

In addition, the Company has commitments for future undrawn subscriptions limited to the amounts set out in the subscription agreements. The Company has no obligations to provide any other financial support to these entities. The Company has determined that its maximum exposure to structured entities is the sum of the carrying value and the undrawn commitments. These exposures as 31 December 2017 are summarised in the table below:-

3. Risk Management (continued)

Credit risk (continued)

Investments in structured entities (continued)

Class of investments	Nature of the underlying investments of the vehicle	Carrying Value	Undrawn Commitments	Exposure
		£m	£m	£m
Mortgage backed securities	Covered bonds subject to real estate risk	16	-	16
Collateralised debt obligations	Structured debt security backed by bonds	260	-	260
Cash Money Market Funds	Short term cash deposits	159	-	159
Other	Mainly consist of property funds	199	23	222
		634	**23**	**657**

	£m
Investments - financial assets - equity securities	199
Investments - financial assets - debt securities	275
Cash at bank and in hand	159
Other loans	1
	634

Market risk

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

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

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

Interest rate risk

The fair value of the Company's portfolio of fixed income securities is inversely correlated to changes in the market interest rates. Thus, if interest rates fall, the fair value of the portfolio would tend to rise and vice versa as set out in the sensitivity analysis on page 35.

Equity price risk

The Company's portfolio of equity securities is subject to equity risk arising from changes in market price. Thus if the value of equities rises so will the fair value of its portfolio and vice versa as set out in the sensitivity analysis on page 35.

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

Property price risk

The Company's portfolio of properties is subject to property price risk arising from changes in market value of properties. Thus if the value of property falls so will the fair value of the portfolio and set out in the sensitivity analysis on page 35.

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

Currency risk

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

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

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

3. Risk Management (continued)

Currency risk (continued)

Structural currency risk is managed at a Group level through currency forward and foreign exchange option contracts within the limits that have been set. In managing structural currency risk, the needs of the Group's subsidiaries to maintain net assets in local currencies to satisfy local regulatory solvency and internal risk based capital requirements are taken into account. These assets should prove adequate to support local insurance activities irrespective of exchange rate movements.

Derivatives

The Company may use derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest rates, foreign exchange rates, equity prices and long term inflation. The Company does not use derivatives to leverage its exposure to markets and does not hold or issue derivative financial instruments for speculative purposes. The policy on use of derivatives is approved by the Board Risk Committee.

	Remaining Life			Fair Value		Notional Principal Amounts	
	Less than 1 year	1-5 Years	More than 5 Years	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m	£m
Cross currency							
Asset	1,610	5	-	42	33	1,615	581
Liability	701	159	112	74	136	972	2,528
Inflation							
Asset	-	60	120	36	33	See below	See below
Liability	-	60	120	38	35	See below	See below

The Company is party to a series of swap contracts which collectively provide limited cover against a sharp increase in long term inflation. In total the swap contracts provide inflation cover over a nominal value of £180m (2016: £180m) and are split over different contract terms.

At 31 December 2017 the Company holds currency forward contracts and foreign exchange options to reduce structural foreign exchange risk.

Sensitivity Analysis

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

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

Impact of a 10% change in Pounds Sterling against Danish Krone, Euro, Canadian Dollar or Swedish Krona on shareholders' funds as at 31 December:

	Strengthening against Danish Krone	Weakening against Danish Krone	Strengthening against Euro	Weakening against Euro	Strengthening against Canadian Dollar	Weakening against Canadian Dollar	Strengthening against Swedish Krona	Weakening against Swedish Krona
	£m	£m	£m	£m	£m	£m	£m	£m
2017	**(25)**	**30**	**24**	**(29)**	**(42)**	**51**	**(2)**	**2**
2016	(21)	26	(4)	5	(43)	55	(21)	26

3. Risk Management (continued)

Sensitivity Analysis (continued)

Impact on fair value of investments (note 1 and note 4):

	Increase / (decrease) in profit and loss account		Increase / (decrease) in other comprehensive income	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Interest rate markets (note 2):				
Impact on fixed interest securities of increase in interest rates of 10%	**-**	-	**(160)**	(218)
Decrease of equity markets (note 3 & 5):				
Direct impact on equities of a 15% fall in equity index markets	**-**	-	**-**	(2)
Property markets (note 3):				
Decrease of property markets of 15%	**(51)**	(50)	**(5)**	(5)

Notes

1. This analysis assumes that there is no correlation between interest rate and property market rate risks. It also assumes all other assets and liabilities remain unchanged and that no management action is taken. This analysis does not represent management's view of future market change, but reflects management's view of key sensitivities.
2. The sensitivity of the fixed interest securities of the Company has been modelled by reference to a reasonable approximation of the average interest rate sensitivity of the investments held within each of the portfolios.
3. The effect of movements in equity index and property markets is reflected as a one time decrease of worldwide equity index and property markets on 1 January 2018 and 1 January 2017 which results in a 1% decline in the value of the Company's assets in the investment categories.
4. This analysis has not considered the impact of the above market changes on the valuation of the Company's claims outstanding or retirement benefit obligations.
5. The Company considers that within equity securities, investments with a fair value of £1m may be more affected by equity index market risk than by interest rate risk.
6. This analysis is presented gross of the corresponding tax credits / (charge).
7. The equity index risk sensitivity analysis is indicative and is based on the Company's equity portfolio as at 31 December 2017.

Liquidity Risk

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

3. Risk Management (continued)

Liquidity risk (continued)

Maturity period or contractual repricing

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

As at 2017	Less than 1 Year £m	1 - 2 Years £m	2 - 3 Years £m	3 - 4 Years £m	4 - 5 Years £m	5 + Years £m	Total £m	Balance Sheet carrying value £m
Financial Liabilities								
Subordinated liabilities	-	-	-	-	-	32	32	32
Amounts owed to Group undertakings	7,404	-	-	-	-	-	7,404	7,404
Amounts owed to credit institutions	-	-	-	-	-	-	-	-
Derivative trading liabilities	31	27	-	11	-	44	113	113
Direct insurance creditors	69	1	-	-	-	-	70	70
Reinsurance creditors	470	234	76	-	-	-	780	780
Total	7,974	262	76	11	-	76	8,399	8,399
Interest on subordinated liabilities	3	3	3	3	3	45	60	-

As at 2016	Less than 1 Year £m	1 - 2 Years £m	2 - 3 Years £m	3 - 4 Years £m	4 - 5 Years £m	5 + Years £m	Total £m	Balance Sheet carrying value £m
Financial Liabilities								
Subordinated liabilities	-	-	-	-	-	292	292	292
Amounts owed to Group undertakings	7,819	-	-	-	-	-	7,819	7,819
Amounts owed to Credit institutions	96	-	-	-	-	-	96	96
Derivative trading liabilities	31	1	49	-	19	71	171	171
Direct insurance creditors	72	1	-	-	-	-	73	73
Reinsurance creditors	520	201	86	-	-	-	807	807
Total	8,538	203	135	-	19	363	9,258	9,258
Interest on subordinated liabilities	27	27	27	27	27	200	335	-

Pension Risk

The Company is exposed to risks through its obligation to fund the schemes. These risks include market risk (assets not performing as well as expected), inflation risk and mortality risk over the lives of the members. The Company and trustees of the schemes work together to reduce these risks through agreement of investment policy including the use of interest rate, inflation rate and mortality swaps. Further information on the Company's management of pension risk is included within note 11.

Operational Risk

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

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

3. Risk Management (continued)

Own Risk and Solvency Assessment (ORSA)

The Solvency II directive introduced a requirement for undertakings to conduct an ORSA.

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

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

The assessment considers both the current position and the positions that may arise during the planning horizon of the firm (typically the next three years). It looks at both the expected outcome and the outcome arising when the plan assumptions do not materialise as expected.

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

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

Papers are presented to the Board throughout the year dealing with individual elements that make up the ORSA. The information contained in those papers and the associated decisions taken are summarised in an annual ORSA report, which is submitted to the Group's regulators as part of the normal supervisory process.

The ORSA is approved by the Board Risk Committee (BRC).

Capital Management

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

Capital Appetite

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

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

Regulatory solvency position during 2017

The Group's Solvency II Internal Model was approved by the PRA in December 2015 and forms the basis of the primary Solvency II SCR measure.

The internal model is used to support, inform and improve the Company's decision making. It is used to determine the Group's and Company's optimum capital structure, its investment strategy, its reinsurance program and to determine the pricing and target returns for each portfolio.

At 31 December 2017, the Company's estimated SCR and corresponding Eligible Own Funds were as follows:

	Estimated (unaudited) 2017 £bn	2016 £bn
Eligible Own Funds	**3.4**	3.2
SCR	**1.8**	1.8
Coverage (unrounded)	**186%**	180%

The Solvency and Financial Condition Report as required by Solvency II for the year ended 31 December 2017 will be publicly available in May 2018.

The Company uses a variety of metrics to monitor its capital position including Shareholders' funds, which are £7,942m as at 31 December 2017 (2016: £6,993m).

4. Segmental information by business class and geographical area

a) By business class

2017	**Accident & Health £m**	**Motor £m**	**Fire & property £m**	**Marine Aviation & Transport £m**	**Third Party Liability £m**	**Assistance £m**	**Other £m**	**Re-insurance £m**	**Total £m**
Gross premium written	**47**	**894**	**1,246**	**318**	**297**	**25**	**282**	**1,255**	**4,365**
Gross Premiums Earned	**52**	**905**	**1,228**	**332**	**301**	**12**	**280**	**1,034**	**4,144**
Gross Claims Incurred	**(40)**	**(814)**	**(783)**	**(258)**	**(201)**	**(5)**	**(179)**	**(813)**	**(3,093)**
Gross Operating Expenses	**(15)**	**(186)**	**(484)**	**(96)**	**(98)**	**(8)**	**(86)**	**(171)**	**(1,143)**
Gross Technical Result	**(3)**	**(95)**	**(39)**	**(22)**	**2**	**(1)**	**15**	**50**	**(92)**
Reinsurance Result	**(1)**	**46**	**(42)**	**(12)**	**(34)**	**(0)**	**(3)**	**8**	**(37)**
Net Technical Result	**(4)**	**(50)**	**(80)**	**(34)**	**(32)**	**(1)**	**12**	**58**	**(129)**

2016	Accident & Health £m	Motor £m	Fire & property £m	Marine Aviation & Transport £m	Third Party Liability £m	Assistance £m	Other £m	Re-insurance £m	Total £m
Gross premium written	38	911	1,195	262	311	14	293	513	3,537
Gross Premiums Earned	45	907	1,238	319	313	14	283	523	3,642
Gross Claims Incurred	(25)	(712)	(365)	(180)	(198)	(5)	(179)	(281)	(1,945)
Gross Operating Expenses	(14)	(174)	(487)	(100)	(119)	(8)	(93)	(105)	(1,100)
Gross Technical Result	6	21	386	39	(4)	1	11	137	597
Reinsurance Result	(5)	(88)	(197)	31	(65)	-	4	5	(315)
Net Technical Result	1	(67)	189	70	(69)	1	15	142	282

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

b) By geographical segment

Gross premiums written for direct business by origin:	**2017 £m**	2016 £m
UK	**2,774**	2,760
Other EEA	**308**	236
Other	**28**	28
	3,110	3,024

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

Total commissions for direct insurance business accounted for by the Company during the year, excluding payments to employees, amounted to £593m (2016: £551m).

5. Discontinued operations and disposals

a) Discontinued operations

During the year ended 31 December 2017, no operations have been classified as discontinued.

During the prior year, as a result of the strategic action plan Royal & Sun Alliance Insurance plc completed the following disposals of operations:

The Company completed the disposal of its Argentinian operations to Suramericana SA with a realised loss of £(6)m. Completion adjustments arising in relation to businesses sold in 2015, mainly Italy, gave rise to additional realised losses of £(5)m during 2016.

These businesses were classified as discontinued operations in accordance with the Company's accounting policies.

b) Held for sale disposal groups

On 7 February 2017 the Group announced that contracts had been signed to dispose of UK legacy insurance liabilities to Enstar Group Limited, the majority of which are held in the Company. The transaction initially took the form of a reinsurance agreement, effective at 31 December 2016, which substantially effects economic transfer, to be followed by a completion of a subsequent legal transfer of the business. The UK legacy insurance liabilities remain as held for sale as at 31 December 2017 as regulatory approval is required to complete the subsequent legal transfer of the business; this approval is expected to be obtained in 2018.

The UK Legacy investments presented as held for sale at 31 December 2016 have been disposed of and the proceeds used to acquire reinsurance for the gross legacy liabilities pending completion of the subsequent legal transfer of the business.

	2017 Legacy	**2016 Legacy**
Assets classified as held for sale	**£m**	**£m**
Investments	-	642
Reinsurers' share of technical provisions	**614**	63
Amounts owed by group undertakings	**4**	47
Other debtors and other assets	**26**	9
Cash at bank and in hand	-	101
Total assets of disposal groups	-	862
Re-measurement of disposal groups to fair value less costs to sell	-	(204)
Disposal group assets net of adjustment	**644**	658
Liabilities directly associated with assets classified as held for sale		
Creditors arising out of reinsurance operations	**30**	-
Technical provisions	**614**	658
Liabilities of disposal groups	**644**	658
Total net liabilities of disposal groups	-	-

c) Discontinued operations disposed of during the year

	2017 Total	2016 Argentina	2016 Other	2016 Total
	£m	£m	£m	£m
Consideration received	-	-	-	-
Transaction costs	-	-	-	-
Net proceeds from sales	-	-	-	-
Carrying value of net assets disposed	-	(4)	(5)	(9)
Gains / (losses) on sale before recycling items from other comprehensive income	-	-	-	-
Recycle of items from other comprehensive income on disposals				
Foreign currency translation reserve	-	(2)	-	(2)
Unrealised gains / (losses) on available for sale investments	-	-	-	-
Profits / (losses) on sales of discontinued operations before tax	-	(6)	(5)	(11)
Tax on disposal	-	-	(3)	(3)
Profit / (loss) on sales of discontinued operations after tax	-	(6)	(8)	(14)

d) Gain/(loss) on disposal of business

During the year ended 31 December 2017, a net gain of £48m on disposal of businesses not classified as discontinued comprised of £66m mainly relating to the realised gain on the mark-to-market of the bonds transferred to the UK legacy buyer and £(18)m on the commutation of the Company's Adverse Development Cover reinsurance protection that was bought in 2014 to partly protect the UK Legacy book.

5. Discontinued operations and disposals (continued)

d) Gain/(loss) on disposal of business (continued)

During the prior year, £(204)m of loss on disposal of businesses not classified as discontinued related to the agreement to dispose of the UK legacy business to Enstar Group Limited.

6. Exchange Rates

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

	2017 Cumulative Average	2017 End of Period	2016 Cumulative Average	2016 End of Period
United States Dollar	1.29	1.35	1.35	1.24
Euro	1.14	1.13	1.22	1.17
Canadian Dollar	1.67	1.70	1.79	1.66
Danish Krone	8.49	8.39	9.11	8.71
Swedish Krona	10.99	11.09	11.59	11.19

The statement of other comprehensive income contains net gains of £1m (2016: net of tax losses of £3m) on the retranslation of foreign currency items. The profit and loss account contains net losses of £3m (2016: net losses of £51m) on the retranslation of foreign currency items.

7. Investment income, expenses and charges

	Investment income 2017 £m	Investment income 2016 £m	Net realised gains / (losses) 2017 £m	Net realised gains / (losses) 2016 £m	Net unrealised gains / (losses) 2017 £m	Net unrealised gains / (losses) 2016 £m	Total investment return 2017 £m	Total investment return 2016 £m
Investment property	21	23	-	-	1	(4)	22	19
Equity securities								
Available for sale	7	9	2	3	-	-	9	12
At fair value through the profit and loss account	-	-		(1)	-	-	-	(1)
Debt securities								
Available for sale	106	124	12	6	-	-	118	130
At fair value through the profit and loss account	-	-	-	-	-	-		-
Other investments								
Other loans	22	8	-	-	-	-	22	8
Deposits, cash at bank and in hand	1	1		-	-	-	1	1
Derivatives	-	2	(4)	-	6	1	2	3
Continuing Operations	157	167	10	8	7	(3)	174	172
Discontinued Operations	-	1	-	-	-	-	-	1
Total net investment return	157	168	10	8	7	(3)	174	173
Dividends from subsidiary undertakings	1,522	291	-	-	-	-	1,522	291
	1,679	459	10	8	7	(3)	1,696	464

	2017	2016
Investment expenses, charges and interest		
Impairment of available for sale investments	(296)	(42)
Interest on bank loans and overdrafts	-	(2)
Interest on other loans	(113)	(127)
Investment management expenses	(6)	(4)
	(415)	(175)
Net investment return	1,281	289

7. Investment income, expenses and charges (continued)

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

During 2017, the accrued interest income on impaired financial assets was (2016: £nil).

Direct operating expenses (including repairs and maintenance) arising from investment properties were not material in 2017 or 2016.

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

	Net unrealised gains / (losses)		Net realised gains / (losses) transferred to profit and loss account		Net movement recognised in other comprehensive income	
	2017	2016	**2017**	2016	**2017**	2016
	£m	£m	**£m**	£m	**£m**	£m
Equity securities	**(5)**	10	**(2)**	3	**(7)**	13
Debt securities	**(42)**	153	**(93)**	(1)	**(135)**	152
Subsidiary undertakings	**(94)**	752	**-**	3	**(94)**	755
Total continuing operations	**(141)**	915	**(95)**	5	**(236)**	920
Discontinued Operations	**-**	-	**-**	-	**-**	-
Total	**(141)**	915	**(95)**	5	**(236)**	920

8. Auditor's remuneration

Fees payable to KPMG LLP for the audit of the Company's accounts for the year ended 31 December 2017 were £1,409,500 (31 December 2016: £1,462,500). Fees payable to KPMG LLP for the provision of non-audit services for the year ended 31 December 2017 were £280,000 (31 December 2016: £275,000). Audit fees of £191,930 (2016: £165,980) are also paid by Royal & Sun Alliance Insurance plc on behalf of certain subsidiary undertakings.

9. Directors' emoluments

The aggregate emoluments of the directors, including amounts received from subsidiaries, were as follows:	**2017**	2016
	£000	£000
Salaries and bonuses	**3,279**	5,224
Allowances, benefits and other awards	**525**	521
	3,804	5,745

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

	2017	2016
The emoluments of the highest paid director were:	**£000**	£000
Salary, bonus, allowances, benefits and other awards	**1,179**	1,329

No amounts were paid into a pension scheme in respect of the highest paid directors' qualifying services during 2017 (2016: £19,688).

During 2017, no retirement benefits accrued under defined benefit schemes for directors (2016: one director). During 2017, no contributions (2016: £32,102) were made to Group defined contribution schemes during the year in respect of directors (2016: four directors).

During 2017, no directors exercised share options (2016: one director) and five directors (2016: eight directors) had shares awards vesting under long term incentive schemes in respect of ordinary shares of the Company' ultimate parent company.

10. Employees and Staff Costs

	2017	2016
	£m	£m
Wages and salaries	219	245
Social security costs	29	26
Other pension costs	39	34
Total staff costs	**287**	305
Staff costs relating to continuing operations	287	305
Staff costs relating to discontinued operations	-	-
Total staff costs	287	305

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

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

	2017	2016
UK & Ireland	5,565	5,668
Other EEA	176	162
Other	13	14
Average number of employees during the year	**5,754**	5,844
Average number of employees during the year relating to continuing operations	5,754	5,842
Average number of employees during the year relating to discontinued operations	-	2
Total average number of employees during the year	5,754	5,844

UK & Ireland includes staff employed in Group Corporate Centre.

11. Retirement Benefits

Defined contribution pension schemes

Costs of £24m (2016: £13m) were recognised in respect of defined contribution schemes by the Company.

Defined benefit pension schemes and other post-retirement benefits

The amounts recognised in the financial statements are as follows:

	2017	2016
	£m	£m
Present value of funded obligations	(8,313)	(8,304)
Present value of unfunded obligations	(7)	(7)
Fair value of plan assets	8,331	8,172
Other net surplus remeasurements	(62)	-
Total deficit	(51)	(139)
Defined benefit pension schemes	(51)	(139)
Schemes in surplus	119	56
Schemes in deficit	(170)	(195)

Independent actuaries calculate the value of the defined benefit obligations for the larger schemes by applying the projected unit credit method. The future expected cash outflows (calculated based on assumptions that include inflation and mortality) are discounted to present value, using a discount rate determined at the end of each reporting period by reference to current market yields on high quality corporate bonds ('AA' rated) identified to match the currency and term structure of the obligations.

The actuarial valuation involves making assumptions about discount rates, future salary increases, future inflation, the employees' age upon termination and retirement, mortality rates, future pension increases, disability incidence and health and dental care cost trends.

If actual experience differs from the assumptions used, the expected obligation could increase or decrease in future years. Due to the complexity of the valuation and its long-term nature, the defined benefit obligation is highly sensitive to changes in the assumptions. Assumptions are reviewed at each reporting date. As such, the valuation of the liability is highly sensitive to changes in bond rates and will also be impacted by changes in equity markets.

The assets of major defined benefit pension schemes are mainly held in separate trustee administered funds. The defined benefit schemes were effectively closed to new entrants in 2002 and subsequently closed to future accruals with effect from 31 March 2017. The schemes in surplus have been reduced for the tax cost of an authorised return of surplus, classified as 'Other net surplus remeasurements'. Management's judgement is that the authorised refund tax charge is not an income tax within the meaning of IAS12 and so the surplus is recognised net of this tax charge rather than the tax charge being included within deferred taxation.

The profile of the members of the two main defined benefit schemes at 30 September 2017 (the latest date at which full information is available) are as follows:-

	Number
Active members - members in employment with the Company and accruing benefits	-
Deferred members - members no longer accruing and not yet receiving benefits	26,119
Pensioners - members and dependants receiving benefits	17,938
Total members at 30 September 2017	44,057

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

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

The schemes are managed through trusts with independent trustees responsible for the safeguard of the interests of all members. The trustees meet regularly with management to discuss the funding position and any proposed changes to the schemes. The schemes are regulated by The Pensions Regulator.

11. Retirement Benefits (continued)

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

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

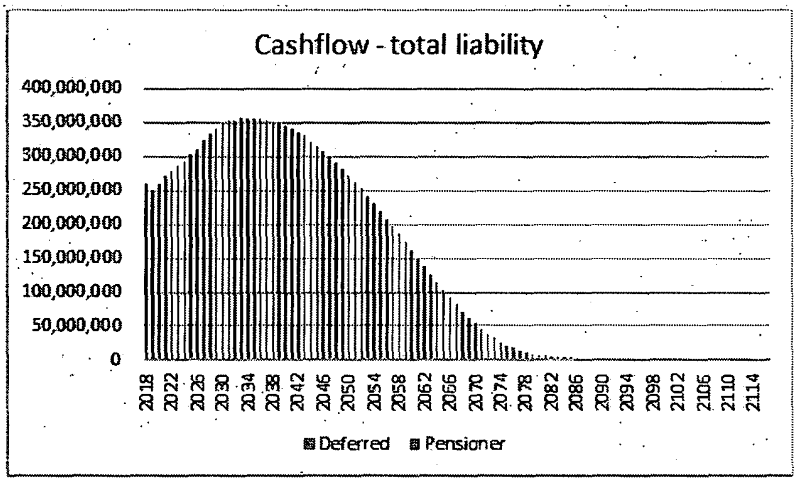
During 2009 the Company entered into arrangements that provide coverage against mortality risk for 55% of the retirement obligations relating to pensions in payment of the two largest schemes at that time (c.40% coverage based on current pensioner population). The arrangement provides for reimbursement of the covered pension obligations in return for the contractual return receivable on portfolios of assets (including some interest rate swaps) held by the pension funds at the inception of the arrangement. The arrangement is accounted for as a longevity swap. The longevity swap is measured at fair value under IFRS 13 (and in accordance with FRS 101) by discounting all future cashflows using a discount rate that appropriately reflects the terms of the arrangements. The pension schemes continue to hold the original assets used to fund the arrangements.

Each scheme is subject to triennial valuations, which are used to determine the future funding of the schemes by the Company including funding to repair any funding deficit. The funding valuations, which determine the level of cash contributions payable into the schemes and which must be agreed between the Trustees and the Company, are typically based on a prudent assessment of future experience with the discount rate reflecting a prudent expectation of returns based on actual investment strategy. This differs from IAS 19, which requires that future benefit cashflows are projected on the basis of best-estimate assumptions and discounted in line with high-quality corporate bond yields. The Trustees' funding assumptions are updated only every three years, following completion of the triennial funding valuations. The effective date of the most recent valuations of the main funds is 31 March 2015.

At the most recent funding valuations, the main funds had an aggregate funding deficit of £392m, equivalent to a funding level of 95%. The Company and the Trustees agreed funding plans at that time to eliminate the funding deficits by 2025. Details of the deficit contributions paid in 2016 and 2017 and that are due to be paid in 2018 under these plans are disclosed below. The funding plans will be reviewed again following the next triennial funding valuations which will have an effective date of 31 March 2018.

For the two main defined benefit schemes, the level of contributions in 2017 was £82m (2016: £96m) of which £65m (2016: £66m) were additional contributions in line with the plan to reduce funding deficits. Expected contributions to the two schemes for the year ending 31 December 2018 are approximately £73m including £65m of additional contributions to reduce the deficit.

The maturity profile of the undiscounted cash flows of the two main schemes is shown below:-



The weighted average duration of the defined benefit obligation of the two main schemes at the end of the reporting period is 18 years (2016: 18.5 years).

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

11. Retirement Benefits (continued)

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

Movement during the year:

2017	Present value of obligation £m	Fair value of plan assets £m	Other net surplus remeasurements £m	Total £m
At 1 January	(8,311)	8,172	-	(139)
Current service costs	(4)	-	-	(4)
Past service costs	(3)	-	-	(3)
Interest (expense) / income	(229)	227	-	(2)
Administration costs	-	(6)	-	(6)
Total (expense) / income recognised in consolidated income statement	(236)	221	-	(15)
Return on scheme assets less amounts included in net interest cost	-	261	-	261
Effect of changes in financial assumptions	(283)	-	-	(283)
Effect of changes in demographic assumptions	163	-	-	163
Experience gains and losses	(47)	-	-	(47)
Investment expenses	-	(11)	-	(11)
Other net surplus remeasurements	-	-	(62)	(62)
Remeasurement (losses) / gains recognised in other comprehensive income	(167)	250	(62)	21
Employer contribution	-	82	-	82
Scheme participant contributions	-	-	-	-
Benefit payments	394	(394)	-	-
Exchange adjustment	-	-	-	-
At 31 December	(8,320)	8,331	(62)	(51)
Deferred tax				28
Net pension and post retirement at 31 December				(23)

2016	Present value of obligation £m	Fair value of plan assets £m	Other net surplus remeasurements £m	Total £m
At 1 January	(6,674)	6,814	-	140
Current service costs	(15)	-	-	(15)
Past service costs	(5)	-	-	(5)
Interest (expense) / income	(257)	266	-	8
Administration costs	-	(8)	-	(8)
Total (expense) / income recognised in consolidated income statement	(277)	258	-	(20)
Return on scheme assets less amounts included in net interest cost	-	1,271	-	1,271
Effect of changes in financial assumptions	(1,735)	-	-	(1,735)
Effect of changes in demographic assumptions	-	-	-	-
Experience gains and losses	118	-	-	118
Investment expenses	-	(10)	-	(10)
Other net surplus remeasurements	-	-	-	-
Remeasurement (losses) / gains recognised in other comprehensive income	(1,617)	1,261	-	(356)
Employer contribution	-	96	-	96
Scheme participant contributions	(1)	-	-	-
Benefit payments	257	(257)	-	-
Exchange adjustment	1	-	-	1
At 31 December	(8,311)	8,172	-	(139)
Deferred tax				24
Net pension and post retirement at 31 December				115

11. Retirement Benefits (continued)

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

The value of scheme assets are as follows:-	2017 Total Quoted £m	2017 Total Unquoted £m	2017 Total £m	2016 Total Quoted £m	2016 Total Unquoted £m	2016 Total £m
Equities	450	136	586	505	89	594
Government debt	5,275	-	5,275	5,157	-	5,157
Non government debt	1,299	2,051	3,350	1,116	2,034	3,150
Derivatives	-	743	743	-	808	808
Other (including infrastructure, commodities, hedge funds, loans)	-	-	-	-	-	-
Securities at fair value	7,024	2,930	9,954	6,778	2,931	9,709
Property	-	189	189	-	164	164
Cash	62	-	62	53	-	53
Other (including infrastructure, commodities, hedge funds, loans)	-	513	513	-	478	478
Other investments	62	702	764	53	642	695
Value of asset and longevity swaps	-	(2,387)	(2,387)	-	(2,232)	(2,232)
Total assets in the schemes	7,086	1,245	8,331	6,831	1,341	8,172

The scheme assets are analysed by those that have a quoted market price in active markets and unquoted.

Where assets are classified as unquoted the values are:

- provided by an independent surveyor (in the case of direct property)
- taken from the underlying managers in the case of non-developed market equity and cash pooled funds – these funds themselves will be subject to annual (or more frequent) audit
- taken at the mark to market valuation used for collateral purposes in the case of derivative contracts

The principal actuarial assumptions used were as follows:-

	2017 %	2016 %
Assumptions used in calculation of retirement benefit obligation		
Discount rate	2.47	2.81
Annual rate of inflation (RPI)	3.13	3.37
Annual rate of inflation (CPI)	2.03	2.27
Annual rate of increase in salaries	n/a	3.37
Annual rate in increase in pensions[1]	2.94	3.10
Assumptions used in calculation of pension net interest costs for the year:		
Discount rate	2.81	3.92

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

11. Retirement Benefits (continued)

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

Mortality Rate

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

Reductions in future mortality rates are allowed for by using the CMI 2016 tables with a long term rate of 1.25%. The weighted average assumptions imply that a current pensioner aged 60 has an expected future lifetime of 27.8 (2016: 28.1) years for males and 28.9 (2016: 29.2) years for females and a future pensioner aged 60 in 15 years' time has a future expected lifetime from age 60 of 28.9 (2016: 29.3) years for males and 30.1 (2016: 30.7) years for females.

Sensitivity Analysis

Sensitivities for the defined benefit obligations of the two main schemes are shown below:

	Changes in assumption	2017	2016
Discount rate	Increase by 0.25%	**(363)**	(373)
RPI / CPI[1]	Increase by 0.25%	**228**	(235)
Mortality long term rate	Increase by 0.25%	**78**	(126)
Mortality assumption[2]	Reduce by 12%	**319**	330

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

[2] Reducing the mortality assumption by 12% is the equivalent of increasing the life expectancy of a male aged 60 years by 1 year.

[3] 2016 comparatives have been re-presented gross of tax.

12. Share Based Payments

The total employment cost recorded in the profit and loss account for all plans is £12m in 2017 (2016: £13m).

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

	2017	2016
	£m	£m
PSP	10	11
SAYE	1	1
Sharebuild	1	1
Total	12	13

Analysis of new awards costs:

	2017		2016	
	Charge for year	Total value	Charge for year	Total value
	£m	£m	£m	£m
PSP	5	10	5	11
SAYE	-	1	-	1
Sharebuild	-	-	-	-
Total	5	11	5	12

The balance of the value of the awards will be charged to the profit and loss account during the remaining vesting periods.

Performance Share Plan

Awards of Performance Shares to executive directors and other selected executives are subject to performance conditions consisting of the Group's underlying return on tangible equity relative to Total Shareholder Return and Business Review Scorecard targets over a three year performance period. All awards vest on the third anniversary of the date of the grant to the extent that the performance conditions have been met.

The Remuneration Committee of the Group may also make conditional awards of Restricted Shares to other executives and senior managers, which are not subject to performance conditions.

Additionally, the Remuneration Committee of the Group may defer a portion of an individual's gross bonus (limited to 50% of that bonus) into an award over shares referred to for the purpose of the plan as Deferred Bonus Shares, which are also not subject to performance conditions.

If an employee resigns from the Company, the Performance Shares and Restricted Shares lapse at date of leaving the Company. Deferred Bonus Shares awards are generally retained by the employee to whom the share was granted if they leave the Company, unless the employee is dismissed for cause.

However, the Group Remuneration Committee has the discretion to modify the treatment of leavers' share awards that have yet to be released, based on the leaving circumstances, where this is appropriate and in shareholders' interests. Awards retained will vest on the normal vesting date.

Further information on the PSP can be found in the remuneration report within the Corporate Governance section of the Group's Annual Report and Accounts.

13. Taxation

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

	2017 £m	2016 £m
Current tax		
UK corporation tax	**6**	12
Overseas taxation	**1**	12
Adjustments in respect of prior periods	**(1)**	1
Total current tax	**6**	25
Deferred tax		
Origination and reversal of temporary differences	**19**	(23)
Adjustments in respect of prior periods	**1**	(11)
Adjustments for change in tax rate	**-**	11
Total deferred tax (see note 22)	**20**	(23)
Total tax charge / (credit) for the year	**26**	2
Tax on disposal of discontinued operations	**-**	3
Tax on profits of discontinued operations	**-**	-
Total taxation attributable to continuing operations	**26**	(1)

The UK corporation tax for the current year is based on a rate of 19.25% (2016: 20.0%).

Reconciliation of the total tax charge

The tax charge / (credit) for the year is less than 19.25% (2016: less than 20.0%) due to the items set out in the reconciliation below:

	2017 £m	2016 £m
Profit on ordinary activities before tax	**1,187**	323
Profit before tax at 19.25% (2016: 20.0%)	**228**	64
Factors affecting charge:		
Expenses not deductible for tax purposes	**61**	21
Income/ gains not taxable*	**(294)**	(61)
Fiscal adjustments	**(7)**	(6)
Adjustment to tax charge in respect of previous periods	**-**	(10)
Effect of change in tax rates / rate differences	**2**	9
Group relief received without payment	**3**	1
Unrelieved foreign tax credits	**1**	12
Deferred tax assets not recognised	**32**	(28)
Total tax charge for the year	**26**	2

*The income/gains not taxable mainly comprises dividends from subsidiaries of £1,522m (tax impact £293m).

14. Dividends

	2017	2016
	£m	£m
No interim dividends (2016: 14.79p) per ordinary share were paid during the year	-	719

The directors do not recommend payment of a final dividend in respect of the year ended 31 December 2017 (2016: £nil)

15. Intangible assets

	Goodwill on acquisition	Renewal Rights	Externally acquired software	Internally generated software	Other	Total
Cost	£m	£m	£m	£m	£m	£m
At 1 January 2017	9	-	72	271	24	376
Additions and transfers	-	-	-	52	-	52
Disposals	-	-	-	-	-	-
At 31 December 2017	9	-	72	323	24	428
Accumulated Amortisation						
At 1 January 2017	-	-	(60)	(143)	(21)	(224)
Disposals	-	-	-	-	-	-
Charge for the year	-	-	(8)	(32)	(2)	(42)
At 31 December 2017	-	-	(68)	(175)	(23)	(266)
Accumulated Impairment						
At 1 January 2017	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Charge for the year	-	-	-	(11)	-	(11)
At 31 December 2017	-	-	-	(11)	-	(11)
Net Book Value						
At 31 December 2017	**9**	**-**	**4**	**137**	**1**	**151**

	Goodwill on acquisition	Renewal Rights	Externally acquired software	Internally generated software	Other	Total
Cost	£m	£m	£m	£m	£m	£m
At 1 January 2016	9	-	72	202	25	308
Additions and transfers	-	-	-	69	-	69
Disposals	-	-	-	-	(1)	(1)
At 31 December 2016	9	-	72	271	24	376
Accumulated Amortisation						
At 1 January 2016	-	-	(53)	(113)	(19)	(185)
Disposals	-	-	-	-	-	-
Charge for the year	-	-	(7)	(30)	(2)	(39)
At 31 December 2016	-	-	(60)	(143)	(21)	(224)
Accumulated Impairment						
At 1 January 2016	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Charge for the year	-	-	-	-	-	-
At 31 December 2016	-	-	-	-	-	-
Net Book Value						
At 31 December 2016	9	-	12	128	3	152

16. Investments – Land and Buildings

	2017 £m	2016 £m
Land and Buildings		
Freehold land and buildings	**324**	349
Long leasehold	**17**	17
Total land and buildings	**341**	366
Of which Company occupied	**33**	33

The Company's Property portfolio (including the Company occupied properties) is almost exclusively located in the UK. An increase of 100bps in the discount rate used to value the UK property portfolio would result in a decrease of £53m in the fair value of the portfolio.

	2017 £m	2016 £m
Movement in the carrying value of land and buildings in detailed below:-		
Land and buildings at 1 January	**366**	397
Purchases	**2**	-
Sales	**(28)**	(28)
Fair value gains/(losses) taken to profit and loss account	**1**	(3)
Fair value gains taken to statement of other comprehensive income	**2**	1
Depreciation taken to the profit and loss account	**(2)**	(1)
Land and buildings at 31 December	**341**	366

The historical cost of property at 31 December 2017 is £319m (2016: £323m).

	2017 £m	2016 £m
Property Reserve at 1 January	**10**	9
Fair value gains	**2**	1
Property Reserve at 31 December	**12**	10

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

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

17. Shares in Group Undertakings

The Company's subsidiaries at 31 December 2017 are set out in note 40. The companies are principally all engaged in the transaction of insurance or related business. The countries shown are those of incorporation and principal operation. Subsidiaries in the balance sheet comprise:-

	2017 £m	2016 £m
Fair value at 1 January	**13,189**	10,490
Additions / Acquisitions	**-**	1,989
Disposals	**-**	-
Revaluation	**(95)**	752
Impairments	**(296)**	(42)
Fair value at 31 December	**12,798**	13,189

The historic cost of investments in subsidiaries is £13,407m (2016: £13,407m).

Acquisitions in 2017 of £nil comprised a capital injection of £nil in RSA Luxembourg S.A.. A disposal of the Company's holding in Royal Insurance Operational Services (U.K.) Limited was made during 2017, the carrying value of this holding was £nil. Impairments of £296m mainly related to the Company's holding in Sun Alliance Insurance Overseas Limited.

17. Shares in Group Undertakings (continued)

Acquisitions of £1,989m in 2016 comprised capital injections £1,555m into Royal International Insurance Holdings Ltd, £430m into RSA Finance and £4m into RSA Claims Management Ltd. Disposals of the Company's holdings in Royal & Sun Alliance Seguros (Colombia) SA and Royal & Sun Alliance Seguros (Uruguay) SA, were made during 2016, the carrying value of these holdings was £nil. Impairments of £42m included impairments relating to Intouch Insurance Group B.V., British & Foreign Marine Insurance Company Limited, Fyfe Group Limited and Martello Professional Risks Limited.

Profit on disposal of subsidiaries comprises the following: -

	2017	2016
	£m	£m
Proceeds	-	21
Less: Carrying Value	-	-
Add: Unrealised (losses) / gains released from revaluation reserve	-	(3)
Profit on disposal of subsidiaries	-	18

18. Financial Assets

	2017	2016
	£m	£m
Equity securities	360	397
Debt securities	3,986	4,672
Financial assets measured at fair value	4,346	5,069
Loans and receivables	153	114
Total financial assets	4,499	5,183
Less: Assets classified as held for sale		
Debt securities	-	(642)
Total assets classified as held for sale	-	(642)
Total financial assets net of held for sale	4,499	4,541

Fair Value measurement

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

Cash at bank and in hand, loans and receivables

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

Company occupied property and investment property

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

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

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

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

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

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

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

Derivative financial instruments

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

18. Financial Assets (continued)

Loan capital

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

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

Fair value hierarchy

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

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

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

The Company uses prices received from external providers who calculate these prices from quotes available at the reporting date for the particular investment being valued. For investments that are actively traded the Company determines whether the prices meet the criteria for classification as a level 1 valuation. The price provided is classified as a level 1 valuation when it represents the price at which the investment traded at the reporting date taking into account the frequency and volume of trading of the individual investment together with the spread of prices that are quoted at the reporting date for such trades. Typically investments in frequently traded government debt would meet the criteria for classification in the level 1 category. Where the prices provided do not meet the criteria for classification in the level 1 category, the prices are classified in the level 2 category.

In limited circumstances, the Company does not receive pricing information from an external provider for its financial investments. In such circumstances the Company calculates fair value based which may be based on input parameters that are not based on observable market data. Unobservable inputs are based on assumptions that are neither supported by prices from observable current market transactions for the same instrument nor based on available market data. In these cases, judgment is required to establish fair values. Valuations that require the significant use of unobservable data are classified as level 3 valuations. In addition, the valuations used for investment properties and for group occupied properties are classified in the level 3 category.

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

	Fair Value Hierarchy				
	Level 1 2017 £m	Level 2 2017 £m	Level 3 2017 £m	Less amounts classified as held for sale	Total 2017 £m
Available for sale financial assets:					
Equity securities	159	-	201	-	360
Debt securities	940	2,742	304	-	3,986
Financial assets at fair value through the profit and loss account:-					
Equity securities	-	-	-	-	-
	1,099	2,742	505	-	4,346
Derivative assets at fair value through the profit and loss account	-	78	-	-	78
Total assets measured at fair value	1,099	2,820	505	-	4,424
Derivative liabilities at fair value through the profit and loss account	-	113	-	-	113
Total derivatives measured at fair value	-	113	-	-	113

18. Financial Assets (continued)

	Fair Value Hierarchy Level 1 2016 £m	Level 2 2016 £m	Level 3 2016 £m	Less amounts classified as held for sale	Total 2016 £m
Available for sale financial assets:					
Equity securities	176	-	215	-	391
Debt securities	1,289	3,117	266	(642)	4,030
Financial assets at fair value through the profit and loss account:-					
Equity securities	-	-	6	-	6
	1,465	3,117	487	(642)	4,427
Derivative assets at fair value through the profit and loss account	-	66	-	-	66
Total assets measured at fair value	1,465	3,183	487	(642)	4,493
Derivative liabilities at fair value through the profit and loss account	-	171	-	-	171
Total derivatives measured at fair value	-	171	-	-	171

None of the Company's claims outstanding are measured at fair value. There were no transfers into or out of Levels 1 or 2 during the period.

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

	Available for Sale Equity securities £m	Debt securities £m	At fair value through profit and loss Equity securities £m	Debt securities £m	Total £m
Balance at 1 January 2016	143	153	38	-	334
Total gains or losses recognised in:					
Profit and loss account	-	-	1	-	1
Other comprehensive income	14	15	-	-	29
Purchases	58	98	5	-	161
Disposals	-	-	(38)	-	(38)
Balance at 31 December 2016	215	266	6	-	487
Total gains or losses recognised in:					
Profit and loss account	**2**	**-**	**-**	**-**	**2**
Other comprehensive income	**(7)**	**(6)**	**-**	**-**	**(13)**
Purchases	**17**	**60**	**-**	**-**	**77**
Disposals	**(26)**	**(16)**	**(6)**	**-**	**(48)**
Balance at 31 December 2017	**201**	**304**	**-**	**-**	**505**

The Company's investments in financial assets classified at Level 3 in the hierarchy are primarily investments in various private fund structures investing in debt instruments where the valuation includes estimates of the credit spreads on the underlying holdings. The estimates of the credit spread are based upon market observable credit spreads for what are considered to be assets with similar credit risk. The aggregate value of these holdings included in the table above at 31 December 2017 is £505m. An increase in the estimate of the credit spread of the underlying holdings of 100bps would result in a reduction in the fair value of these investments of £14m.

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

19. Reinsurer's share of provision for unearned premiums

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

	2017	2016
	£m	£m
Reinsurer's share of provisions for unearned premiums at 1 January	760	784
Premiums ceded to reinsurers	767	776
Insurer's share of premiums earned	(814)	(804)
Changes in reinsurance asset	(47)	(28)
Reinsurer's share of portfolio transfers and (disposals) / acquisitions of subsidiaries	(22)	(5)
Exchange adjustment	-	9
Reinsurer's share of provision for unearned premiums at 31 December	691	760
Less: Assets classified as held for sale	-	-
Total Reinsurer's share of provision for unearned premiums at 31 December	691	760

20. Reinsurer's share of provision for outstanding claims

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

	2017	2016
	£m	£m
Reinsurer's share of provisions for losses and loss adjustment expenses at 1 January	978	788
Reinsurer's share of total claims incurred	726	475
Total reinsurance recoveries received	(566)	(310)
Reinsurer's share of portfolio transfers and (disposals) / acquisitions of subsidiaries	575	(8)
Exchange adjustment	(8)	33
Reinsurer's share of provisions for losses and loss adjustment expenses at 31 December	1,705	978
Less: Assets classified as held for sale	(614)	(63)
Total Reinsurer's share of provisions for losses and loss adjustment expenses at 31 December	1,091	915

21. Current Tax

	Asset		Liability	
	2017	2016	2017	2016
	£m	£m	£m	£m
To be settled within 12 months	10	9	2	4
To be settled after 12 months	4	-	3	-
Net current tax position at 31 December	14	9	5	4

22. Deferred Tax

Deferred tax for the current year is based on a rate of 17% (2016: 17%)

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

	2017	2016
	£m	£m
Net unrealised gains on investments	(29)	(52)
Tax losses and unused tax credits	69	166
Other deferred tax reliefs	65	10
Retirement benefit obligations	28	24
Provisions and other temporary differences	57	67
Net deferred tax asset at 31 December	**190**	215

Provisions and other temporary differences arise predominately in respect of capital expenditure £52m (2016: £56m) and transitional tax relief on Available for Sale assets £9m (2016: £16m).

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

	2017	2016
	£m	£m
Net deferred tax position at 1 January	215	154
Amounts (charged)/credited – Profit and Loss account	(20)	33
Amounts (charged)/credited - Other Comprehensive Income	(5)	37
Amounts charged – Shareholders' Funds	-	(1)
Effect of change in tax rate – Profit and Loss account	-	(10)
Effect of change in tax rate - Other Comprehensive Income	-	2
Deferred tax asset at 31 December	**190**	215

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

	Current Tax		Deferred Tax		Total	
	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m
Fair Value gains and losses	9	10	(21)	(23)	(12)	(13)
Re-measurement of net defined benefit pension liability	-	-	16	62	16	62
Total credit / (charge) to other comprehensive income	**9**	10	**(5)**	39	**4**	49

At the end of the reporting period, the Company has unused tax losses of £2,373m (2016: £2,234m). The Company's unused tax losses are made up of 'capital' losses of £1,110m (2016: £1,115m) and other 'income' losses of £1,262m (2016: £1,119m). A deferred tax asset of £69m (2016: £166m) has been recognised in respect of 'income' losses at 31 December 2017. No deferred tax asset has been recognised in respect of the tax losses of £1,968m (2016: £1,260m) due to the unpredictability of future profit streams. It is unlikely that a deferred tax asset will ever be recognised in respect of the £1,110m (2016: £1,115m) capital losses due to UK exemptions. None of the income tax losses are time-barred (2016:£nil). Other tax losses (including capital tax losses and unused credits) may be carried forward indefinitely.

The Company has deductible temporary differences of £189m (2016: £467m) for which no deferred tax has been recognised.

The Company has temporary differences in respect of the retained earnings of overseas subsidiaries and associates of £509m (2016: £1,006m) on which overseas taxes, including withholding taxes, might be incurred on the remittance of these earnings to the UK. This amount relates predominantly to Canada. The Company is able to control the remittance of earnings to the UK and there is no intention to remit any such earnings in the foreseeable future if the remittance would trigger a material incremental tax liability. As such the Company has not recognised any deferred tax in respect of the potential taxes on the temporary differences arising on unremitted earnings of overseas subsidiaries and associates.

Net deferred tax assets of £190m (2016: £215m), that relate to tax jurisdictions in which the Company has suffered a loss in either the current or preceding period, have been recognised on the basis that future taxable profits will be available against which these can be utilised. The evidence for the future taxable profits is a forecast consistent with the three year operational plans prepared by the relevant businesses, which are subject to internal review and challenge. Where relevant, the forecast includes extrapolations of the operational plans using assumptions consistent with those used in the plans.

23. Tangible assets

	Fixtures, fittings and Equipment	Total
Cost	£m	£m
At 1 January 2017	91	91
Additions	5	5
Disposals	(21)	(21)
At 31 December 2017	75	75
Depreciation		
At 1 January 2017	55	55
Depreciation on disposals	(21)	(21)
Charge for the year	8	8
At 31 December 2017	42	42
Net Carrying Amount		
At 31 December 2017	33	33

	Fixtures, fittings and Equipment	Total
Cost	£m	£m
At 1 January 2016	84	84
Additions	14	14
Disposals	(7)	(7)
At 31 December 2016	91	91
Depreciation		
At 1 January 2016	48	48
Depreciation on disposals	-	-
Charge for the year	7	7
At 31 December 2016	55	55
Net Carrying Amount		
At 31 December 2016	36	36

24. Deferred Acquisition Costs

	2017	2016
	£m	£m
Balance at 1 January	383	402
Acquisition costs during the year	561	372
Amortisation charge during the year	(506)	(394)
Changes in deferred acquisition costs	55	(22)
Exchange adjustment	-	6
Disposals	-	(3)
Balance at 31 December		383
Less: Classified as Held for Sale	-	-
	438	383

25. Share Capital

	2017 £m	2016 £m
Allotted, issued and fully paid		
4,859,811,537 ordinary A shares at 25p each (2016: 4,859,811,537 ordinary A shares at 25p each)	1,215	1,215
1 ordinary B share at $1 each (2016: 1 ordinary B share at $1 each)	-	-

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

26. Subordinated loan notes

	2017 £m	2016 £m
Subordinated loan note equity instruments	-	78
Subordinated liabilities	32	292

Subordinated loan note equity instruments

On 5 June 2006, the Company obtained a subordinated loan from RSA Insurance Group plc, its ultimate parent company, of £78m, derived from the issue of £375m of step up perpetual guaranteed subordinated capital securities on 12 May 2006. The notes had an annual coupon of 6.701%. The claims of the ultimate parent company on the loan were subordinated to the same extent as the claims of the holders of the capital securities.

On 12 July 2017, the Company repaid the outstanding balance in full of this subordinated loan.

Interest of £4m (2016: £5m) net of tax was paid during the year on the subordinated loan note equity instruments and has been recognised in the statement of changes in equity.

Subordinated liabilities

On 30 June 2009, the Company obtained a subordinated loan from RSA Insurance Group plc, its ultimate parent company, of £492m, derived from the issue of £500m of subordinated guaranteed step-up notes on 20 May 2009. The notes have an annual coupon of 9.375%. The claims of the ultimate parent company on the loan are subordinated to the same extent as the claims of the holders of the notes. The loan has a maturity date of 20 May 2039.

On 8 July 2016, the Company repaid £200m of this subordinated loan. On 31 March 2017, the Company repaid £245m of this subordinated loan and on 12 July 2017 repaid a further £15m. At 31 December 2017, the fair value of subordinated liabilities is £36m (2016: £337m) and if this was held at fair value in the financial statements it would have been included in 'level 2' of the fair value hierarchy as it is valued based inputs other than quoted prices.

27. Total Other Comprehensive Income

Year ended 31 December 2017	Revaluation reserves £m	Foreign currency translation reserve £m	Profit and loss account £m	Total equity £m
Exchange gains, net of tax	-	1	-	1
Fair value losses, net of tax	(248)	-	-	(248)
Pension – remeasurement of net defined benefit liability, net of tax	-	-	37	37
Movement in property revaluation, net of tax	2			2
Total other comprehensive (expense)/income for the year	(246)	1	37	(208)

27. Total Other Comprehensive Income (continued)

Year ended 31 December 2016	Revaluation reserves £m	Foreign currency translation reserve £m	Profit and loss account £m	Total equity £m
Exchange gains, net of tax	-	(3)	-	(3)
Fair value gains, net of tax	906	-	-	906
Pension - remeasurement of net defined benefit liability, net of tax	-	-	(295)	(295)
Movement in property revaluation, net of tax	1	-	-	1
Total other comprehensive income / (expense) for the year	907	(3)	(295)	609

28. Provision for unearned premiums, gross of acquisition costs

	2017 £m	2016 £m
Provisions for unearned premiums at 1 January	2,089	2,152
Premiums written	4,365	3,537
Premiums earned	(4,144)	(3,642)
Changes in provision for unearned premiums	221	(105)
Gross portfolio transfers and acquisitions	-	(9)
Exchange adjustment	(10)	51
Provision for unearned premiums (gross of acquisition costs) at 31 December	2,300	2,089
Less: Liabilities classified as held for sale	-	-
	2,300	2,089

29. Claims Outstanding

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

	2017 £m	2016 £m
Provisions for losses and loss adjustment expenses at 1 January	4,657	4,544
Gross claims incurred and loss adjustment expenses	3,092	2,283
Total claims payments made in the year net of salvage and other recoveries	(2,548)	(2,363)
Gross portfolio transfers, acquisitions and disposals	(46)	(10)
Exchange adjustment	(14)	203
Other movements	-	-
Provisions for losses and loss adjustment expenses at 31 December	5,141	4,657
Less: Liabilities classified as held for sale	(614)	(658)
	4,527	3,999

Claims outstanding include claims on certain classes of business which have been discounted. The total value of outstanding claims provisions less related reinsurance recoveries before discounting amounted to £4,275m (2016: £4,187m). The total value of gross outstanding claims provisions before discounting amounted to £5,835m (2016: £5,364m).

Claims are discounted as follows:-

		Discount Rate		**Average period to settlement in years**	
		2017	2016	**2017**	2016
Country	**Category**	%	%		
UK	Asbestos & Environmental	4.00	4.00	13	10

Assumptions

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

As at 31 December 2017, the value of the discount on net reserves is £13m (2016: £296m) 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 £5m. A decrease of 1% in the real discount rate for UK annuities would reduce the value of the discount by approximately £30m. The sensitivity calculation has taken into consideration the undiscounted reserves for each class of business and the respective average settlement period.

29. Claims Outstanding (continued)

Claims development tables

The tables below present changes in the historical provisions for losses and loss adjustment expenses that were established in 2007 and the provisions for losses and loss adjustment expenses arising in each subsequent accident year. The tables are presented at current year average exchange rates on an undiscounted basis and have been adjusted for operations that have been disposed of.

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

The lower triangle of the tables presents the amounts paid against those provisions in each subsequent accounting period.

The estimated provisions for ultimate incurred losses change as more information becomes known about the actual losses for which the initial provisions were set up and as the rates of exchange change.

Claims development table gross of reinsurance

	2007 and prior year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of cumulative claims												
At end of accident year	4,165	1,205	1,051	1,176	1,106	1,261	1,293	1,261	1,380	1,395	1,801	
One year later	3,888	1,214	1,159	1,274	1,154	1,265	1,341	1,646	1,384	1,467		
Two years later	3,730	1,212	1,164	1,252	1,160	1,278	1,299	1,601	1,322			
Three years later	3,589	1,187	1,147	1,267	1,135	1,256	1,264	1,578				
Four years later	3,555	1,183	1,143	1,260	1,108	1,236	1,263					
Five years later	3,534	1,157	1,145	1,242	1,096	1,248						
Six years later	3,552	1,142	1,120	1,216	1,102							
Seven years later	3,554	1,130	1,138	1,215								
Eight years later	3,499	1,126	1,148									
Nine years later	3,624	1,132										
Ten years later	3,557											
2017 movement	**67**	**(6)**	**(10)**	**1**	**(6)**	**(12)**	**1**	**23**	**62**	**(72)**	**-**	**48**
Claims paid												
One year later	1,108	552	518	653	482	634	610	646	615	623		
Two years later	562	182	186	180	233	228	210	227	267			
Three years later	526	130	133	146	137	109	101	143				
Four years later	269	110	108	113	97	78	80					
Five years later	387	62	97	54	42	68						
Six years later	224	34	38	33	25							
Seven years later	164	16	11	25								
Eight years later	45	15	15									
Nine years later	45	11										
Ten years later	125											
Cumulative claims paid	**3,455**	**1,112**	**1,106**	**1,204**	**1,016**	**1,117**	**1,001**	**1,016**	**882**	**623**		
Reconciliation to the Balance Sheet												
Current year provision before discounting	**103**	**19**	**43**	**11**	**86**	**131**	**262**	**562**	**441**	**844**	**1,801**	**4,303**
Exchange adjustment to closing rates												37
Discounting												(9)
Annuities												196
Present Value recognised in the Balance Sheet												**4,527**
Held for sale												614
Total												**5,141**

29. Claims Outstanding (continued)

Claims development table net of reinsurance

	2007 and prior year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of cumulative claims												
At end of accident year	3,101	1,041	963	1,079	982	1,048	1,128	1,042	1,075	954	1,317	
One year later	2,949	1,072	1,063	1,147	998	1,069	1,206	1,389	1,013	984		
Two years later	2,771	1,075	1,061	1,134	986	1,074	1,176	1,382	993			
Three years later	2,630	1,051	1,048	1,139	962	1,050	1,145	1,350				
Four years later	2,591	1,043	1,049	1,134	945	1,033	1,121					
Five years later	2,532	1,024	1,051	1,118	939	1,037						
Six years later	2,533	1,006	1,040	1,105	935							
Seven years later	2,538	996	1,041	1,105								
Eight years later	2,505	992	1,041									
Nine years later	2,777	992										
Ten years later	2,741											
2017 movement	**36**	**-**	**-**	**-**	**4**	**(4)**	**24**	**33**	**20**	**(30)**	**-**	**83**
Claims paid												
One year later	835	482	482	600	437	535	556	539	512	465		
Two years later	448	163	160	170	167	178	188	198	132			
Three years later	384	119	127	128	120	96	100	128				
Four years later	201	102	107	103	87	82	70					
Five years later	153	46	78	44	45	58						
Six years later	177	33	35	28	16							
Seven years later	137	13	9	23								
Eight years later	25	14	12									
Nine years later	38	10										
Ten years later	124											
Cumulative claims paid	**2,522**	**982**	**1,010**	**1,096**	**872**	**949**	**914**	**865**	**644**	**465**		
Reconciliation to the Balance Sheet												
Current year provision before discounting	**220**	**10**	**31**	**9**	**63**	**88**	**207**	**485**	**349**	**519**	**1,317**	**3,298**
Exchange adjustment to closing rates												17
Discounting												(9)
Annuities												130
Present Value recognised in the Balance Sheet												**3,436**
Held for sale												614
Total												**4,050**

30. Equalisation provision

	2017	2016
	£m	£m
Provisions at 1 January	-	338
Released to the technical account - general business and in the profit on ordinary activities before tax	-	(338)
Provisions at 31 December	-	-

The requirement for the Company to hold an equalisation provision ceased from 1 January 2016 following the introduction of Solvency II. The provision was therefore released in 2016, increasing the balance of the technical account by £338m.

31. Provisions for other risks

	2017 £m	2016 £m
Provision for pensions and similar obligations	170	195
Other provisions	63	53
Total provisions at 31 December	233	248

Of the above £201m (2016: £204m) is due to be settled outside of 12 months.

See note 11 for further information regarding the pension and post-retirement benefit obligations.

Movements in provisions for other risks

	2017 £m	2016 £m
Provisions at 1 January	53	101
Charged to Profit and Loss Account	36	31
Utilised	(26)	(71)
Released	-	(3)
Disposal of business	-	(5)
Provisions at 31 December	63	53

Included above are provisions of £11m (2016: £12m) relating to vacant property leases, dilapidations and refurbishments, the costs relating to which will be borne across the period over which the leases expire, which is up to 20 years. Also included is a Motor Insurance Bureau provision of £nil (2016: £16m) and reorganisation provisions of £22m (2016: £1m).

32. Borrowings

	2017 £m	2016 £m
Amounts owed to credit institutions	-	96

Borrowings during the year comprised secured loans from credit institutions and bank overdrafts which are repayable on demand.

33. Other creditors

Other creditors including current taxation and social security includes £5m (2016: £4m) in respect of corporation tax payable.

34. Other debtors

Other debtors including current taxation and social security includes £14m (2016: £9m) in respect of corporation tax recoverable.

35. Operating lease commitments

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

35. Operating lease commitments (continued)

Operating lease commitments where the Company is the lessee

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

	Land and Buildings		Other	
	2017	2016	2017	2016
	£m	£m	£m	£m
One year or less	16	14	-	-
Between one and five years	55	43	1	1
After five years	71	57	-	-
	142	114	1	1
Recoveries under sub tenancies	(6)	(4)	-	-
Total	136	110	1	1

Operating lease commitments where the Company is the lessor

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

	Land and Buildings	
	2017	2016
	£m	£m
One year or less	19	22
Between one and five years	69	74
After five years	52	62
Total	140	158

36. Capital commitments

The estimated amount of capital commitments contracted but not provided for in these financial statements is £118m (2016: £58m).

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

	2017	2016
	£m	£m
Property and equipment	3	7
Intangible assets	115	51
Total	118	58

Funding commitments to structured entities

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

37. Contingent Liabilities

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

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

37. Contingent Liabilities (continued)

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

- the US $9m 8.95% subordinated guaranteed bonds due 15 October 2029;
- the issue of £39m 9.375% subordinated guaranteed step-up notes. There is an option to repay the notes on specific dates from 20 May 2019; and
- the issue of £400m 5.125% fixed rate reset guaranteed subordinated notes. There is an option to repay the notes on specific dates from 10 October 2025.

38. Parent companies

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

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

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

39. Post Balance Sheet events

Royal & Sun Alliance Insurance plc does not have any post Balance Sheet events requiring disclosure.

40. Subsidiaries

Unless otherwise stated, the share capital disclosed comprises ordinary shares (or equivalent) which are 100% held directly or indirectly. The proportion of voting power held equals the proportion of ownership interest unless indicated.

The Company's subsidiaries at 31 December 2017 were as follows:

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding (%)
Bahrain			
Royal & Sun Alliance Insurance (Middle East) BSC (c)	Al foo, Building, office no. 21, 2nd floor, Building no. 662, Road no. 2811, Black no. 428, Al Seef, Manama, Kingdom of Bahrain	Ordinary	50.00
Brazil			
Royal & Sun Alliance Insurance plc - Escritório de Representação no Brasil Ltda. [1]	Avenida Major Sylvio de Magalhães Padilha, 5200, America Business Park, Ed. Dallas, Conj. 31, Sala 02, Jardim Morumbi, 05693-000, City of São Paulo, State of São Paulo, Brazil	Ordinary	100.00
Canada			
3342484 Canada Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	100.00
8301140 Canada Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	100.00
Ascentus Insurance Ltd.	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	100.00
Canadian Northern Shield Insurance Company	555 West Hastings Street, Suite 1900, Vancouver BC V6B 4N6, Canada	Common	100.00
Coast Underwriters Limited [3]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class 1 Preferred Unlimited	100.00
Coast Underwriters Limited [3]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class 2 Preferred Unlimited	100.00
Coast Underwriters Limited	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class A	85.42
Coast Underwriters Limited [3]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class B1	100.00
Johnson Inc.	Fort William Building, 10 Factory Lane, St. John's NL A1C 6H5, Canada	Series A Common	100.00
Johnson Inc.	Fort William Building, 10 Factory Lane, St. John's NL A1C 6H5, Canada	Series B Common	100.00
MRM Solutions Limited[5]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class A Common	100.00
MRM Solutions Limited[3,5]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class B Common	100.00
Quebec Assurance Company	2475 Laurier Blvd., Quebec City, Québec, G1T 1C4, Canada	Common Shares	100.00
Roins Financial Services Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	100.00
Roins Financial Services Limited [3]	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Preference	100.00
Roins Holding Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	100.00
Royal & Sun Alliance Insurance Company of Canada[3]	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Class A Preferred	100.00
Royal & Sun Alliance Insurance Company of Canada	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	99.996
RSA Travel Insurance Inc.	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	100.00
Shaw Sabey & Associates Ltd[2]	1800 - 401 West Georgia Street, Vancouver BC V6B 5A1, Canada	Common Unlimited	25.00
The Johnson Corporation	Fort William Building, 10 Factory Lane, St. John's NL A1C 6H5, Canada	Common	100.00
Unifund Assurance Company	Fort William Building, 10 Factory Lane, St. John's NL A1C 6H5, Canada	Common	100.00
Unifund Assurance Company[3]	Fort William Building, 10 Factory Lane, St. John's NL A1C 6H5, Canada	Preferred	100.00
Unifund Claims Inc.	Fort William Building, 10 Factory Lane, St. John's NL A1C 6H5, Canada	Common	100.00
Western Assurance Company	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	100.00

40. Subsidiaries (continued)

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding (%)
Denmark			
Codan A/S	Codanhus, Gammel Kongevej 60, DK-1790 Kobenhavn V, Denmark	Ordinary	100.00
Codan Ejendomme II A/S	Codanhus, Gammel Kongevej 60, DK-1790 Kobenhavn V, Denmark	Ordinary	100.00
Codan Forsikring A/S	Codanhus, Gammel Kongevej 60, DK-1790 Kobenhavn V, Denmark	Ordinary	100.00
Forsikringsselskabet Privatsikring A/S	Codanhus, Gammel Kongevej 60, DK-1790 Kobenhavn V, Denmark	Ordinary	100.00
Guernsey			
Insurance Corporation of the Channel Islands Limited [1]	Dixcart House, Sir William Place, St. Peter Port, Guernsey, GY1 4EY	Ordinary	100.00
Insurance Corporation Service Company Limited	Dixcart House, Sir William Place, St. Peter Port, Guernsey, GY1 4EY	Ordinary	100.00
India			
Royal & Sun Alliance IT Solutions (India) Private Limited [1]	Rider House, Plot No.136, Sector 44, Gurgaon , Haryana, 122002, India	Ordinary	100.00
RSA Actuarial Services (India) Private Limited [1]	First Floor, Building 10 C, Cyber City Complex, DLF Phase II, Gurgaon , Haryana, 122002, India	Ordinary	100.00
Ireland			
123 Money Limited [3]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B1 Ordinary	100.00
123 Money Limited [3]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B2 Ordinary	100.00
123 Money Limited [3]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B3 Ordinary	100.00
123 Money Limited [3]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B4 Ordinary	100.00
123 Money Limited [3]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B5 Ordinary	100.00
123 Money Limited [3]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	C Ordinary	100.00
123 Money Limited	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Ordinary	100.00
Benchmark Underwriting Limited	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Ordinary	100.00
EGI Holdings Limited [1]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Ordinary	100.00
Europa General Underwriters Limited	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Ordinary	100.00
Royal & Sun Alliance (Ireland) Limited [1]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Ordinary	100.00
RSA Insurance Ireland DAC [1]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Ordinary	100.00
RSA Overseas Holdings (No 1) Unlimited Company	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Common	100.00
RSA Overseas Holdings (No. 2) Unlimited Company	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Common	100.00
RSA Reinsurance Ireland Limited [1]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Ordinary	100.00
Sertus Underwriting Limited	RSA House, Dundrum Town Centre, Sandyford Road, Dundrum , Dublin 16, Ireland	Ordinary	100.00
The Patriotic Limited	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Ordinary	100.00
Isle of Man			
Royal Insurance Service Company (Isle of Man) Limited	Jubilee Buildings, 1 Victoria Street, Douglas, IM99 1BF, Isle of Man	Ordinary	100.00
RSA Isle of Man No.1 Limited [1]	33-37 Athol Street, Douglas, Isle of Man, IM1 1LB, Isle of Man	Ordinary	100.00
RSA Manx Holdings Limited	Third Floor, Exchange House, 54/62 Athol Street, Douglas, IM1 1JD, Isle of Man	Ordinary	100.00
Tower Insurance Company Limited	Jubilee Buildings, 1 Victoria Street, Douglas, IM99 1BF, Isle of Man	Ordinary	100.00
Jersey			
URICA Capital Limited [1 2]	Elizabeth House , 9 Castle Street, St Helier, JE2 3RT , Jersey	Participating	49.95

40. Subsidiaries (continued)

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding (%)
Luxembourg			
RSA Overseas Holdings (Luxembourg) (No 1) SARL	19, rue de Bitbourg, L-1273 Luxembourg	Ordinary	100.00
RSA Luxembourg S.A. [1]	19, rue de Bitbourg, L-1273 Luxembourg	Ordinary	100.00
Netherlands			
GDII – Global Direct Insurance Investment V.O.F	Wilhelminakeade 97-99, 3072 AP Rotterdam, Netherlands	Partnership interest	
IDIP Direct Insurance B.V.	20 Fenchurch Street, London, England, EC3M 3AU, United Kingdom	Ordinary	100.00
Intouch Insurance Group B.V. [1]	20 Fenchurch Street, London, England, EC3M 3AU, United Kingdom	Ordinary	100.00
Royal Insurance Global B.V. [1]	Wilhelminakeade 97-99, 3072 AP Rotterdam, Netherlands	Ordinary	100.00
RSA Overseas (Netherlands) B.V.	20 Fenchurch Street, London, England, EC3M 3AU, United Kingdom	Ordinary	100.00
RSA Overseas Holdings B.V.	20 Fenchurch Street, London, England, EC3M 3AU, United Kingdom	Ordinary	100.00
Sun Alliance Finance B.V.	20 Fenchurch Street, London, England, EC3M 3AU, United Kingdom	Ordinary	100.00
Norway			
NIS Norway AS	Verkstedveien 3, 0277 Olso, Norway	Ordinary	100.00
Oman			
Al Ahlia Insurance Company SAOC [6]	PO Box 889, 100, Oman	Ordinary	52.5
Russian Federation			
GDII - Rus L.L.C.	Sadovay Square, 3 Office 667, 121099, Moscow, Russia	Ordinary	100.00
Saudi Arabia			
Al Alamiya for Cooperative Insurance Company [6]	Office No.203, 2nd Floor, Home Centre Building, Tahlia Street, Suleymaniyah, Riyadh, Kingdom of Saudi Arabia, Saudi Arabia	Ordinary	50.07
Sweden			
CAB Group AB[2]	Stortorget 11, S-702 11 Örebro, Sweden	Ordinary	27.27
NIS Sweden I AB	c/o Trygg-Hansa Försäkring Filial, 10626, Stockholm, Sweden	Ordinary	100.00
Holmia Livforsakring AB	c/o Trygg-Hansa Försäkring Filial, 10626, Stockholm, Sweden	Ordinary	100.00
United Kingdom			
Acrecrest Limited [1]	30 Finsbury Square, London, EC2P 2YU, United Kingdom	Ordinary	100.00
Alliance Assurance Company Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
British and Foreign Marine Insurance Company Limited [1]	30 Finsbury Square, London, EC2P 2YU, United Kingdom	Ordinary	100.00
British Aviation Insurance Company Limited [1]	Fitzwilliam House, 10 St Mary Axe, London, EC3A 8EQ, United Kingdom	Ordinary	57.10
Caunce O'Hara & Company Limited [2]	82 King Street, Manchester, England, M2 4WQ, United Kingdom	Ordinary	39.00
Centrium Management Company Limited [1 2]	5th Floor, United Kingdom House, 180 Oxford Street, London, England, W1D 1NN, United Kingdom	Ordinary	31.45
Century Insurance Company Limited	Level 8, 110 Queen Street, Glasgow, G1 3BX	Ordinary	100.00
Codan Finance Limited	30 Finsbury Square, London, EC2P 2YU, United Kingdom	Ordinary	100.00
Eurotempest Limited [1 2]	c/o UCL Business Plc, The Network Building 97, Tottenham Court Road, London, England, W1T 4TP, United Kingdom	Ordinary	33.33
Liverpool Marine and General Insurance Company Limited	30 Finsbury Square, London, EC2P 2YU, United Kingdom	Ordinary	100.00
London Guarantee & Reinsurance Company Limited	30 Finsbury Square, London, EC2P 2YU, United Kingdom	Ordinary	100.00
National Vulcan Engineering Insurance Group Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00

40. Subsidiaries (continued)

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding (%)
United Kingdom			
Noble Marine (Insurance Brokers) Limited [1]	Clinton House, 12 Lombard Street, Newark, Nottinghamshire, England, NG24 1XB, United Kingdom	Ordinary	100.00
Noble Marine (Underwriting Agencies) Limited [1]	Clinton House, 12 Lombard Street, Newark, Nottinghamshire, England, NG24 1XB, United Kingdom	Ordinary	100.00
Non-Destructive Testers Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
Oak Underwriting plc [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
Polaris U.K. Limited [1 2]	New London House, 6 London Street, London, England, EC3R 7LP, United Kingdom	Ordinary	25.38
Punchbowl Park Management Limited [1 2 4]	10 Buckingham Gate, London, England, SW1E 6LA, United Kingdom	Ordinary	65.09
R&SA Global Network Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	64.00
Royal & Sun Alliance Insurance (Global) Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
Royal & Sun Alliance Property Services Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
Royal & Sun Alliance Reinsurance Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
Royal Insurance (U.K.) Limited [1]	30 Finsbury Square, London, EC2P 2YU, United Kingdom	Ordinary	100.00
Royal International Insurance Holdings Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	£1.00 Ordinary	100.00
Royal International Insurance Holdings Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	US$1.00 Ordinary	100.00
Roysun Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
RSA Finance [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
RSA Law Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary A	90.00
RSA Northern Ireland Insurance Limited	Law Society House, 90-106 Victoria Street, Belfast, Northern Ireland, BT1 3GN	Ordinary	100.00
RSA Overseas Holdings (UK) Limited [1]	30 Finsbury Square, London, EC2P 2YU, United Kingdom	Ordinary	100.00
Sun Alliance and London Insurance Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
Sun Alliance Insurance International Limited	30 Finsbury Square, London, EC2P 2YU, United Kingdom	Ordinary	100.00
Sun Alliance Insurance Overseas Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
Sun Alliance Insurance UK Limited	30 Finsbury Square, London, EC2P 2YU, United Kingdom	Ordinary	100.00
Sun Insurance Office Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
The Globe Insurance Company Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
The London Assurance	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
The Marine Insurance Company Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
The Northern Maritime Insurance Company Limited	30 Finsbury Square, London, EC2P 2YU, United Kingdom	Ordinary	100.00
The Sea Insurance Company Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
The Union Marine and General Insurance Company Limited	30 Finsbury Square, London, EC2P 2YU, United Kingdom	Ordinary	100.00
The Westminster Fire Office Limited [1]	30 Finsbury Square, London, EC2P 2YU, United Kingdom	Ordinary	100.00
Westgate Properties Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
United States of America			
Royal & Sun Alliance Insurance Agency Inc.	Wall Street Plaza, 88 Pine Street, 31st Floor, New York, NY 10005, United States	Common	100.00

40. Subsidiaries (continued)

Other notes:

1. Directly owned
2. Indicates that the holding represents an Investment or is an Associate directly or indirectly of the company
3. Indicates ownership of non-voting shares
4. There is no subsidiary where the parent holds less than 50% of the voting rights. There are no entities where the Company holds more than 50% of the voting rights which are not subsidiaries other than Punchbowl Park Management Limited.
5. The percentage held relates to the actual percentage of share capital held and not the effective percentage held (85.42%)
6. In relation to Al Ahlia Insurance Company SAOC (listed on the Muscat Securities Market, Oman Stock Exchange) and Al Alamiya for Cooperative Insurance Company (listed on the Tadawul, Saudi Stock Exchange), the percentage held relates to the actual percentage of the share capital held and not the effective percentage held (which is 26.25% and 25.04% respectively).
7. As at 31 December 2017 the company had Branches in Argentina, Belgium, China, DIFC (Middle East), France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Pakistan and Spain.