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Proforma-Gen Limited

Annual Report
31 December 2015

UK GAAP illustrative financial statements: FRS 102 and FRS 103 example general insurance group accounts

Preface

This publication provides illustrative consolidated financial statements for a wholly owned private general insurance group, Proforma-Gen Limited, for the year ended 31 December 2015. These illustrative financial statements will assist you in preparing financial statements by illustrating the required disclosure and presentation for a UK general insurance group reporting under FRS 102 'The Financial Reporting Standard, applicable in the UK and Republic of Ireland' and FRS 103 "Insurance Contracts".

Significant components of this illustrative annual report include:

- The adoption of FRS 102 and FRS 103, including transition disclosures.
- The Strategic report and Directors report requirements for private companies.
- Illustrative auditor's report for private companies reporting under FRS 102.

Proforma-Gen Limited is a fictitious group. The annual report has been prepared for illustrative purposes only and shows the disclosures and formats that might be expected for a general insurance company of its size that prepares its financial statements in accordance with the requirements of Part 15 of the Companies Act 2006 and the provisions of 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008' (SI 2008/410) applicable to insurance groups.

These financial statements also include voluntary disclosures that illustrate certain aspects of disclosure under FRS 102 and FRS 103.

Proforma-Gen Limited is required to prepare a Strategic Report. It has prepared this on the basis of a private company.

Introduction

Format of the financial statements

The primary financial statements for insurers comprise:

- Income statement (profit and loss account) split into a technical and a non-technical account
- Statement of comprehensive income
- Statement of changes in equity (previously the statement of total recognised gains and losses, 'STRGL')
- Statement of financial position (balance sheet)
- Statement of cash flows (cash flow statement)

Insurance companies and groups reporting under FRS 102 have to apply the prescribed formats for primary statements in Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('Schedule 3') and therefore their income statement is split into a technical and a non-technical account.

Reporting options

FRS 102 requires firms to present their total comprehensive income in either a single 'Statement of comprehensive income', incorporating all items of income and expense for the period or in two statements, an 'Income statement' (the profit and loss account) and a 'Statement of comprehensive income'.

If the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy, firms may present a combined Statement of income and retained earnings in place of the Statement of comprehensive income and Statement of changes in equity.

Proforma-Gen has chosen to present its total comprehensive income in two statements, a profit and loss account (split into a technical and a non-technical account) and a Statement of comprehensive income. Proforma-Gen has also prepared a separate Statement of changes in equity.

Cash flow statement

The new cash flow statement has fewer standard headings than under old UK GAAP and shows movements in 'cash equivalents' as well as cash (cash in hand and deposits repayable on demand, less overdrafts).

FRS 103 'Insurance contracts'

The Financial Reporting Council (FRC) issued FRS 103, 'Insurance contracts', and accompanying implementation guidance (IG), on 20 March 2014. FRS 103 applies to all entities adopting FRS 102 that issue insurance contracts. FRS 103 applies to insurance contracts (including reinsurance contracts) issued and reinsurance contracts held.

Definition of an insurance contract

The definition of an insurance contract is the same as that contained in IFRS 4, which was previously used in old UK GAAP where FRS 26 was applied.

> *An insurance contract*
> A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Contracts falling within this definition are within the scope of FRS 103, regardless of whether they are regarded as insurance contracts for legal or regulatory purposes. However, some specific types of contract falling within the definition of an insurance contract (such as product warranties issued directly by a manufacturer, dealer or retailer) are excluded from the scope of FRS 103 and are accounted for under the relevant sections of FRS 102.

FRS 103 also applies to issued financial instruments with discretionary participation features (DPF). In the UK, this includes with-profits contracts that do not transfer significant insurance risk. Entities that have not previously adopted FRS 26 will be applying this definition of an insurance contract for the first time and will need to ascertain which of their contracts fall within FRS 103's scope and which contracts need to be accounted for as financial instruments.

Existing practice continues, with scope for changes in accounting policy

FRS 103 generally allows insurers to continue with current accounting practices for insurance contracts. This is subject to meeting some minimum requirements (for example, in respect of a liability adequacy test). In general, it is expected that old UK GAAP for regulated insurance contracts will meet these minimum requirements.

FRS 103 provides the ability, as under IFRS 4, to make improvements (subject to legal and regulatory requirements) to existing accounting policies. That is, an accounting policy can be changed if the new policy makes the financial statements either more reliable and no less relevant, or more relevant and no less reliable.

Translation of foreign currency denominated insurance contracts

FRS 103 requires all assets and liabilities arising from an insurance contract to be treated as monetary items and so, where denominated in a foreign currency, these will be retranslated at each reporting date. Under old UK GAAP some balances arising out of insurance contracts, such as deferred acquisition costs and unearned premiums, were treated as non-monetary items and so were not retranslated (which gave rise to accounting mismatches where these contracts were backed with foreign currency denominated financial assets).

Additional disclosures for insurers

FRS 103's disclosure requirements are largely based on those in IFRS 4. In addition some guidance previously contained in the ABI SORP has been incorporated into FRS 103's implementation guidance. More disclosures are likely to be required than old UK GAAP, including claims development tables and risk disclosures.

FRS 103 transitional requirements

Entities applying FRS 103 can take advantage of the transitional requirements in FRS 103 Section 6 as follows:

Claims development disclosures

An insurer need not disclose information about claims development that occurred earlier than five years before the end of the first financial year in which it applies FRS 103. Furthermore, if it is impracticable to prepare information about claims development that occurred before the beginning of the earliest period for which an entity presents full comparative information the entity shall disclose that fact.

Re-designation of financial assets

If an insurer changes its accounting policies for insurance liabilities, it is permitted, but not required, to reclassify some or all of its financial assets as a financial asset at fair value through profit or loss provided it meets certain requirements. This applies both on transition to FRS 103 and on any subsequent changes in accounting policy.

FRS 102, 'The financial reporting standard applicable in the UK and Republic of Ireland'

The FRC published FRS 102, 'The financial reporting standard applicable in the UK and Republic of Ireland', in March 2013. The standard applies to accounting periods beginning on or after 1 January 2015 and is based on IFRS for SMEs, adapted to UK specific circumstances.

Principal differences between FRS 102 and 'old' UK GAAP

FRS 102 differs considerably from the previous version of UK GAAP. Most noticeably, it is much shorter and more concise. In terms of accounting treatments, the following are some of the principal differences:

Financial instruments – recognition and measurement

- Under FRS 102, firms have an accounting policy choice when accounting for financial instruments. They can either apply the recognition and measurement provisions in FRS 102 (Section 11 and Section 12) or those in IAS 39 (as adopted in the EU) and/or IFRS 9.
- In practice many UK insurers reporting under old UK GAAP had previously applied FRS 26 (which mirrors IAS 39). Such insurers may choose to apply the recognition and measurement provisions of IAS 39 to their financial instruments in order to preserve consistency with reporting under 'old' UK GAAP. Proforma-Gen has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU). For an example of the application of the recognition and measurement principles of Sections 11 and 12 of FRS 102 please refer to PwC's FRS 102 example accounts available on PwC Inform.[1]

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[1] PwC's example accounts for FRS 102 can be found at https://inform.pwc.com/inform2/s/UK_GAAP_illustrative_financial_statements_UK_GAAP_FRS_102_example_accounts/informContent/1519193502166525#ic_1519193502166525

- Entities choosing to apply Section 11 and Section 12 of FRS 102 are required to determine which of its financial instruments are basic, and which are not basic. They then apply different measurement requirements to financial instruments in each category: (a) Basic financial instruments are generally measured initially at transaction price, and subsequently at amortised cost using the effective interest rate method. (b) Non-basic financial instruments are generally measured at fair value through profit or loss.
- Some of the main differences in accounting for financial instruments under FRS 102 Section 11 and Section 12 and old UK GAAP are as follows:
  - Initial measurement of financial instruments varies between transaction price (excluding transaction costs) for those held at fair value through profit or loss (FVTPL), present value of future payments for financing transactions, and transaction price (including transaction costs) for those that are not held at FVTPL or financing transactions.
  - Derivatives need to be fair valued and recognised on the balance sheet. This is a change for those not previously applying FRS 26.
  - Many equity investments need to be fair valued, with changes recognised through profit or loss.
  - Hedged transactions cannot be recorded at the rate in matching contracts; new hedge accounting rules apply.
  - Net investment hedging is not permitted in individual entity financial statements.

Proforma-Gen is transitioning to new UK GAAP having previously applied FRS 26.

Financial instruments – disclosures

- The disclosure requirements of FRS 102, Sections 11 and 12 must be followed irrespective of the accounting policy choice made regarding the recognition and measurement of financial instruments.
- FRS 102 Section 34 sets out additional disclosure requirement for financial institutions (such as insurers) concerning an entity's exposure to risk and how the entity manages those risks. Disclosures include:
  - Significance of financial instruments for financial position and performance
  - Impairment reconciliation by class of financial asset
  - Analysis of the level in the fair value hierarchy into which fair value measurements are categorised by class of financial instrument
  - Nature and extent of risks arising from financial instruments:
    - Credit risk
    - Liquidity risk
    - Market risk
    - Capital management

Deferred tax

- Deferred tax needs to be recognised on asset revaluations, and on assets (except goodwill) and liabilities arising on a business combination. Under old UK GAAP deferred tax on asset revaluations was only recognised in respect of continuously revalued assets where changes in value were recognised in profit and loss.
- Deferred taxes cannot be discounted.

Goodwill and intangible assets

- All intangible assets, including goodwill, are assumed to have finite lives, so they have to be amortised. Intangibles with indefinite lives were possible under old UK GAAP.
- If an entity is unable to make a reliable estimate of the asset's useful life, this should not exceed ten years; old UK GAAP previously specified 20 years.
- The definition of 'intangible assets' has changed. There could be more intangible assets recognised as part of a business combination.

Proforma-Gen has recognised computer software as an intangible asset. Previously it was treated as a tangible fixed asset.

Treatment of levies

Under old UK GAAP, guidance in the ABI Statement of Recommended Practice on Accounting for Insurance Business (ABI SORP) may have led to levies based on premium income (e.g. those raised by the Financial Services Compensation Scheme and the Motor Insurers' Bureau) being recognised in line with the recognition in the financial statements of the premium by reference to which the levy is calculated. Under FRS 102 Section 21 'Provisions and Contingencies', an entity shall recognise a provision only when:

(b) the entity has an obligation at the reporting date as a result of a past event;

(c) it is probable (i.e. more likely than not) that the entity will be required to transfer economic benefits in settlement; and

(d) the amount of the obligation can be estimated reliably.

Insurers will need to assess the point at which these conditions are met when determining the point at which provision is made. This could lead to a change to previous practice.

Proforma-Gen has changed the basis on which it provides for levies. It now recognises a provision on the occurrence of the event identified by legislation that triggers the obligation to pay the levy. For example, for the Financial Services Compensation Scheme (FSCS) levy the triggering event is being a participating firm on 1 April of each year.

Employee benefits

- Interest and return on pension scheme assets is calculated as a net amount by applying the discount rate to the net pension deficit/surplus. 'Expected return on assets' will no longer apply.
- The deficit or surplus relating to a group defined benefit pension scheme can no longer be recognised only in the group accounts. Where group companies cannot individually account for their portion of the surplus/deficit, the total must be recognised in the sponsoring company's accounts.
- A liability is recognised for multi-employer pension plans where there is an agreement to fund a deficit relating to past service, even if the plan is otherwise accounted for as defined contribution. Under FRS 17, there was no clear guidance in this situation.
- An accrual for short-term employee benefits (such as holiday pay) needs to be made.

Other significant changes

- Groups are exempt from consolidating subsidiaries held as part of an investment portfolio; this is because these are considered to be held for resale. All portfolio investments are measured at fair value through profit or loss. These subsidiaries would have been consolidated under old UK GAAP.
- Sales and purchases in a foreign currency can no longer be measured at the forward contract rate.
- Lease incentives are recognised over the lease term. Under old UK GAAP, lease incentives were spread over the shorter of the lease term and the period to the first market rent review.
- Run-off insurance business will no longer be presented as a discontinued operation as it does not meet the definition under FRS 102. Under old UK GAAP, guidance in the ABI Statement of Recommended Practice on Accounting for Insurance Business indicated that provision should be made for the full amount of any costs associated with running off the insurance business no longer being written (after taking account of future investment return). Under new UK GAAP provisions will only be established to the extent that the criteria set out in FRS 102 Section 21 'Provisions and Contingencies' are met. Proforma-Gen has reclassified its run-off aviation business as continuing and reassessed the provision established for the costs associated with running off this business.
- Entities that did not previously apply FRS 26 would have accounted for foreign exchange in accordance with SSAP 20 under old UK GAAP. Under SSAP 20 the definition of a foreign branch included "a group of assets and liabilities which are accounted for in foreign currencies" and under this definition many insurers had classified their foreign currency denominated books of business and backing assets as foreign branches. Under FRS 102 (as was the case under old UK GAAP for insurers applying FRS 23) the treatment depends on the functional currency of foreign operations.

FRS 102 transitional requirements

For the purpose of first-time adoption, an entity's date of transition to FRS 102 is the beginning of the earliest period for which the entity presents full comparative information in its first financial statements that comply with FRS 102.

Proforma-Gen is adopting FRS 102 for year ended 31 December 2015, and giving one year's comparatives, so it has a date of transition of 1 January 2014. It is not required to present the opening balance sheet (i.e. the balance sheet at the date of transition, 1 January 2014).

The accounting policies that an entity uses in its opening balance sheet under FRS 102 might differ from those that it used under its previous financial reporting framework. The resulting adjustments are recognised directly in retained earnings (or, if appropriate, another category of equity) at the date of transition.

An entity adopting FRS 102 for the first time applies the transitional arrangements set out in FRS 102 Section 35. The underlying principle is retrospective application of FRS 102's requirements. However there are some mandatory exceptions and optional exemptions from this. In particular, on first-time adoption of the FRS, an entity should not retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following transactions:

- Financial assets and liabilities derecognised before the date of transition.
- Hedging relationships that no longer exist at the date of transition.
- Estimates – hindsight cannot be used to improve these.
- Discontinued operations meeting FRS 102's definition – previous accounting is not changed. This transitional provision does not extend to operations that were accounted for as discontinued under 'old' UK GAAP but do not meet the FRS 102 definition of a discontinued operation.
- Non-controlling interests – generally these are not changed on transition.

Future developments

The FRC has released an exposure draft (FRED 64) which primarily seeks to remove references to PRA rules which are no longer applicable. If approved these changes will be effective for accounting periods ending after 1 January 2016. The FRC also intends to review FRS 103 once the IASB has issued its updated standard on insurance contracts.

Guidance on the Strategic Report

The strategic report was introduced in 2013 by the Department for Business, Innovation & Skills ('BIS') as part of its revised narrative reporting regulations. The Financial Reporting Council (FRC) published 'Guidance on the Strategic Report' in June 2014 to help companies improve the overall quality of corporate reporting as they implemented the regulations. The guidance is written with the requirements for quoted companies in mind but the underlying concepts are intended to represent best practice for all companies required to prepare a strategic report. It is intended to have persuasive rather than mandatory force, so companies do not need to follow it or explain where they have not done so.

The guidance gives an overview of the various components of an annual report and considers where information should best be placed. It aims to help companies think innovatively about communication. It also encourages companies to focus on ensuring disclosures are material, as a key step towards concise reporting.

Proforma-Gen is required to prepare a Strategic Report. It has prepared this on the basis of a private company.

Guidance and information

References to source material are given in the left-hand margin. PwC commentary on the accounting requirements is presented in shaded commentary boxes. Best practice recommendations are provided where they are considered appropriate and helpful. The intention is not to show all conceivable disclosures and this annual report should not, therefore, be used as a checklist. The suggested disclosures are not necessarily applicable for all private general insurance companies.

This illustrative annual report does not cover the following sections of FRS 102 (amongst other items):

- Inventories (Section 13)
- Hyperinflation (Section 21).
- Government grants (Section 24).
- Impairment of assets (Section 27).
- Specialised activities, other than financial institutions (Section 34).

If you require further guidance on the UK law and accounting requirements affecting insurers' financial statements, the following PwC publications may be of assistance:

- Manual of Accounting – New UK GAAP
- UK GAAP illustrative financial statements: FRS 102 example accounts

These can be ordered via http://www.pwc.co.uk/audit-assurance/publications/manual-of-accounting-new-uk-gaap.jhtml.

If you wish to discuss any aspect of insurance financial reporting, please contact either the author, Mike Vickery (0117 309 2403), or your usual PwC contact.

PricewaterhouseCoopers LLP
London
January 2016

Proforma-Gen Limited is a fictitious group. The annual report has been prepared for illustrative purposes only and shows the disclosures and formats that might be expected for an unlisted insurance group of its size that prepares its financial statements in accordance with the requirements of Part 15 of the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). The intention is not to show all conceivable disclosures and this annual report should not, therefore, be used as a checklist. The suggested disclosures are not necessarily applicable for all private companies.

Abbreviations

Source references used in the illustrative annual report are abbreviated as follows:

APB 2001/1	The Auditing Practices Board Bulletin [reference]
DV	Disclosure voluntary
FRS 102, 3.2	Financial Reporting Standard [number], [paragraph number]
IG 2.1	Implementation Guidance to accompany FRS 103 Insurance contracts [paragraph number]
IAS 39, AG	International Accounting Standard [number], Application guidance [paragraph number]
PN20, 300	Auditing Practices Board Practice Note [number], [paragraph number]
PwC	PricewaterhouseCoopers LLP
s415	Section number of the Companies Act 2006
ISA 700	International Standard on Auditing (UK and Ireland) [number]
Sch7, 12	Schedule number to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI 2008/410"), [paragraph number]
Sch3, Pt II, 1	Part II of Schedule 3 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI 2008/410"), [paragraph number]
Sch3 BS(4)	Note on the balance sheet format within Schedule 3 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI 2008/410") [number]
Sch3 PL(9)	Note on the profit and loss account format within Schedule 3 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI 2008/410") [number]
SI2008/410	Statutory instrument [year/number]
SEN 1	Financial Reporting Council Staff Education Note [number]
Tech 02/10, 3.3	Technical release [number/year], [paragraph number] issued by the ICAEW and ICAS

Proforma-Gen Limited

(Registered Number: 00187936)

Annual Report

31 December 2015

Contents

Directors and Officers

Directors

N Chamberlain
B Disraeli
W Gladstone
D Lloyd George
H Macmillan
W Pitt (Chairman)

Company Secretary

S Baldwin

Registered Office

12 Parliament Road
London
SW1 3XY

Auditors

PricewaterhouseCoopers LLP
7 More London
London
SE1 2RT

Strategic report for the year ended 31 December 2015

s414A The directors present their strategic report on the group for the year ended 31 December 2015.

s414C(2)(a)

Review of the business

The Company is an investment holding company and the principal activity of its subsidiary undertakings continues to be the transaction of general insurance business in the United Kingdom and, through a branch, in the USA. The business conducted is principally motor, accident and health, third-party liability, property and marine insurance and reinsurance.

s414C(12)

Results and performance

The results of the Group for the year, as set out on pages 15 and 19, show a profit on ordinary activities after tax attributable to owners of the parent of £762m (2014: Loss of £243m). The shareholders' funds of the Group total £8,265m (2014: £7,532m).

The performance of the Group during 2015 has produced encouraging results. The UK direct motor business continues to be the largest insurance line for the Group. Our underwriting discipline and increases in product ratings have produced a significant improvement in the underwriting result this year despite the challenging UK motor insurance environment. The accident and health insurance segment of our business has also seen a significant improvement in levels of new business following a review of our product offering and also as a result of the strengthening of our relationships with the broking community. The results of our US branch are showing signs of improvement following continued alignment of our products to meet the differing demands of the US market.

On 7 July 2015 the Company acquired the whole of the issued share capital of Dickens Limited, a motor insurer. This transaction has been accounted for as a business combination in accordance with Financial Reporting Standard (FRS) 102. Details of the fair value of the net assets acquired and the consideration paid are set out in Note 17 'Business combinations'.

Business environment

The UK and US general insurance industries are highly competitive, particularly in the retail sectors where our business is focused. Many companies offer similar coverage, giving rise to aggressive pricing structures. The impact of technology has been enormous and it is essential that we keep abreast of advances in this area, not only in relation to distribution channels but also in relation to the risk management and claims management arenas.

Strategy

The Group's success is dependent on the proper selection, pricing and ongoing management of the risks it accepts. In the motor insurance business, we have continued to consolidate our position. We believe it is important to retain a diversified portfolio of risks in order to achieve maximum profitability in this highly competitive marketplace. In the accident and health sector we have refocused the alignment of our products with our strong distribution network which will allow us to enhance our market share and retention levels in this sector.

The Group will continue to consolidate its position and concentrate its efforts on achieving maximum growth in its existing market segments. We aim to improve efficiency in all areas of our operations through cost reduction; more disciplined underwriting and more effective claims management. Customer service remains a top priority.

s414C(4)

Key performance indicators ('KPIs')

We have made significant progress throughout the year in relation to key elements of our strategy. The Board monitors the progress of the Group by reference to the following KPIs:

	2015	2014	
Net premiums written	**£13,287m**	£12,902m	Gross premiums written less outward reinsurance in respect of insurance contracts
Loss ratio	**79.4%**	88.0%	Ratio of net claims incurred to net earned premiums
Underwriting result	**£754m**	£17m	Balance on technical account for general business
Combined operating ratio	**110.2%**	114.5%	Ratio of net claims incurred, commissions and expenses to net premiums earned
Return on capital employed	**10.3%**	(1.9)%	Profit for year after tax in relation to average equity shareholders' funds
Employee retention	**98.4%**	98.9%	Number of employees at end of month (based on those in employment at the start of the month) averaged over 12 months
Policy retention rates	**80%**	79%	Retention rates for retail products
Customer satisfaction	The Group remains in the top quartile of the general insurers customer satisfaction survey, conducted on an annual basis by Bench & Marks, rating agency.		

Other than net premiums written and the balance on the technical account, the KPIs above are not defined in UK Generally Accepted Accounting Practice (GAAP) and so are non-GAAP measures.

Transition to FRS 102

This is the first year that the group has presented its results under FRS 102 'The Financial Reporting Standard, applicable in the UK and Republic of Ireland'. The last financial statements under previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. In accordance with FRS 102, the group has identified its insurance contracts and accounted for them in accordance with FRS 103 'Insurance Contracts'. The impact of the transition to FRS 102 is set out in Note 35 'Transition to FRS 102'. The impact of transition on profit after tax was a decrease of £5m for the comparative period and the impact on opening equity at 1 January 2014 was an increase of £73m.

s414C(2)(b)

Principal risks and uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review by management, risk management and internal audit. Compliance with regulation, legal and ethical standards is a high priority for the Group and the compliance team and Group finance department take on an important oversight role in this regard. The Audit Committee is responsible for satisfying itself that a proper internal control framework exists to manage financial risks and that controls operate effectively.

The Group has developed a framework for identifying the risks that each business sector, and the Group as a whole, is exposed to and their impact on economic capital. This process is risk based and uses Individual Capital Assessment principles to manage our capital requirements and to ensure we have the financial strength and capital adequacy to support the growth of the business and to meet the requirements of policyholders, regulators and rating agencies.

The principal risks from our general insurance business arise from inaccurate pricing; fluctuations in the timing, frequency and severity of claims compared to our expectations; inadequate reinsurance protection; and inadequate reserving.

In addition, the Group is exposed to financial risks arising from the investments that it holds. These risks are discussed in the section of this report dealing with financial instruments and risk management.

Our underwriting and reinsurance strategies are approved by the Board and communicated clearly throughout the business through policy statements and guidelines.

Sch7, 7(1)(b)

Future developments

Although the growth of the UK economy strengthened in 2015, the risks to UK economic growth remain significant and future prospects may be influenced by developments in the Eurozone. The economic environment will continue to evolve at a rapid pace over the next two to three years, making a return to the relative stability and certainty that preceded the crisis unlikely, at least in the short term. Interest rates are predicted to remain low in the short to medium term. In addition, we are expecting there will be continuing downward pressure on insurance rates and also the potential for an increase in claims frequency on certain lines of business. We plan to actively review our underwriting criteria and claims handling processes to seek to ensure profitability is maintained in difficult market conditions. This includes gaining a better understanding of our component costs, pricing and profit profile to develop a strategy to remain competitive in the market.

Overall in the coming year we aim to grow net premiums written at a rate broadly consistent with the current year whilst maintaining the combined ratio at current levels. We will continue to develop our relationships with distributors, generating new business where possible and increasing retention levels while navigating the pressure on rates and claims. The level of profitability in the coming year will, of course, be in part dependent on investment returns which remain a source of significant uncertainty in light of recent market movements.

Solvency II came into force on 1 January 2016. We have fully embedded the Pillar 1 quantitative requirements and Pillar 2 qualitative requirements into our operations. We monitor our approach to meeting the Pillar 1 capital requirements and at present have decided that the standard formula adequately reflects our risk profile, however, we will continue to review the benefits of developing an internal model. The directors are confident that the Group will continue to meet its regulatory capital requirements in the future. On an annual basis the group will publish quantitative and qualitative information on Solvency II in a Solvency and Financial Condition Report (SFCR). The first SFCR will be prepared as at 31 December 2016.

Our corporation tax charge will benefit from the reduction in the rate of tax to 19% from April 2017 and to 18% from April 2020.

s414D(1) By order of the board

s414D(1)

S Baldwin
Company Secretary
3 March 2016

Strategic report

s414C(2)

Business review

The report should include a review of the business containing:

- a fair review of the business of the company; and
- a description of the principal risks and uncertainties facing the company.

FRC press notice 108

Where non-GAAP numbers are disclosed, it should be clear that these differ from the GAAP numbers; the equivalent GAAP number should be disclosed; and there should be a reconciliation between the GAAP and non-GAAP numbers, together with relevant comment.

s414C(3)

The review is a balanced and comprehensive analysis of:

- the development and performance of the business of the group during the financial year; and
- the position of the group at the end of the year,

consistent with the size and complexity of the business.

s414C(4)

The review must, to the extent necessary for an understanding of the development, performance or position of the business of the company, include:

- analysis using financial key performance indicators; and
- where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.

PwC

In the year of transition to FRS 102 / FRS 103 it would be appropriate to identify the fact of the transition and give explanations of the effect of the change on the entity's financial position and financial performance.

General

s414C(11)

Sch7,1A

Any matters that are directors' report disclosure requirements but considered by the directors to be of strategic importance to the group. (If this is the case, the directors' report includes a cross-reference to the relevant information in the strategic report.)

PwC

The information that is required to be included in the strategic report may be included elsewhere in the annual report and incorporated into the strategic report by cross-reference. We consider that this cross-referencing should be specific.

s414C(12)

The report must, where appropriate, include references to, and additional explanations of, amounts included in the financial statements of the group and company.

s414C(14)

The report need not disclose any information about impending developments or matters in the course of negotiation if, in the opinion of the directors, such disclosure would be seriously prejudicial to the interests of the company.

s414A(3) & (4)

In group accounts the strategic report must be a consolidated group strategic report which may, where appropriate, give greater emphasis to the matters that are significant to the undertakings included in the consolidation, taken as a whole.

In June 2014, the Financial Reporting Council (FRC) published "Guidance on the Strategic Report" to provide non-mandatory guidance to preparers. Whilst the guidance has been written with quoted companies in mind, it may also be useful for other entities preparing strategic reports. However, the requirements in respect of strategic reports are more extensive for quoted companies and therefore certain content elements described in the guidance are not mandatory for companies that do not meet the definition of a quoted company.

The illustrative strategic report for Proforma-Gen Limited is provided by way of an example of the minimum requirements for a non-quoted company under the legislation. In practice, entities would generally provide a more comprehensive review with more entity specific information.

s415(2)

Directors' report for the year ended 31 December 2015

s415(1) The directors present their report and the audited financial statements of the group and company for the year ended 31 December 2015.

Sch7, 1A Where a company chooses to set out in their strategic report information required by Schedule 7 to SI 2008/410 to be contained in the directors' report it must state in the directors' report that it has done so and in respect of which information it has done so.

Sch7, 7(1)(b)

Future developments

Likely future developments in the business of the group are discussed in the strategic report.

Sch7, &(1)(b) The directors' report should contain an indication of the likely future developments in the group's business.

PwC This disclosure is likely to be relevant to the strategic report. It could be included in the strategic report and incorporated into the directors' report by cross reference.

Dividends

The directors have paid and recommended the following dividends:

	2015 £m	2014 £m
Ordinary dividends - Paid	75	150
Ordinary dividend - Proposed	10	75
Preference shares - Paid	48	48

Preference shares are accounted for as a liability and dividends on those shares are recorded as an expense.

s416(3) Details of dividends paid and recommended should be included.

Directors

s416(1)(a)

DV

The names of the current directors are listed on page 4. All held office throughout the year, with the exception of Mr N Chamberlain who was appointed a director on 14 April 2015. Mr W Churchill served as a director until his retirement on 31 March 2015. Mr W Gladstone and Mr D Lloyd George will retire by rotation at the forthcoming Annual General Meeting and will offer themselves for re-election.

s416(1)(a) The names of all persons who were directors during any part of the period should be provided.

DV Changes in directors since the end of the financial year and the dates of any appointments and/or resignations of directors occurring during the financial year should be provided.

DV Information regarding the retirement of the directors at the AGM and whether they offer themselves for election should be disclosed.

Qualifying third party indemnity provisions

s236(1) to (5) The directors' report should include a statement if a qualifying third-party indemnity provision and/or qualifying pension scheme indemnity provision (whether made by the company or otherwise) has been in place for one or more directors of the company or of an associated company at any time during the financial year or at the date of approval of the directors' report.

Proforma-Gen Limited does not have any qualifying third-party indemnity provisions.

Employees

Disabled persons

Sch7, 10(3) Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee involvement

Sch7, 11(3) Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests. All employees are aware of the financial and economic performance of their business units and of the Group as a whole, and are rewarded according to the results of both through an annual bonus scheme. Communication with all employees continues through the in-house newspaper and newsletters, briefing groups and the distribution of the annual report.

Sch7, 10(1) & 11(1)

This disclosure is required if the average number of employees during the year and working within the UK exceeds 250.

Sch7, 10(1) & 11(3)

A statement is required describing the action that has been taken during the period to introduce, maintain or develop arrangements aimed at involving UK employees in the entity's affairs. This statement should discuss the group's policy on:

- systematic provision of relevant information to employees;
- regular consultation with employees or their representatives so that the employees' views may be taken into account in making decisions that are likely to affect their interests;
- encouragement of employees' participation in the group's performance by employee share schemes or other means; and
- achieving awareness on the part of all employees of the financial and economic factors affecting the group's performance.

Sch7, 10(3)

A statement should be included as to the UK policy for giving full and fair consideration to applications for employment that disabled people make to the company, the policy for employment, training, career development and promotion of disabled people and for the continuing employment and training of employees who have become disabled while employed by the company.

Financial instruments

Sch7, 6(1)

Information on the use of financial instruments by the Group and its management of financial risk is disclosed in Note 5 to the financial statements. In particular, the Group's exposures to price risk, credit risk and liquidity risk are separately disclosed in that note. The Group's exposure to cash flow risk is addressed under the headings of 'Credit risk', 'Liquidity risk' and 'Market risk'.

Sch7, 6(1)

Where material for the assessment of the assets, liabilities, financial position and profit or loss of the group, the directors' report must contain an indication of:

- the financial risk management objectives and policies of the entity, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used; and
- the exposure of the entity to price risk, credit risk, liquidity risk and cash flow risk.

This disclosure is not required where such information is not material for the assessment of the entity's assets, liabilities, financial position and profit or loss. In addition, an exemption from making these disclosures is available to small companies.

FRS 102 paras 34.19, 34.23 & 34.24

These Schedule 7 requirements are consistent with FRS 102 as it applies to financial institutions. FRS 102 requires financial institutions to disclose information "that enables users … to evaluate the significance of financial instruments for its financial position and performance [and] the nature and extent of credit risk, liquidity risk and market risk arising from financial instruments to which the financial institution is exposed at the end of the reporting period". FRS 102 also requires that, "for each type of risk arising from financial instruments, a financial institution shall disclose the exposures to risk and how they arise; its objectives, policies and processes for managing risk and the methods used to measure the risk". To avoid duplication all disclosures relating to the risk exposures and the management of financial risk arising from financial instruments are included within Note 5 to the financial statements. The directors' report cross-refers to these disclosures.

Branches outside the UK

Sch7, 7(1)(d)

The Group has a branch in the USA.

Sch7, 7(1)(d)

Branches outside the UK
The directors' report should disclose the existence of any branches that operate outside of the UK.

Political donations and political expenditure

Sch7, 3 - 4

If the company has made any donations to a registered political party, other political organisation in the EU (including the UK) or any independent election candidate, or if it incurred EU political expenditure exceeding £2,000 in the financial year, the directors' report should disclose:

- EU donations – the name of the political party and total amount given per party by the entity
- EU political expenditure – total amount incurred in the financial year by the company

The total amount of contributions made by a company (or group of companies) to political parties outside the EU is also required to be disclosed (there is no threshold for these disclosures).

Wholly-owned subsidiaries of companies incorporated in the UK are exempt from these disclosures.

Proforma-Gen Limited made no donations for political purposes.

Research and development

Sch7, 7(1)(c) The directors' report should provide an indication of the company's research and development activities.

DV It is recommended that a statement is included with regard to the charge to the income statement for the year (which should be separately disclosed in the notes to the financial statements).

Proforma-Gen has no research and development activities to disclose.

Sch7, 7(1)(a) **Post balance sheet events**

The directors' report should include particulars of any important events affecting the company or group since the year end.

PwC Similar to the disclosure on future developments, this disclosure is likely to fit well with the strategic report. It might therefore be appropriate to include therein and cross reference.

Proforma-Gen Limited has no post balance sheet events requiring disclosure.

Sch7, 8-9 **Purchase of own shares and sale of treasury shares**

Where a public company has an interest in its own shares, the directors' report should disclose the number and nominal value of shares in which the company acquired an interest during the year together with the maximum amount of such shares held during the year along with the percentage of the called-up share capital which such shares represent. The aggregate consideration paid for the purchase of such shares and the reason for the purchase should also be given. In addition, the consideration for the disposal of any such shares during the year should be given. These requirements do not apply to Proforma-Gen Limited as it is a private company.

FRS 102, 22.16 Treasury shares are the equity instruments of an entity that have been issued and subsequently reacquired by the entity. FRS 102 requires that an entity shall deduct from equity the fair value of the consideration given for the treasury shares (as opposed to recording an asset). The entity shall not recognise a gain or loss in profit or loss on the purchase, sale, transfer or cancellation of treasury shares.

Sch1, 47(1)(b) Companies preparing accounts in accordance with Schedule 1 of SI 2008/410 are required to disclose the number and aggregate nominal value of treasury shares held. This requirement has not been replicated in Schedule 3 for insurers. Insurers may wish to give this disclosure as a matter of best practice.

s418(2)

Disclosure of information to auditors

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

1. as far as each of them is aware, there is no information relevant to the audit of the company's consolidated financial statements for the year ended 31 December 2015 of which the auditors are unaware; and
2. the director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

s418(2) The report must contain a statement to the effect that, in the case of each of the persons who are directors at the time when the report is approved, the following applies:

(a) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and

(b) the director has taken all the steps that he/she ought to have taken as a director in order to make him/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information

Independent auditors

DV (see also s489(1),(2)) The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointed will be proposed at the Annual General Meeting.

Statement of directors' responsibilities

APB 2010/02 (revised) The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, disclose with reasonable accuracy at any time the financial position of the company and the group, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

APB 2001/01 The directors are responsible for the maintenance and integrity of the group website, www.ProformaGen.com. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PwC The directors’ responsibilities statement is commonly included as a separate statement, within the directors’ report (as is the case in these illustrative accounts) or at the end of any corporate governance statement.

APB 2001/1 Where the financial statements are published on a website, the statement of directors’ responsibilities may also include a statement that:

- the directors are responsible for the maintenance and integrity of the website; and
- legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

s419(1) By order of the board

s419(1) S Baldwin
Company Secretary
3 March 2016

s419(1) The directors' report must be signed by the company secretary or a director after it has been approved by the board of directors.

The copy of the strategic report and directors' report that is delivered to the Registrar of Companies must be manually signed by the company secretary or a director.

Independent auditors' report to the members of Proforma-Gen Limited

Warning: This audit report format was current at the date of going to print. However it may not be the most up-to-date version. It should not be used without checking that it is the most appropriate version and will need to be tailored to incorporate information appropriate to the group being audited.

Report on the financial statements

ISA (UK&I) 700 (Revised),

APB 2010/2 (revised)

Our opinion
In our opinion, Proforma-Gen Limited's group financial statements and company financial statements (the "financial statements"):

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

What we have audited
The financial statements, included within the Annual Report, comprise:

- the consolidated and company balance sheets as at 31 December 2015;
- the consolidated profit and loss account and consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated and company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", having regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside as at 31 December 2015, and the effect of the movement in those provisions during the year on Group shareholders' funds, the balance on the Group general business technical account and Group profit before tax, are disclosed in notes 3(f) and 23.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matters prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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 company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

John Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 March 2016

PN20, 250

General insurers are required, by regulation, to maintain provisions for certain classes of business as protection against exceptionally high loss ratios in future years. As these provisions relate to future events they would not normally be accounted for as liabilities. However, these provisions are required by Schedule 3 to be shown as liabilities within insurance company and group financial statements, under the heading "equalisation provision".

PN20, 255

The inclusion of these provisions as liabilities in the financial statements of insurance companies and groups does not prevent the financial statements giving a true and fair view. The APB has advised that, notwithstanding that an unqualified opinion is expressed, it is appropriate for auditors to include reference to the particular legal requirements concerning equalisation provisions in their report, in order to ensure that a reader is aware that their opinion is expressed in the context of these requirements.

Under the new Solvency II regulatory regime, applicable from 1 January 2016, general insurers will no longer be required to maintain equalisation provisions.

APB 2001/1

If the financial statements are to be posted on the company's website, further clarification of the respective responsibilities of directors and auditors is required. Unless the statement of directors responsibilities clearly states the directors' responsibility for the maintenance and integrity of the website; and refers to the fact that uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements, the following information should be included as notes:

- The maintenance and integrity of the entity's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

These should appear under a heading "Notes" at the end of the audit opinion, i.e. after the name of the auditor, place and date.

APB 2010/2 (revised)

The audit report above is based on the following circumstances. In other circumstances, a different form of report would be needed.

- Company presents together UK GAAP group and company financial statements.

ISA (UK&I) 700 (revised)

- Company does not meet the Companies Act definition of a quoted company and the company does not voluntarily choose to report on the application of the UK Corporate Governance Code.
- Section 408 exemption taken for parent company's own profit and loss account.
- A summary of significant accounting policies is presented separately from the notes to the financial statements.
- The effect of equalisation provisions is material to the financial statements.

FRS 102, 5.2 – 5.6

Sch3, 1(1) (b)

Consolidated profit and loss account for the year ended 31 December 2015: Technical account – General business

		Notes	2015	2014
			£m	£m
FRS 103, 4.5(a)	**Earned premiums, net of reinsurance**	3(f)		
	Gross premiums written	6	**14,749**	14,059
	Outward reinsurance premiums		**(1,462)**	(1,157)
	Change in the gross provision for unearned premiums	24	**(400)**	301
	Change in the provision for unearned premiums, reinsurers' share	24	**35**	46
			12,922	13,249
	Allocated investment return transferred from the non-technical account	3(u), 10	**2,167**	2,020
	Other technical income, net of reinsurance	11	**13**	11
PwC	**Total technical income**		**15,102**	15,280
FRS 103, 4.5(a)	**Claims incurred, net of reinsurance**	3(f), 6		
	Claims paid			
	– gross amount		**11,356**	11,317
	– reinsurers' share		**(1,407)**	(712)
			9,949	10,605
	Change in the provision for claims			
	– gross amount	24	**403**	1,232
	– reinsurers' share	24	**(90)**	(184)
			313	1,048
	Claims incurred, net of reinsurance		**10,262**	11,653
FRS 103, 4.5(a)	Changes in other technical provisions, net of reinsurance	3(f), 25	**254**	-
	Net operating expenses	8	**3,720**	3,522
	Other technical charges, net of reinsurance		**12**	-
FRS 103, 4.5(a)	Change in equalisation provision	3(f), 23	**100**	88
PwC	**Total technical charges**		**14,348**	15,263
	Balance on the technical account for general business		**754**	17

Sch3, 1

Format of financial statements

FRS 102, 3.17 Under FRS 102, a complete set of financial statements comprises (a) statement of financial position, (b) statement of comprehensive income, (c) cash flow statement, (d) statement of changes in equity; and (e) notes.

An entity can present total comprehensive income under a single-statement or two-statement approach:

FRS 102, 5.2

- Under the single-statement approach, it presents a single statement of comprehensive income, including all its income and expense for the period.
- Under the two-statement approach, it presents an 'income statement' (alternatively known as a 'profit and loss account'), presenting all items of profit or loss, and a separate 'statement of comprehensive income', that begins with total profit or loss for the period and also presents all items of other comprehensive income.

Proforma-Gen has adopted the two-statement approach.

FRS 102, 5.5, 5.7 Under both approaches, the profit and loss section should be presented in accordance with the formats in Schedule 3. The income statement of insurance companies and groups therefore continues to be split into a technical and a non-technical account.

Different titles may be used than those used in FRS 102 provided they are not misleading.

FRS 102, 3.22 In these illustrative financial statements, 'profit and loss account' is the term given to the income statement and 'balance sheet' is the term given to the statement of financial position, reflecting the titles used in Schedule 3 to SI 2008/410.

Sch6, 32

s1165(5) The profit and loss account and balance sheet of insurance companies and groups preparing financial statements under UK GAAP are required to follow the formats prescribed by Schedule 3 to SI 2008/410. An insurance group is defined as a group where the parent company is an insurance company or where:

1. the parent company's principal subsidiary undertakings are wholly or mainly insurance companies; and
2. the parent company does not itself carry on any material business apart from the acquisition, management and disposal of interests in subsidiary undertakings.

Sch3, 1, 2

PwC Whilst Schedule 3 prescribes that items should be set out in the order and under the headings and sub-headings given in the formats, it does permit items to be disclosed in greater detail than so required. In addition, the profit and loss account and balance sheet may include items not specifically covered by the standard formats. In those circumstances it may be appropriate to insert additional items to the prescribed formats.

Sch3, 9(1) Where the format requires both gross and reinsurers' share of an amount to be given, a sub total must also be given.

Format of profit and loss account

IG2.59 The Proforma-Gen Limited Group does not conduct any long-term insurance business and as such a technical account for long-term business is not produced. In circumstances where the amount of long-term business written by a general insurance company or group is not material, FRS 103's implementation guidance recommends that the results should be disclosed as "other technical income" or "other technical charges" in the technical account for general business. Appropriate additional disclosure in respect of the long-term business is then required in the notes.

Sch3, 3(1) In producing the profit and loss account, the Proforma-Gen Limited Group has taken advantage of the option to combine certain items to which lower case letters in parentheses have been assigned in the profit and loss account format prescribed by Schedule 3. Such combination is permissible if either:

1. the individual amounts are not material for the purpose of giving a true and fair view; or
2. the combination facilitates the assessment of the profit or loss of the company,

but is not permitted within the headings showing the derivation of net earned premiums or net claims incurred.

Sch3, 3(2) Where items are so combined as a result of 2) above, the individual amounts are required to be disclosed in the notes to the financial statements.

Sch3, 10

Technical account for general business

FRS 103, A2.20 All contracts that are general insurance for regulatory purposes should be included in the technical account - general business. As this requirement is based on the regulatory definition it applies to all contracts regulated as insurance, including those that are accounted for as investment contracts because they do not expose the insurer to significant insurance risk. Where such contracts create financial assets or financial liabilities, deposits and withdrawals in relation to such contracts are accounted for using deposit accounting and are taken directly to the balance sheet rather than being recognised as income or expense. Other income and expense movements in relation to investment contracts are reflected through the technical account – general business.

Other technical income, net of reinsurance

PwC Fee income relating to investment contracts could appropriately be included under the heading “Other technical income, net of reinsurance”.

Changes in other technical provisions, net of reinsurance

Sch3 BS (25) This includes any movement in the unexpired risks provision.

PwC This may also include other movements in the carrying amount of the financial liability in relation to investment contracts (other than premiums and claims movements) where such amounts are classified in the balance sheet as ‘Other technical provisions’.

Portfolio premiums and claims

FRS 103 Glossary **IG2.29** Portfolio premiums are amounts payable by one insurer (“the transferor”) to another (“the transferee”) in consideration for a contract whereby the transferee agrees to assume responsibility for the claims arising on a portfolio of in-force business written by the transferor from a future date until the expiry of the policies. The payment should be accounted for as a reinsurance premium payable in the books of the transferor and as written premiums in the books of the transferee.

FRS 103 Glossary **IG2.30** **IG2.31** Portfolio claims represent amounts payable by one insurer (“the transferor”) to another (“the transferee”) in consideration for a contract whereby the transferee agrees to assume responsibility for the unpaid claims incurred by the transferor prior to a specified date. These payments should be accounted for as claims paid in the financial statements of the transferor. The transferee should credit the payment received to claims payable in the balance sheet.

PwC Portfolio claims payments are generally payments under an existing contract between two companies. Where there is a new contract between an insurer and reinsurer in respect of claims payable to third parties by the insurer, payments should be accounted for as reinsurance (subject to the normal risk transfer criteria being met).

IG2.32 Any claims portfolio transfers that materially affect the transferee company’s exposure to risk should be disclosed in the notes to the financial statements. Proforma-Gen Limited has not entered into any portfolio transfers during the year.

PwC In practice, portfolio transfers may combine portfolio premium payments and portfolio claim payments. In these circumstances it will be appropriate to make an allocation of the portfolio payment between premiums and claims and then follow the prescribed treatment for each element.

Structured settlements

IG2.33 When an annuity is purchased by a general insurer to meet obligations in respect of a structured settlement, the general insurance company will normally remain liable to the policyholder should the annuity provider fail. Unless this is not the case, this liability should continue to be recognised in the balance sheet. An annuity, paid by an annuity provider, which exactly matches the amount and timing of this liability should be recognised as an asset and measured at the same amount as the related obligation.

Allocation of expenses

Direct and indirect expenses need to be allocated according to their source between the following four categories:

i. Claims handling expenses.

IG2.11-2.13 **Sch3 PL (4)** These will constitute part of incurred claims and will include all external and internal costs incurred in the handling of claims, including the movement on costs provided for settling outstanding claims. Separate provision of future claims handling costs should be assessed for each category of business. The future level of activity of the claims handling department should be assumed to be at present levels, unless clear evidence exists to the contrary.

Sch3 PL (8) ii. Investment expenses and charges.

These should be included in “investment expenses and charges” in the non-technical account and will include external and internal investment costs.

Sch3 PL (6) iii. Acquisition costs.

FRS 103 Glossary These are reflected within net operating expenses in the technical account for general business and include direct costs, such as commissions, and indirect costs, such as advertising and the administrative expenses connected with the processing of proposals and the issuing of policies.

Sch3 PL (7) iv. Administrative expenses.

These costs are reflected within net operating expenses in the technical account for general business and will include costs arising from premium collection, portfolio administration and inwards and outwards reinsurance. They shall, in particular, include staff costs and depreciation provisions in respect of office furniture and equipment insofar as these do not need to be shown under acquisition costs, claims incurred or investment charges.

PwC

Companies will need to allocate indirect costs such as staff costs, including directors' emoluments, and depreciation between the four headings above in a logical and consistent manner that fairly reflects the running of the business.

Discontinued operations

FRS 102, Glossary

A discontinued operation is a component of an entity that has been disposed of and:

(a) represented a separate major line of business or geographical area of operations;

(b) was part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

(c) was a subsidiary acquired exclusively with a view to resale.

PwC

Insurance companies may place books of business into 'run-off', meaning that they write no new contracts of insurance in respect of that book of business but continue to settle claims on business previously written. For certain, longer-tail books the settlement of outstanding claims can continue over a number of years.

Under old UK GAAP insurance business in run-off was often accounted for as a discontinued operation based upon the definition of a discontinued operation included in FRS 3 paragraph 4 and the guidance in the ABI SORP. In accordance with the ABI SORP provision would have been made for the full amount of any costs associated with running off the insurance business no longer being written (after taking into account expected future investment return).

Under FRS 102 and 103 insurance business in run-off does not constitute a discontinued operation. The placing of business into run-off may be a restructuring to which FRS 102 paragraphs 21.11C and 21.11D apply.

IG 2.37

FRS 102, 35.9(d)

On first-time adoption of FRS 102, an entity shall not retrospectively change the accounting that it followed under its previous financial reporting framework for operations that are discontinued operations as defined in FRS 102. As insurance business in run-off does not meet FRS 102's definition of a discontinued operation if it is not within the scope of this transitional measure. As such, it is likely that run-off business that was previously reported as discontinued under old UK GAAP will be reclassified as continuing on the move to FRS 102.

On adoption of FRS 102, Proforma-Gen has reclassified its run-off aviation business as continuing and reassessed the provision for run-off costs in line with FRS 102's requirements in respect of restructurings.

Analysis between continuing and discontinued operations

FRS 102, 5.7D

FRS 102, A4.39

FRS 102 Appendix to Section 5

FRS 102 requires an entity with discontinued operations to provide an analysis between continuing operations and discontinued operations of each of the line items on the face of the statement of comprehensive income, or income statement, up to and including post-tax profit or loss for the period and illustrates this presentation in a columnar format. This is in order to present the post-tax results of those operations, combined with the profit or loss on their disposal, as a single line item while still complying with the requirement of company law to show totals for ordinary activities of items such as turnover, profit or loss before taxation and tax.

Sch3, 1(1) (b)

Consolidated profit and loss account for the year ended 31 December 2015: Non-technical account

		Note	2015 £m	2014 £m
	Balance on the general business technical account		**754**	17
	Investment income	3(t), 10	**2,612**	1,867
	Unrealised gains on investments	3(t), 10	**302**	-
	Investment expenses and charges	3(t), 10	**(210)**	(256)
	Unrealised losses on investments	3(t), 10	**-**	(189)
IG2.64, 2.68	Allocated investment return transferred to the general business technical account	3(t), 10	**(2,167)**	(2,020)
	Other income	11	**205**	491
	Other charges, including value adjustments		**(103)**	(252)
	Profit/(loss) on ordinary activities before tax		**1,393**	(342)
	Tax on profit/(loss) on ordinary activities	12	**(544)**	199
	Profit/(loss) for the financial year		**849**	(143)
	Profit attributable to:			
FRS 102, 9.21	- Owners of the parent		**762**	(243)
SI 2008/410 6Sch17, FRS 102, 9.21	- Non-controlling interests		**87**	100
			849	(143)

s408

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Company profit and loss account. The profit for the year was £805m (2014: £437m).

Non-technical account

Operating profit

FRS 102, 5.9B

FRS 102 does not require the disclosure of 'operating profit', but it emphasises that where entities choose to present the amount, it should ensure that all operating-type items are appropriately included and it would be inappropriate to exclude items clearly related to operations (such as restructuring and relocation expenses). Proforma-Gen has not disclosed operating profit.

Foreign exchange differences

FRS 103, 2.32

Where FRS 102 requires exchange differences to be included within profit or loss, general insurers should deal with these through the non-technical account.

Consolidated statement of comprehensive income for the year ended 31 December 2015

			Year ended 31 December	
		Notes	**2015**	2014
FRS 102, 3.2, 3.17(b)(ii), 5.7B			**£m**	£m
	Profit for the financial year		**849**	(143)
	Other comprehensive income:			
FRS 102, 30.25(b)	Currency translation differences	3(e)	**59**	43
	Fair value movements of owner occupied land and buildings	15	**15**	10
	Remeasurements of net defined benefit obligation	30	**(29)**	(83)
FRS 102, 5.5A(a)(ii)	Total tax income on components of other comprehensive income	12	**1**	6
	Other comprehensive income for the year, net of tax		**46**	(24)
FRS 102, 5.5A(c)	**Total comprehensive income for the year**		**895**	(167)
	Total comprehensive income attributable to:			
	- Owners of the parent		**808**	(267)
FRS 102, 9.22	- Non-controlling interests		**87**	100
			895	(167)

FRS 102, 5.5A(a)

Components of other comprehensive income can be presented either:

i. net of related tax effects; or

ii. gross of the related tax effects, with one amount showing the aggregate income tax relating to those components.

Sch3, 1(1) (a)

Consolidated balance sheet as at 31 December 2015

		Notes	2015 £m	2014 £m
	Assets			
	Intangible assets			
	Goodwill	3(j), 14	**210**	–
	Other intangible assets	3(k), 14	**80**	28
			290	28
	Investments			
	Land and buildings	3(l), 15	**1,304**	1,156
	Investments in participating interests	3(t), 16	**365**	347
	Other financial investments	3(t), 18	**25,901**	24,368
	Deposits with ceding undertakings		**109**	118
			27,679	25,989
FRS 103, 4.5(a)	**Reinsurers' share of technical provisions**			
	Provision for unearned premiums	3(f), 24	**430**	395
	Claims outstanding	3(f), 22, 24	**2,629**	2,594
			3,059	2,989
	Debtors			
FRS 103, 4.5(a)	Debtors arising out of direct insurance operations	3(f)		
	- policyholders		**916**	758
	- intermediaries		**3,228**	2,882
FRS 103, 4.5(a)	Debtors arising out of reinsurance operations	3(f)	**2,112**	1,821
	Other debtors		**2,132**	2,299
			8,388	7,760
	Other assets			
	Tangible assets	3(m), 19	**1,045**	178
	Cash at bank and in hand		**781**	940
			1,826	1,118
	Prepayments and accrued income			
	Accrued interest and rent		**321**	293
FRS 103, 4.5(a)	Deferred acquisition costs	20	**1,435**	1,292
	Other prepayments and accrued income		**24**	60
			1,780	1,645
	Total assets		**43,022**	39,529

		Notes	**2015**	2014
			£m	£m
	Liabilities			
	Capital and reserves			
	Called up share capital	21	**4,867**	4,867
	Share premium account		**178**	178
	Profit and loss account		**3,220**	2,487
	Total shareholders' funds	21	**8,265**	7,532
Sch6, 17	**Non-controlling interests**		**758**	671
	Total equity		**9,023**	8,203
FRS 103, 4.5(a)	**Technical provisions**			
	Provision for unearned premiums	3(f), 24	**7,490**	6,856
	Claims outstanding	3(f), 22, 24	**20,178**	19,286
	Equalisation provision	3(f), 23	**202**	102
	Other technical provisions	3(f), 25	**852**	598
			28,722	26,842
	Provisions for other risks			
	Provisions for pensions and similar obligations	3(h), 30	**367**	368
	Provision for taxation	3(i), 12, 26	**295**	282
	Other provisions	3(s), 26	**365**	95
			1,027	745
	Deposits received from reinsurers		**58**	62
	Creditors			
FRS 103, 4.5(a)	Creditors arising out of direct insurance operations		**1,437**	1,400
FRS 103, 4.5(a)	Creditors arising out of reinsurance insurance operations		**494**	603
	Debenture loans	3(t), 27	**950**	950
	Amounts owed to credit institutions	3(t), 27	**552**	488
	Other creditors including taxation and social security	28	**559**	111
			3,992	3,552
	Accruals and deferred income		**200**	125
PwC	**Total liabilities**		**33,999**	31,326
	Total equity and liabilities		**43,022**	39,529

The financial statements on pages 15 to 103 were approved by the Board of Directors on 3 March 2016 and were signed on its behalf by:

W Pitt
Chairman

Consolidated balance sheet

FRS 102, 4.2 An entity should present a 'statement of financial position' (alternatively known as a 'balance sheet') in accordance with the formats in the Companies Act Regulations.

Sch3, 3 *Format of balance sheet*

As with the profit and loss account (refer to commentary thereon), Proforma-Gen Limited has taken advantage of the option to combine certain items in the balance sheet to which Arabic numbers have been assigned in the balance sheet format. Such aggregation is not permissible in respect of items relating to technical provisions and the reinsurers' share of technical provisions.

Sch3 BS(1) *Called up share capital not paid*

Proforma-Gen Limited does not have any called up share capital not paid. Where applicable, however, this asset may be disclosed either as the first asset category in the balance sheet or may be included under debtors.

Other assets

Sch3 BS (15) Significant amounts included under the heading "other assets" and the sub-heading "other" should be analysed in the notes to the financial statements.

Reinsurers' share of technical provisions and deferred acquisition costs ("DAC")

Sch3 BS (12), (17)
IG 2.36 Schedule 3 permits DAC and reinsurers' share of technical provisions to be either shown as assets or netted from unearned premiums and technical provisions respectively. However, FRS 103's implementation guidance requires that these items are shown separately.

Debtors/Creditors arising out of insurance/reinsurance operations

PwC Debtors and creditors are required to be split between direct insurance and reinsurance operations, though it is not clear from Schedule 3 what is meant in this context by "reinsurance operations". We have followed the treatment adopted in insurance annual returns and interpreted debtors and creditors arising out of reinsurance operations to include balances arising from both reinsurance accepted and ceded.

Financial liabilities in relation to investment contracts

PwC Financial liabilities for investment contracts, in respect of general insurance business, could be included within the headings "Other technical provisions" or "Other creditors including tax and social security" within the Schedule 3 formats. Alternatively, a case may be made for creating a new line for financial liabilities in respect of investment contracts within the balance sheet format, as permitted by paragraph 2(2) of Schedule 3, on the grounds that they are not "specifically included" in any of the existing captions. Proforma-Gen Limited has included such liabilities under "Other technical provisions".

Recoveries under investment contracts

PwC Amounts recoverable under contracts that are legally in the form of reinsurance but are accounted for as financial assets could appropriately be included within "Other financial investments". Proforma-Gen Limited has no such balances.

Unexpired risks provision

Sch3, BS(25)
IG 2.21 Where appropriate, the unexpired risks provision should be included as part of other technical provisions and, if it is significant, it should be disclosed separately either in the balance sheet or in the notes to the financial statements.

Bad debt provisions

Sch3, 40(2) Schedule 3 specifies that assets included under debtors (i.e. debtors arising out of direct insurance operations, debtors arising out of reinsurance operations and other debtors) be shown at net realisable value. Accordingly, any provisions against reinsurance recoverables should be netted off against the associated reinsurance debts.

Company balance sheet as at 31 December 2015

Sch1, 1(1) (a)

		2015	2014
		£m	£m
Fixed assets			
Investments			
Investment in Group undertakings	3(q), 16	**7,057**	6,516
Current assets			
Debtors			
Amounts owed by Group undertakings		**171**	64
Other debtors		**237**	292
		408	356
Creditors: amounts falling due within one year			
Amounts owed to Group undertakings		**38**	177
Other creditors including taxation and social security	28	**35**	81
		73	258
Net current assets		**335**	98
Total assets less current liabilities		**7,392**	6,614
Creditors: amount falling due after more than one year			
Bank loans and overdrafts	27	**589**	541
Preference shares	27	**600**	600
		1,189	1,141
		6,203	5,473
Capital and reserves			
Called up share capital	21	**4,867**	4,867
Share premium account	21	**178**	178
Profit and loss account		**1,158**	428
Total shareholders' fund		**6,203**	5,473

The financial statements on pages 15 to 103 were approved by the Board of Directors on 3 March 2016 and were signed on its behalf by:

W Pitt
Chairman

Where the holding company is not itself an insurance company, as is the case here, its balance sheet should be prepared in accordance with Schedule 1, not Schedule 3, to SI 2008/410.

Consolidated statement of changes in equity for the year ended 31 December 2015

FRS 102, 3.17(c)		Notes	Called-up share capital	Share premium	Retained earnings	Total	Non-controlling interest	Total equity
			£m	£m	£m	£m	£m	£m
	Balance as at 1 January 2014		4,867	178	2,904	7,949	571	8,520
FRS 102, 6.3(c)	Profit (loss) for the year		-	-	(243)	(243)	100	(143)
FRS 102, 6.3(c)	Other comprehensive income (loss) for the year		-	-	(24)	(24)	-	(24)
	Total comprehensive income for the year		-	-	(267)	(267)	100	(167)
Sch1, 43(c)	Dividends	3(t), 3(w), 13	-	-	(150)	(150)	-	(150)
	Total transactions with owners, recognised directly in equity		-	-	(150)	(150)	-	(150)
	Balance as at 31 December 2014		4,867	178	2,487	7,532	671	8,203
	Balance at 1 January 2015		**4,867**	**178**	**2,487**	**7,532**	**671**	**8,203**
FRS 102, 6.3(c)	**Profit (loss) for the year**		**-**	**-**	**762**	**762**	**87**	**849**
FRS 102, 6.3(c)	**Other comprehensive income (loss) for the year**		**-**	**-**	**46**	**46**	**-**	**46**
	Total comprehensive income for the year		**-**	**-**	**808**	**808**	**87**	**895**
Sch1, 43(c)	**Dividends**	3(t), 3(w), 13	**-**	**-**	**(75)**	**(75)**	**-**	**(75)**
	Total transactions with owners, recognised directly in equity		**-**	**-**	**(75)**	**(75)**	**-**	**(75)**
	Balance as at 31 December 2015		**4,867**	**178**	**3,220**	**8,265**	**758**	**9,023**

Company statement of changes in equity for the year ended 31 December 2015

FRS 102, 3.17(c)		Notes	Called-up share capital	Share premium	Retained earnings	Total
			£m	£m	£m	£m
	Balance as at 1 January 2014		4,867	178	141	5,186
FRS 102, 6.3(c)	Profit (loss) for the year		-	-	437	437
	Total comprehensive income for the year		-	-	437	437
Sch1, 43(c)	Dividends	3(t), 3(w), 13	-	-	(150)	(150)
	Total transactions with owners, recognised directly in equity		-	-	(150)	(150)
	Balance as at 31 December 2014		4,867	178	428	5,473
	Balance at 1 January 2015		4,867	178	428	5,473
FRS 102, 6.3(c)	**Profit (loss) for the year**		-	-	805	805
	Total comprehensive income for the year		-	-	805	805
Sch1, 43(c)	**Dividends**	3(t), 3(w), 13	-	-	(75)	(75)
	Total transactions with owners, recognised directly in equity		-	-	(75)	(75)
	Balance as at 31 December 2015		4,867	178	1,158	6,203

FRS 102, 3.17(d)

Consolidated statement of cash flows for the year ended 31 December 2015

		Notes	2015 £m	2014 £m
FRS 102, 3.17(d)				
	Net cash from operating activities	29	1,138	395
FRS 102, 7.15	Interest received	10	730	774
FRS 102, 7.17	Taxation paid		(117)	(60)
FRS 102, 7.4, 7.7	**Net cash generated from operating activities**		1,751	1,109
FRS 102, 7.5	**Cash flow from investing activities**			
	Acquisition of subsidiary (net of cash acquired)	17	(690)	-
	Purchase of tangible assets	19	(1,034)	(160)
	Proceeds from disposal of tangible assets	19	51	40
FRS 102, 7.15	Dividends from associates	16	37	20
	Net cash used in investing activities		(1,636)	(100)
FRS 102, 7.6	**Cash flow from financing activities**			
FRS 102, 7.16	Dividends paid to owners of the parent	13	(75)	(150)
FRS 102, 7.15	Interest paid	10	(135)	(130)
	Net cash used in financing activities		(210)	(280)
	Net (decrease) increase in cash at bank and in hand		(95)	729
	Cash and cash equivalents at the beginning of the year		1,428	699
	Cash and cash equivalents at the end of the year		1,333	1,428
FRS 102, 7.20	Cash and cash equivalents consists of:			
	Cash at bank and in hand		781	940
	Short term deposits presented within other financial investments		552	488
	Cash and cash equivalents		1,333	1,428

FRS 102, 7.7-8

An entity can present cash flows from operating activities using either:

(a) the indirect method, where profit or loss is adjusted for the effects of changes during the period to working capital balances, non-cash transactions and items of income or expense associated with investing or financing cash flows; or

(b) the direct method, where major classes of gross cash receipts and payments are disclosed.

FRS 102, 7.20

FRS 102 requires the statement of cash flows should include information about the changes in 'Cash and cash equivalents', whereas the balance sheet includes an item for 'Cash at bank and in hand'. Where these amounts differ, an entity should present the components of cash and cash equivalents and a reconciliation of the amounts to the equivalent items presented in the balance sheet.

Reporting cash flows on a net basis

FRS 102, 34.33

A financial institution may report cash flows arising from each of the following activities on a net basis:

(a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;

(b) the placement of deposits with and withdrawal of deposits from other financial institutions; and

(c) cash advances and loans made to customers and the repayment of those advances and loans.

Notes to the financial statements
for the year ended 31 December 2015

1. General information

FRS 102, 3.24 Proforma-Gen Limited ('the Company') and its subsidiaries (together "the Group") transact general insurance business in the UK and through a branch in the USA. The company is a private company limited by shares and is incorporated in England. The address of its registered office is 12 Parliament Road, London SW1 3XY.

FRS 102, 3.24 An entity shall disclose the following in the notes:

(a) the legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office); and

(b) a description of the nature of the entity's operations and its principal activities, unless this is disclosed in the business review (or similar statement) accompanying the financial statements.

2. Statement of compliance

FRS 102, 3.3
FRS 103, 1.2
Sch3, 62
SI2008/410, 9(4)

The Group and individual financial statements of Proforma-Gen Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" (FRS 103) and the Companies Act 2006. The Group financial statements have been prepared in compliance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance groups.

3. Summary of significant accounting policies

FRS 102, 2.11, 8.5, 10.7 The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Details of the transition to FRS 102 and FRS 103 are disclosed in Note 35.

FRS 102, 9.1, 9.24 See the glossary to FRS 102 for definitions of consolidated and separate financial statements. Consolidated financial statements are referred to as 'group accounts' in the Companies Act 2006 and separate financial statements are included within the meaning of 'individual financial statements'.

FRS 102, 3.10 FRS 102 requires financial statements to be prepared at least annually. Where the reporting period changes and annual financial statements are presented for a period longer or shorter than one year the entity shall disclose (a) that fact; (b) the reason for using a longer or shorter period; and (c) the fact that the comparative amounts presented in the financial statements are not directly comparable.

Summary of significant accounting policies

FRS 102, 8.5 An entity shall disclose the following in the summary of significant accounting policies:

(a) the measurement basis (or bases) used in preparing the financial statements; and

(b) the other accounting policies used that are relevant to an understanding of the financial statements.

FRS 102, 8.6 An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

FRS 102, 10.1 FRS 102, Section 10 provides guidance for selecting and applying the accounting policies. It also covers changes in accounting estimates and corrections of errors in prior period financial statements.

FRS 103, 2.1 FRS 103 Section 2 provides guidance for selecting and applying the accounting policies used in the recognition and measurement of insurance contracts.

FRS 102, 10.2 Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

FRS 102, 10.3 If an FRS or FRC Abstract specifically addresses a transaction, other event or condition, an entity shall apply that FRS or FRC Abstract. However, the entity need not follow a requirement in an FRS or FRC Abstract if the effect of doing so would not be material.

FRS 102,10.4 Other than in respect of insurance contracts, if an FRS or FRC Abstract does not specifically address a transaction, other event or condition, an entity's management shall use its judgement in developing and applying an accounting policy that results in information that is:

(a) relevant to the economic decision-making needs of users; and

(b) reliable, in that the financial statements:

   i. represent faithfully the financial position, financial performance and cash flows of the entity;

ii. reflect the economic substance of transactions, other events and conditions, and not merely the legal form;

iii. are neutral, i.e. free from bias;

iv. are prudent; and

v. are complete in all material respects.

See Insurance contracts below for details of the requirements for insurance contracts.

FRS 102, 10.7 An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an FRS or FRC Abstract specifically requires or permits categorisation of items for which different policies may be appropriate. If an FRS or FRC Abstract requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

a. Basis of preparation

FRS 102, 8.7 The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

s408(4) The company has taken advantage of the exemption in section 408 of the Companies Act from disclosing its individual profit and loss account.

FRS 102, 3.11 FRS 102 requires the entity to retain the presentation and classification of items from one period to the next unless (a) it is apparent, following a significant change in the entity's operations, that another presentation or classification would be more appropriate or (b) FRS 102, or another applicable FRS or FRC Abstract, requires a change in presentation.

FRS 102, 3.12 When presentation or classification is changed comparative amounts shall be reclassified unless impracticable. When amounts are reclassified the entity shall disclose (a) the nature of the reclassification; (b) the amount of each item or class of items that is reclassified; and (c) the reason for the reclassification.

FRS 102, 3.13 If reclassification is impracticable the entity shall disclose the reason why.

FRS 102, 3.14 FRS 102 requires comparative information for all amounts in the financial statements unless the standard permits or requires otherwise. Comparative information for narrative and descriptive information should be included when it is relevant for an understanding of the current period's financial performance.

b. Going concern

FRS 102, 3.9, 32.7A-B Having assessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

FRS 102, Glossary
FRS 102, 3.8
3Sch16 FRS 102 requires financial statements to be prepared on a going concern basis but does not require an explicit statement. An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. The Companies Act 2006 presumes that a group or company is carrying on business as a going concern.

FRS 102, 3.8 FRS 102 requires management to make an assessment of the entity's ability to continue as a going concern taking into account all available information about the future, which is at least, but not limited to, twelve months from the date when the financial statements are authorised for issue.

FRS 102, 3.9 If there are material uncertainties that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose these uncertainties.

FRS 102, 3.9 When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

These illustrative financial statements include disclosures explaining the going concern basis.

c. Exemptions for qualifying entities under FRS 102

FRS 102, 1.11 FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders.

The Company has taken advantage of the following exemptions:

FRS 102, 1.12(b) a) from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows;

FRS 102, 1.12(e) b) from disclosing the Company key management personnel compensation, as required by FRS 102 paragraph 33.7.

Reduced disclosures for subsidiaries (and ultimate parent)

FRS 102, 1.12

FRS 102 allows a qualifying entity certain disclosure exemptions. A qualifying entity is defined in FRS 102 paragraph 1.8.

FRS 102, 1.10

FRS 102 states ‘A qualifying entity (for the purposes of this FRS) which is required to prepare consolidated financial statements (for example, if the entity is required by section 399 of the Act to prepare consolidated financial statements, and is not entitled to any of the exemptions in sections 400 to 402 of the Act), or which voluntarily chooses to do so, may not take advantage of the disclosure exemptions set out in paragraph 1.12 in its consolidated financial statements’.

FRS 102, 1.12

For financial institutions such as insurers these exemptions are:

FRS 102, 4.12(a)(iv)

- A reconciliation of the number of shares outstanding at the beginning and end of the period.

FRS 102, 7 &3.17(d))

- The requirement to prepare a statement of cash flows.

FRS 102, 26.18(b), 26.19-26.21, 26.23

- Certain disclosure requirements in respect of share based payments provided that (i) for a subsidiary the share based payment concerns equity instruments of another group entity; or (ii) for an ultimate parent the share based payment concerns its own equity instruments and its separate financial statements are presented alongside the consolidated financial statements of the group; and in both cases the equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

FRS 102, 33.7

- The non-disclosure of key management personnel compensation in total.

FRS 102, 1.11

A qualifying entity may take advantage of the disclosure exemptions above provided that:

a) its shareholders have been notified and have not objected to the use of the exemptions;

b) it otherwise applies the recognition, measurement and disclosure requirements of FRS 102; and

c) it discloses in the notes to its financial statements a brief summary of the disclosure exemptions adopted and the name of the parent of the group in whose consolidated accounts its financial statements are adopted and from where those financial statements may be obtained.

d. Basis of consolidation

FRS 102 FRS 102, 9.2, 9.16, 9.23(a),(c)

The Group consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings together with the Group’s share of the results of associates made up to 31 December 2015.

FRS 102, 9.4, 9.5, 9.23(b)

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where the Group owns less than 50% of the voting powers of an entity but controls the entity by virtue of an agreement with other investors which give it control of the financial and operating policies of the entity it accounts for that entity as a subsidiary.

FRS 102, 9.17

Where a subsidiary has different accounting policies to the Group, adjustments are made to those subsidiary financial statements to apply the Group’s accounting policies when preparing the consolidated financial statements.

FRS 102, 14.2 – 14.4, 14.8, 14.12(a)

An associate is an entity, being neither a subsidiary nor a joint venture, in which the Group holds a long-term interest and where the Group has significant influence. The Group considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate. The results of associates are accounted for using the equity method of accounting.

FRS 102, 9.18, 14.8(i)

Any subsidiary undertakings or associates sold or acquired during the year are included up to, or from, the dates of change of control or change of significant influence respectively.

FRS 102, 9.18A, 9.18B

Where control of a subsidiary is lost, the gain or loss is recognised in the consolidated income statement. The cumulative amounts of any exchange differences on translation, recognised in equity, are not included in the gain or loss on disposal and are transferred to retained earnings. The gain or loss also includes amounts included in other comprehensive income that are required to be reclassified to profit or loss but excludes those amounts that are not required to be reclassified.

FRS 102, 9.19B, – 9.19D, 22.19

Where control of a subsidiary is achieved in stages, the initial acquisition that gave the Group control is accounted for as a business combination. Thereafter, where the Group increases its controlling interest in the subsidiary the transaction is treated as a transaction between equity holders. Any difference between the fair value of the consideration paid and the carrying amount of the non-controlling interest acquired is recognised directly in equity. No changes are made to the carrying value of assets, liabilities or provisions for contingent liabilities.

FRS 102, 9.15, 14.8(e)

All intra-Group transactions, balances, income and expenses are eliminated on consolidation. Adjustments are made to eliminate the profit or loss arising on transactions with associates to the extent of the Group’s interest in the entity.

FRS 102, 9.2

Except as permitted by FRS 102, 9.3 a parent entity shall present consolidated financial statements in which it consolidates all its investments in subsidiaries in accordance with FRS 102. A parent entity need only prepare consolidated financial statements under the Companies Act if it is a parent at the year end. There are further conditions set out in the relevant sections of the Companies Act 2006.

FRS 102, 9.5
FRS 102, 9.6, 9.6A

Control is presumed to exist when an entity owns, directly or indirectly through subsidiaries, more than half of the voting power. This presumption may be overcome, in exceptional circumstances, if it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns less than half of the voting power and certain circumstances apply. In addition, control can be achieved by having, currently exercisable, options or convertible instruments or through dominant influence.

FRS 102, 9.8 - 9.9B

Where subsidiaries are excluded from consolidation these should be disclosed and the reason for exclusion. These circumstances are not included in these illustrative financial statements.

FRS 102, paragraph 9.19A deals with the disposal of subsidiaries where control is retained. This circumstance is not included in these illustrative financial statements.

FRS 102, paragraphs 9.31 to 9.32 deals with the exchange of businesses or other non-monetary assets for an interest in a subsidiary, jointly controlled entity or associate. These types of transactions are not included in these illustrative financial statements.

FRS 103, 2.6(c)

As an exception to the requirements of FRS 102, an insurer may continue with the practice of using non-uniform accounting policies for the insurance contracts of subsidiaries. Proforma-Gen has not made use of this exception.

e. Foreign currency

Functional and presentation currency

FRS 102, 3.23(d)

The Group and Company financial statements are presented in pound sterling and rounded to millions.

The Group's functional currency is the pound sterling, with the exception of the United States branch whose functional currency is US Dollars. The Company's functional currency is the pound sterling.

FRS 102, 30.2-30.5, 30.26

The functional currency is the currency of the primary economic environment in which the entity operates.

An entity shall disclose the currency in which the financial statements are presented. When the presentation currency is different from the functional currency, an entity shall state that fact and shall disclose the functional currency and the reason for using a different presentation currency.

FRS 102, 30.7, 30.8

Foreign currency transactions, including those of overseas branches, are translated into the functional currency using the spot exchange rates at the dates of the transactions.

FRS 102, 30.9(a)-(c)
FRS 103.2.36

At each period end foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

FRS 102, 30.10
FRS 103, 2.32

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non-technical account.

FRS 102, 30.11
FRS 103, 2.32

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of non-monetary assets and liabilities denominated in foreign currencies are recognised in other comprehensive income for those items where the gain is required to be recognised within other comprehensive income, and in the non-technical account where the gain is required to be recognised within profit or loss.

FRS 102, 30.18

The results and financial position of the United States branch are translated into the presentation currency as follows:

(a) assets and liabilities are translated at the closing rate at the balance sheet date;

(b) income and expenses are translated at the average rate of exchange during the year; and

(c) all resulting exchange differences are recognised in other comprehensive income.

FRS 102, 30.7, 30.8

FRS 102 requires transactions in foreign currency to be translated into the functional currency using the spot rate in effect on that date. It states 'For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.'

FRS 102, 30.19

FRS 102 requires transactions in foreign currency income and expenses to be translated into the presentational currency using an average rate of exchange during the year. For practical reasons, an entity may use a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

FRS 102, 30.25

FRS 102 requires disclosure of the amount of exchange differences recognised in profit or loss and those classified in equity arising in the period.

FRS 102, 3.9

At the end of each financial year entities should translate monetary items using the closing rate; non-monetary items that are measured in terms of historical cost using the exchange rate at the date of the transaction; and non-monetary items that are measured at fair value using the exchange rates at the date when the fair value was determined.

FRS 102, 3.10

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous periods should be recognised in the profit or loss.

FRS 102, 3.11
FRS 103, 3.2

Where an FRS requires a gain or loss on a non-monetary item to be recognised in other comprehensive income, an entity shall recognise any exchange component of that gain or loss in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, an entity shall recognise any exchange component of that gain or loss in profit or loss. For an insurer this difference should be dealt with through the non-technical account.

f. Insurance contracts

i. Classification of insurance and investment contracts

FRS 103, 4.2

The Group issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. The majority of the Group's insurance products are classified as insurance contracts.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Certain group healthcare products, where premiums are retrospectively adjusted taking into account claims experience, do not transfer significant insurance risk and are classified as investment contracts. For more details please refer to Note 3(t).

FRS 103, Glossary

Definition of insurance contract

An insurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

FRS 103 Appendix II

FRS 103 Appendix II: Definition of an insurance contract gives additional guidance on the definition of an insurance contract, including:

- The term 'uncertain future event'
- Payments in kind
- Insurance risk and other risks
- Examples of insurance contracts and items that are not insurance contracts such as financial reinsurance contracts
- Significant insurance risk
- Changes in the level of insurance risk

Exemptions from FRS 102 for insurance contracts

FRS 103, 2.12

Paragraphs 10.4 to 10.6 of FRS 102, which set out how an entity's management shall use its judgement in developing and applying accounting policies, do not apply in relation to accounting policies for insurance contracts issued (including related acquisition costs and intangible assets) and reinsurance contracts held.

FRS 103, 2.13

However, insurers are not exempt from some implications of the considerations in paragraphs 10.4 to 10.6 of FRS 102. Specifically, an insurer:

(a) unless otherwise required by the regulatory framework, shall not recognise as a liability any provisions for possible future claims, if those claims arise under insurance contracts that are not in existence at the end of the reporting period (such as catastrophe provisions and equalisation provisions). But if such provisions are required by the regulatory framework that applies to the entity, they must be recognised and presented in accordance with the requirements of that framework;

FRS 103, 2.14 – 2.18

(b) shall carry out the liability adequacy test that meets specified minimum requirements;

(c) shall remove an insurance liability (or a part of an insurance liability) from its balance sheet when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires;

(d) shall not offset:

  i. reinsurance assets against the related insurance liabilities; or

  ii. income or expense from reinsurance contracts against the expense or income from the related insurance contracts; and

FRS 103, 2.19 (e) shall consider whether its reinsurance assets are impaired in which case a reduction in carrying amount shall be recognised in profit and loss as an impairment loss. A reinsurance asset is impaired if, and only if, there is objective evidence, as a result of an event that occurred after initial recognition, that the cedant may not receive all amounts due and the impact on the amounts that will be received is reliably measurable.

ii Insurance contracts

The results are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

a) Premiums written

IG 2.2, 2.4, 2.5 Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the company, less an allowance for cancellations.

IG 2.1 The annual basis of accounting must be used for all general insurance business, despite the fact that this will normally require some estimation to be made at the balance sheet date.

Sch3 PL(1) Written premiums should exclude taxes or duties levied with premiums.

IG 2.6, 2.7 Where written premiums are subject to an increase retrospectively, recognition of potential increases should be deferred until the additional amount can be ascertained with reasonable certainty. Where written premiums are subject to a reduction, a re-measurement taking account of such a reduction should be made as soon as the entity has an obligation to the policyholder. Additional or return premiums should be treated as a re-measurement of the initial premium.

IG 2.3 Regardless of the method by which commission is remitted (e.g. by an intermediary), grossing up for the commission should be applied, if necessary on an estimated basis, as this correctly reflects the contractual arrangements in force (this applies even when premiums are determined by an intermediary). However, where policies are issued to an intermediary on a wholesale basis and the intermediary is responsible for setting the amount payable by the insured without reference to the insurer, then the written premium will normally comprise the premium payable to the insurer and grossing-up will be inappropriate unless it reflects the contractual position.

b) Unearned premiums

IG 2.8 Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

IG 2.8
IG 2.7
Written premiums should be recognised as earned income over the period of the policy having regard to the incidence of risk. FRS 103's implementation guidance notes that time apportionment will normally be an appropriate method unless there is a marked unevenness in the incidence of risk over the period of cover. Where a claims event causes a reinstatement premium to be paid, the recognition of the reinstatement premium and the effect on the initial premium should reflect the respective incidence of risk attaching to those premiums.

IG 2.34
Sch3 BS (17)
c) Acquisition costs

Acquisition costs which represent commission and other related expenses are deferred over the period in which the related premiums are earned.

IG 2.36 Related reinsurance commissions deferred should not be netted against deferred acquisition costs but should be included as liabilities.

IG 2.35 Advertising costs should not be deferred unless they relate directly to the acquisition of new business.

d) Claims incurred

Sch3 PL (4)
IG 2.13
Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

e) Claims provisions and related reinsurance recoveries

Sch3, 53(2)
Sch3 BS (22)
IG 2.9
IG 2.13
Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the company. The estimated cost of claims includes expenses to be incurred in settling claims. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported (“IBNR”) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the company uses a variety of estimation techniques, generally based upon statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these, the company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

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 projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries.

f) Reinsurance

Contracts entered into by the Group with reinsurers, under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial instruments. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts, provided there is significant transfer of insurance risk.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the company’s reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers’ share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as ‘Outward reinsurance premiums’ when due.

IG 2.61 Assets created by reinsurance transactions should be measured on a basis consistent with the related reinsured liability, subject to any allowance for impairment.

Property, aviation and accident business

Property, aviation and accident business is “short tail”, that is there is not a significant delay between the occurrence of the claim and the claim being reported to the company. The costs of claims notified to the company at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

Healthcare business

All healthcare contracts classified as insurance contracts are short tail. The total cost of claims paid by the company at the balance sheet date is used to project the expected total cost for claims incurred by reference to statistics which show how the total cost of claims paid in previous periods have developed over time.

Motor business

The estimated cost of motor claims excluding the cost of personal injury claims is calculated by reference to the projected number of claims, based on statistics showing how the number of notified claims has been developed over time, and the anticipated average cost per claim, based on historical levels adjusted to allow for movements in the variables described above. The personal injury element of motor claims costs is estimated using the same method as used for liability claims described below. In addition, the estimate is assessed in the context of the historical development of paid and incurred claims and the implied loss ratios for each accident year.

Liability and marine

These claims are longer tail than for those of the other classes of business described above and so a larger element of the claims provision relates to incurred but not reported claims. Claims estimates for marine and liability business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability class of business is also subject to the emergence of new types of latent claims but no allowance is included for this as at the balance sheet date.

Pollution

There may be a long delay between the occurrence and notification of these types of claim. In estimating the cost of claims the company considers the type of risks written historically that may give rise to exposure to these risks, notifications received from policyholders, the nature and extent of the cover provided, the current legal environment, changes in the effectiveness of clean up techniques and industry benchmarks of the typical cost of claims of this kind and of total expected insured losses. Further details on the inherent uncertainties in these claims provisions are provided in Note 5.

IG 2.9

The entity should recognise a provision in the balance sheet, and recognise the amount of the provision as an expense, for the expected ultimate cost of settlement of all claims in respect of events up to the reporting date, whether reported or not, together with related internal and external claims handling expenses, less amounts already paid.

IG 2.10

In relation to an entity's existing accounting policies, the level of claims provisions should continue to be set such that no adverse run-off deviation is envisaged. In determining the estimate of the amount required to settle the obligation at the reporting date consideration should be given to the probability and magnitude of future experience being more adverse than previously assumed. An entity may not introduce this practice either if it changes its existing accounting policies or develops a new accounting policy.

Sch3, 54

Discounted claims provisions

On third-party liability business, due to the long delay between the inception date of the policy and the final settlement of the claim, the outstanding claims provisions are discounted to take account of the expected investment income receivable between inception and settlement on the assets held to cover the provisions.

Discounting

FRS 103, 2.6

An insurer does not have to change its accounting policy if it does not discount its insurance liabilities at present, but, it cannot introduce a new policy of measuring insurance liabilities on an undiscounted basis, unless this is required by legislation.

Schedule 3 to SI2008/410 only permits discounting of general insurance claims outstanding subject to certain conditions:

Sch3 Pt I, 54
IG 2.14

(a) the expected average interval between the date for the settlement of claims being discounted and the accounting date must be at least four years. The four-year test should be applied by reference to the end of each reporting period in respect of all claims outstanding at that date, and not just once in the accounting period in which the claims were incurred;

(b) the discounting or deductions must be effected on a recognised prudential basis;

(c) when calculating the total cost of settling claims, the company must take account of all factors that could cause increases in that cost;

(d) the company must have adequate data at its disposal to construct a reliable model of the rate of claims settlements;

(e) the rate of interest used for the calculation of present values must not exceed a rate prudently estimated to be earned by assets of the company which are appropriate in magnitude and nature to cover the provisions for claims being discounted during the period necessary for the payment of such claims, and must not exceed either:

  i. a rate justified by the performance of such assets over the preceding five years, or

  ii. a rate justified by the performance of such assets during the year preceding the balance sheet date.

IG 2.18 Justification of the discount rate involves consideration of historical returns to the extent this is relevant to the future.

IG 2.15 Where applied, explicit discounting should normally be adopted by reference to categories of claims (with similar characteristics but not solely by length of settlement pattern), rather than to individual claims.

IG 2.16 The calculation of the average interval should be weighted on the bases of expected claims before any deduction for reinsurance.

IG 2.17 Discounting should only be considered if there is adequate data to model the claims settlement pattern reliably. The principal factors to be considered are the amount of future claims settlements, the timing of future cash flows and the discount rate. Procedures should be undertaken to assess the accuracy of the claims settlement pattern predicted by the model in prior periods and the current model should be adjusted, as appropriate, to reflect the out-turn and conclusions of analyses in the previous period. Cash flows should be modelled gross and net of reinsurance as reinsurance recoveries may arise later than the related claims payments.

Unexpired risks provision

IG 2.21 Provision has been made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision ('UPP') and unexpired risks provision. The expected claims are calculated based on information available at the balance sheet date.

IG 2.22 Unexpired risks surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. The unexpired risks provision is included within 'Other technical provisions'.

IG 2.22 The assessment of whether an unexpired risks provision is necessary should be made for each grouping of business which is managed together. Offset of surpluses and deficits is permitted where business classes are "managed together".

IG 2.23 To qualify as managed together, business classes must either be written together as separate parts of the same insurance contracts or have significant common characteristics which are relevant to the assessment of risk and setting of premiums. In addition there must be no constraint on the use of assets held in relation to such business to meet any of the associated liabilities.

Future investment return

IG 2.26 The future investment return arising on investments supporting the unearned premiums provision and unexpired risks provision is to be taken into account in calculating the best estimate of the amount required to settle future claims in relation to the unexpired periods of risk on policies in force at the reporting date.

Subrogation and salvage

Sch3, Pt I, 53(4) Recoveries arising out of subrogation or salvage are estimated on a prudent basis and included within other debtors.

Sch3, Pt I, 53(4) Schedule 3 to SI 2008/410 requires recoverable amounts arising out of subrogation or salvage to be estimated on a prudent basis and either deducted from the provision for claims outstanding (in which case if the amounts are material they must be shown in the notes to the accounts) or shown as assets. Proforma-Gen presents such recoveries as assets within "other debtors".

Equalisation provision

IG 2.28(a) - (b) Amounts are set aside as equalisation provisions in accordance with the PRA's Handbook for the purpose of mitigating exceptionally high loss ratios in future years. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 3 to SI2008/410 to be included within technical provisions.

iii Investment contracts

FRS 103, 2.23 Amounts collected in respect of certain group healthcare contracts, which principally involve the transfer of financial risk, are accounted for using deposit accounting, under which amounts collected are credited directly to the balance sheet as an adjustment to the liability to the policyholder. Investment contract liabilities are initially recognised at fair value and subsequently carried in the balance sheet at amortised cost and shown as 'Other technical provisions'. Fees receivable from investment contracts (included in 'Other technical income') and investment income and interest payable on contract balances are recognised in the profit and loss account in the year they are assessed unless they relate to services to be provided in future years, in which case they are deferred and recognised as the service is provided.

Commissions incurred in respect of these contracts are deferred in line with the recognition of fee income and included in the balance sheet within deferred acquisition costs.

FRS 103 A2.19 – A2.20

FRS 102, 23A.21A

A contract which is legally of the form of insurance or reinsurance but does not transfer significant insurance risk is not within the scope of FRS 103 and will, if it creates financial assets or financial liabilities, be accounted for as a non-insurance financial instrument. Where such a financial instrument also includes financial service fees the recognition of revenue depends on the purpose for which the fees are assessed. Therefore it is necessary to distinguish between fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided (e.g. fees for investment management services), and fees that are earned on the execution of a significant act.

FRS 103 A2.21

A contract that is legally of the form of insurance or reinsurance which neither transfers significant insurance risk nor creates financial instruments will be accounted for in accordance with Section 23 of FRS 102 whereby revenue associated with a transaction involving the rendering of services is recognised by reference to the stage of completion (provided the outcome of the transaction can be measured reliably).

g. Exceptional items

FRS 102, 5.9, 5.9A

The Group classifies certain one-off charges or credits that have a material impact on the Group's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Group.

Exceptional items

FRS 102, 5.10A
FRS 102, 5.9
FRS 102, 5.9A

FRS 102 does not specifically define exceptional items, although extraordinary items are defined. FRS 102 requires an entity to present additional line items, headings and subtotals when such a presentation is relevant to an understanding of the entity's financial performance. FRS 102 requires an entity to disclose items that are material. Items are not extraordinary if they arise from the ordinary activities of the company.

Proforma-Gen Limited has no exceptional or extraordinary items. The above policy is included for illustration purposes only.

h. Employee benefits

The Group provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit and defined contribution pension plans.

FRS 102, 28.1

Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

FRS 102, 28.4 &28.39

Defined contribution pension plans

FRS 102, 28.10(a) &28.13

The Group operates a number of country-specific defined contribution plans for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Group in independently administered funds.

Defined benefit pension plan

FRS 102 28.10(b)
FRS 102, 28.14, 28.15

The Group operates a defined benefit pension plan. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

FRS 102, 28.17-18

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date.

The defined benefit obligation is calculated using the projected unit credit method. Annually, the Group engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

FRS 102, 28.15(b) 11.27-11.32

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Group's policy for similarly held assets. This includes the use of appropriate valuation techniques.

FRS 102, 28.23(d)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

FRS 102, 28.23(a),(c)

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

(a) the increase in pension benefit liability arising from employee service during the period; and

(b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This is recognised in profit or loss as 'Other income/ (charges)'.

FRS 102, 28.23(b), 28.24-24B

Annual bonus plan

The Group operates a number of annual bonus plans for employees. An expense is recognised in the profit and loss account when the Group has a legal or constructive obligation to make payments under the plans as a result of past events and a reliable estimate of the obligation can be made.

FRS 102, 28.8

FRS 102, Section 28 covers all employee benefits (except share - based payments covered by FRS 102, Section 26) including post-employment benefits (defined contribution plans and defined benefit plans).

FRS 102 does not require disclosure about short term employee benefits. Other employee benefits considered in Section 28 include insured benefits (paragraph 28.12), termination benefits (paragraph 28.31) and other long term benefits, including long-term paid absence, sabbatical leave, long-service benefits, long-term disability and deferred remuneration (paragraph 28.29). These are not included in these illustrative financial statements.

Defined benefit pension plan

FRS 102, 28.20

PwC

FRS 102 does not require the entity to engage an independent actuary to calculate its defined benefit obligation. Nor does the standard require the valuation to be performed annually. FRS 102, paragraph 28.20 gives guidance where actuaries are not engaged annually. If this option is taken then we would expect appropriate disclosure in the critical accounting judgements and estimation uncertainty note.

PwC

In addition, if the plan is material the assumptions used and judgements made may also require disclosure in the critical accounting judgements and estimation uncertainty note.

FRS 102, 28.15(b)

If the pension plan asset is an insurance policy that exactly matches the amount and timing of some or all of the benefits payable under the plan, the fair value of the asset is deemed to be the present value of the related obligation.

FRS 102, 28.22

Where, at the reporting date, the present value of defined benefit obligation is less than the fair value of the plan assets the plan has a surplus. An entity shall recognise a surplus only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

FRS 102, 28.15A

The FRC amended FRS 102 in February 2015 to clarify that where a surplus is restricted no additional liabilities shall be recognised in respect of an agreement with the defined benefit plan to fund a deficit (such as a schedule of contributions).

i. Taxation

FRS 102, 29.2 & 29.22

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

FRS 102, 29.17

Current or deferred taxation assets and liabilities are not discounted.

Current tax

FRS 102, 29.3 -29.5

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

FRS 102, 29.6

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

FRS 102, 29.6 -29.8

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

FRS 102, 29.12-29.17

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

FRS 102, 29.16

Deferred tax relating to investment property that is measured at fair value is measured using the tax rates and allowances that apply to sale of the asset, except for investment property that has a limited useful life and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time.

j. Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

FRS 102, 19.6

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction.

FRS 102, 19.11 – 19.11A

Contingent consideration is initially recognised at estimated amount where the consideration is probable and can be measured reliably. Where (i) the contingent consideration is not considered probable or cannot be reliably measured but subsequently becomes probable and measureable or (ii) contingent consideration previously measured is adjusted, the amounts are recognised as an adjustment to the cost of the business combination.

FRS 102, 19.12 – 19.13

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measured they are disclosed on the same basis as other contingent liabilities.

FRS 102, 18.8, 18.11, 19.14 – 19.18, 19.20, 19.21

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

FRS 102, 19.22, 19.24

On acquisition, goodwill is allocated to cash-generating units ('CGU's') that are expected to benefit from the combination.

FRS 102, 27.25

FRS 102, 19.23, 27.28 – 27.31

Goodwill is amortised over its expected useful life. Where the Group is unable to make a reliable estimate of useful life, goodwill is amortised over a period not exceeding ten years. The useful economic life of ten years has been applied to all goodwill held at the balance sheet date. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. Reversals of impairment are recognised when the reasons for the impairment no longer apply.

FRS 102, 19.11(b), 19.11A

FRS 102 requires entities to include any costs directly attributable to the business combination in the cost of the business combination. Where control is achieved following a series of transactions the cost of the business combination is the aggregate of the fair values of the assets given, liabilities assumed and equity instruments issued.

FRS 102, 9.19C - 9.19D

When a controlling interest is increased, the subsidiary's identifiable assets and liabilities (including contingent liabilities) are not revalued to fair value, and no additional goodwill is recognised. Such transactions are accounted for as transactions between equity holders.

FRS 102, 19.23(b)

Goodwill is considered to have a finite useful life and should be amortised on a systematic basis over its life. If the useful life cannot be measured reliably the life shall not exceed ten years. Goodwill is tested for impairment in accordance with Section 27 of FRS 102.

FRS 102 requires negative goodwill to be recognised on the balance sheet. These illustrative financial statements do not include negative goodwill. If negative goodwill is recognised the accounting policy disclosure included above would be: '*Where the cost of the business combination exceeds the fair value of the Group's interest in the assets, liabilities and contingent liabilities acquired, negative goodwill arises. The Group, after consideration of the assets, liabilities and contingent liabilities acquired and the cost of the combination, recognises negative goodwill on the balance sheet and release this to profit and loss, up to the fair value of non-monetary assets acquired, over the periods in which the non-monetary assets are recovered and any excess over the fair value of non-monetary assets in the income statement over the period expected to benefit.*'

k. Intangible assets

FRS 102, 18.18 – 18.18A,18.19-18.20

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using a straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

FRS 102,18.24

Software	3 to 5 years

Amortisation is charged to other charges in the non-technical account.

Where factors such as technological advancement or changes in market price indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Costs associated with maintaining computer software are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;

- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

The disclosure of computer software as an intangible asset is a change in presentation under FRS 102 as it would probably have been treated as a tangible fixed asset under previous UK GAAP.

Section 18 of FRS 102 considers intangible assets other than goodwill and Section 19 considers Business combinations and Goodwill. FRS 102 paragraph 18.23 requires an entity to assume a residual value of zero unless there is a commitment by a third party to purchase the asset or there is an active market for the asset and the residual value can be determined by reference to the market and the market will exist at the end of the asset's useful life. This is not likely to be the case for computer software and thus the residual value has been considered to be zero.

FRS 103, 2.27

Acquired insurance contracts are split into two components: a liability measured in accordance with the insurer's accounting policies for insurance contracts that it issues; and an 'acquired claims provisions' intangible asset, representing the difference between the fair value of the contractual insurance rights acquired and insurance obligations assumed, and the liability which is measured in accordance with the accounting policies for insurance contracts issued (see Note 3(f) for more details). The subsequent measurement of the 'acquired claims provisions' intangible asset is consistent with the measurement of the related insurance liability.

l. Land and buildings

Sch3, 22(1), 26, 28(2)FRS 102, 16.7
FRS 102, 17.31(a)

Land and buildings are measured at fair value. Full valuations are made by independent, professionally qualified valuers every year.

FRS 102, 16.7

The aggregate surplus or deficit on revaluation of investment properties is taken to the non-technical account.

FRS 102, 17.15E-F

Revaluation gains on owner occupied properties are taken to other comprehensive income except to the extent that those gains reverse a revaluation loss on the same property that was previously recognised as expense.

FRS 102, 17.31 (b)

Revaluation losses on owner occupied properties are taken to other comprehensive income to the extent they reverse a previously recognised revaluation gain with any further loss recognised in the non-technical account. The buildings element of owner occupied properties is depreciated, using the straight-line method, to allocate the depreciable amount to their residual values over their estimated useful lives of up to 50 years.

FRS 102, 16.2

Investment property is property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for (a) use in the production or supply of goods or services or for administrative purposes or (b) sale in the ordinary course of business.

FRS 102, 16.7, FRS 102, 11.27-11.32

Investment property whose fair value can be measured reliably without undue cost or effort shall be measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

FRS 102, 16.7, FRS 102, 17.15A

All other investment property is valued using the cost model (cost less any accumulated depreciation and any accumulated impairment losses).

FRS 102, 17.15

Land and buildings that are not classed as investment properties can be valued either using the cost model (cost less any accumulated depreciation and any accumulated impairment losses) or the revaluation model (fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses).

FRS 102, 17.15B

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

FRS 102, 17.15C

The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers.

m. Tangible assets

FRS 102, 17.15A, 17.10(a) – (d)

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

Depreciation

FRS 102, 17.20 Assets are depreciated from the time when they are available for use.

FRS 102,17.18-17.22, 17.31(b) & (c) Depreciation is calculated, using the straight-line method, to allocate the depreciable amount to their residual values over their estimated useful lives, as follows:

Motor vehicles	4 years
Computer hardware	3 years
Fixtures and fittings	10 years

FRS 102,10.16 & FRS 102, 17.19 The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Derecognition

FRS 102, 17.28 – 17.30 Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Other operating (losses)/gains'.

FRS 102, 17.1 FRS 102, Section 17 'Property, plant and equipment' sets out the principles of accounting for the initial measurement, valuation and depreciation of tangible fixed assets.

FRS 102, 17.24 At each reporting date, an entity shall apply Section 27 Impairment of Assets to determine whether an item or group of items of property, plant and equipment is impaired and, if so, how to recognise and measure the impairment loss. That section explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises or reverses an impairment loss.

n. Borrowing costs

FRS 102, 25.2 All borrowing costs are recognised in profit or loss in the period in which they are incurred.

FRS102, 25.2 – 25.2D An entity may adopt a policy of capitalising borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Financial assets, and inventories that are produced over a short period of time, are not qualifying assets.

On transition to FRS 102 an entity may elect to treat the date of transition to FRS 102 as the date on which capitalisation of interest commences.

FRS 102,35.10(o) Proforma-Gen has no borrowing costs attributable to the acquisition, construction or production of qualifying assets.

o. Leased assets

FRS 102, 20.2, 20.3, 20.3A, 20.8 At inception the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

FRS 102, 20.4, 20.5, 20.6 Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases. Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

FRS 102, 20.4, 20.7, 20.15 The Group has no leases classified as finance leases throughout the reporting period.

Lease incentives

FRS 102, 20.15A Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease.

FRS 102, 35.10(p)

FRS102, 20.15 Operating leases should be expensed on a straight-line basis unless another systematic basis is representative of the time pattern of the users' benefit or the payments are structured to increase in line with expected inflation to compensate for the lessors expected inflationary cost increases. This similarly applies to related lease incentives.

FRS 102, 20.15A Proforma-Gen has no finance leased assets or sale and leaseback transactions.

p. Impairment of non-financial assets

FRS 102, 27.2 – 27.10, 17.24, 18.25 At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

FRS 102, 27.11 – 27.20A The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's cash generating unit) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

FRS 102, 27.21 – 27.23, 27.6

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter, any excess is recognised in profit or loss.

FRS 102 27.28 – 27.31

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

Goodwill is allocated on acquisition to the cash generating unit expected to benefit from the synergies of the combination. Goodwill is included in the carrying value of cash generating units for impairment testing.

FRS 102, 27.24 - 27.27

There are additional requirements for the impairment of goodwill, including where there are non-controlling interests and goodwill cannot be allocated to cash generating units.

q. Investments – Company

Investment in subsidiary company

FRS 102, 9.26

Investment in a subsidiary company is held at cost less accumulated impairment losses.

Investment in associate

FRS 102, 14.4(a)

Investment in an associate is held at cost less accumulated impairment losses.

FRS 102, 9.26, 14.4, 15.9

In single entity financial statements FRS 102 allows a company to select an accounting policy for accounting for its investments in subsidiaries, associates and jointly controlled entities. It may measure the investment:

- at cost less impairment;
- at fair value with changes recognised in other comprehensive income; or
- at fair value with changes recognised in profit or loss.

FRS 102, 9.26

The same accounting policy should be applied for all investments in a single class (subsidiaries, associates or jointly controlled entities), but different policies can be used for different classes.

Sch3, 21(1), 22(1), 30

In single entity insurance company accounts investments in subsidiary undertakings, associated undertakings and joint ventures are required to be valued either at current value or, where permitted under EU-endorsed IFRS, at fair value.

PwC

Given that the use of the cost model would not appear to be consistent with Schedule 3's requirements, it is expected that insurers will need to value investments in group undertakings and participating interests at fair value in their separate accounts. This might involve practical challenges to insurers who have historically used a measure of current value which is not consistent with fair value as defined in FRS 102.

Sch1, 32

Proforma-Gen Limited is a non-insurance holding company preparing entity accounts in accordance with Schedule 1. Under Schedule 1 investments may be included at historical cost, market value or any basis which appears to the directors to be appropriate.

r. Cash and cash equivalents

FRS 102, 7.2

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

FRS 102, 7.2

Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an entity's cash management, bank overdrafts are a component of cash and cash equivalents.

s. Provisions and contingencies

Provisions

FRS 102, 21.4(a)–(c)

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

FRS 102, 21.7(a)

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 might be small.

FRS 102, 21.11C, 21.11D

Restructuring provisions are recognised when the Group has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected, and therefore has a legal or constructive obligation to carry out the restructuring.

FRS 102, 21.11B

Provision is not made for future operating losses.

FRS 102, 21.7, 21.11

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

Provisions for levies are recognised on the occurrence of the event identified by legislation that triggers the obligation to pay the levy.

PwC

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. For example, if the activity that triggers the payment of the levy is the generation of revenues in the current period, but the calculation of that levy is based on revenues generated in a previous period, the obligating event is the generation of revenues in the current period. The generation of revenues in the prior period is necessary, but not sufficient, to create a present obligation.

Sometimes, a levy is triggered if an entity operates in a particular industry at a specified date. In such cases, the liability for the levy is recognised at that specified date and not before. In the UK insurance industry these levies include the FSCS and MIB levies.

Contingencies

FRS 102, 21.12

Contingent liabilities are not recognised, except those acquired in a business combination. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Group's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

FRS 102, 21.13, 21.16

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable. Contingent assets stop being recognised as contingent at the point it is determined the benefit is virtually certain.

t. Financial instruments

The Group has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of financial instruments.

FRS 102, 11.2 & 12.2

Accounting policy choice

FRS 102 gives an accounting policy choice for financial instruments, namely:

(a) apply the provisions of FRS 102 in full;

(b) apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102; or

(c) apply the recognition and measurement provisions of IFRS 9 and/or IAS 39 (as amended following the publication of IFRS 9) and the disclosure requirements of FRS 102.

FRS 102,11.40

Disclosure of accounting policies for financial instruments

An entity shall disclose, in the summary of significant accounting policies, the measurement basis (or bases) used for financial instruments and the other accounting policies used for financial instruments that are relevant to an understanding of the financial statements.

u. Financial assets

IAS 39, 9

The Group classifies its financial assets into the following categories: Shares and other variable yield securities and units in unit trusts –at fair value through profit or loss; Derivatives – at fair value through profit or loss; Debt securities and other fixed-income securities - held to maturity; and Deposits with credit institutions - loans and receivables. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

i. Shares and other variable-yield securities and units in unit trusts – at fair value through profit or loss

A financial asset is classified into this category at inception if they are acquired principally for the purpose of selling in the short term, if they form part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management to minimise any measurement or recognition inconsistency with the associated liabilities.

Financial assets designated as at fair value through profit and loss at inception are those that are managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Group entity's key management personnel. The Group's investment strategy is to invest in listed and unlisted equity securities and fixed interest rate debt securities, and derivatives designated upon initial recognition at fair value through profit or loss.

IAS 39, AG70 Sch3, 25

The fair values of financial instruments traded in active markets are based on quoted bid prices on the balance sheet date. A market is regarded as active if quoted prices 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.

Sch3, 73(4) The fair values of financial instruments that are not traded in an active market (for example, unlisted equities and over-the-counter derivatives), are established by the directors using valuation techniques which seek to arrive at the price at which an orderly transaction would take place between market participants. The specific valuation techniques used are described in Note 5(e).

Net gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the profit and loss account within ‘Unrealised gains on investments’ or ‘Unrealised losses on investments’ in the period in which they arise.

ii. Derivatives – at fair value through profit or loss

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the profit and loss account. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

iii. Debt securities and other fixed-income securities - held to maturity

Redeemable fixed interest securities, in respect of which there is a positive intention to hold to maturity, are valued at amortised cost. The amortisation is calculated so as to write off the difference between the purchase price and the maturity value over the life of the security, using the effective interest method.

Alternative valuation of fixed income securities

Sch3, 24 Schedule 3 provides the option that debt and other fixed income securities may be included in the balance sheet at amortised cost rather than current value.

IAS 39, 9 Under IAS 39 the ‘Held-to-maturity’ heading for investments are non-derivative financial assets with fixed and determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

IAS 39, 9 An entity shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

i. are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

ii. occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

iii. are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

For illustrative purposes, Proforma-Gen Limited has met the necessary requirements of IAS 39 to enable Debt securities and other fixed-income securities to be classified as “held-to-maturity”.

iv. Deposits with credit institutions - Loans and receivables

IAS 39, 9 Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated as at fair value through profit or loss. When a financial liability is recognised initially it is measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial liability. Loans and receivables are subsequently measured at amortised cost using the effective interest method. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. This basis of valuation is viewed by the directors as having prudent regard to the likely realisable value. **Sch3, 25(5)**

Sch3, 24(1)
Sch3, 25(5) The Schedule 3 rules in respect of investments at amortised cost only apply to debt securities and other fixed-income securities. To the extent that a company values other loans and receivables at amortised cost under the provisions of IAS 39 then such a basis will need to represent "a basis which has prudent regard to the likely realisable value" in accordance with the current value accounting rules.

v. Impairment of financial assets

IAS 39, 58, 61 For financial assets not at fair value through profit or loss, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

IAS 39, 59

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit and loss account for the period. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed through the profit and loss account for the period.

Impairment of financial assets

IAS 39, 63

Financial assets at amortised cost

IAS 39 permits an entity to account for impairment losses on financial assets held at amortised cost by either reducing the carrying amount of the asset directly or through the use of an allowance account.

IAS 39, 66

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

Available for sale financial assets ("AFS")

IAS 39, 67
IAS 39, 69

Where there is objective evidence of impairment of available for sale financial assets the cumulative loss that had been recognised directly in equity is removed from equity and charged to profit and loss. The impairment loss is calculated as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value (less previously recognised impairment).

IAS 39, 61

For AFS equities a significant or prolonged decline in fair value below cost is objective evidence of impairment.

IAS 39, 69
IAS 39, 70

Impairment losses on AFS equities cannot be reversed through profit or loss. Impairment losses on AFS debt securities can be reversed if, in a subsequent period, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Proforma-Gen Limited has no AFS financial assets.

w. Financial liabilities

IAS 39, 43, 47 Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the profit and loss account as interest expense.

Other financial liabilities relate to investment contract liabilities under certain group healthcare contracts where there is no transfer of significant insurance risk. These liabilities are carried at amortised cost and are included within 'Other technical provisions' (see Note 3(f) above).

Creditors are also financial liabilities and are recognised initially at fair value, net of directly attributable transaction costs. Creditors are subsequently stated at amortised cost, using the effective interest method.

Measurement of financial liabilities

FRS 103, A2.19-A2.20 Contracts issued by insurers that do not transfer insurance risk but create financial assets or financial liabilities, are accounted for in accordance with FRS 102's requirements in respect of financial instruments.

Among other things, this means that the parties to the contract use what is sometimes called deposit accounting, which involves:

(a) one party recognises the consideration received as a financial liability, rather than as revenue; and

(b) the other party recognises the consideration paid as a financial asset, rather than as an expense.

Undated subordinated loan notes

PwC In order to raise capital loan notes for regulatory return purposes, many insurance groups have issued subordinated loan notes. In some instances, the coupon payable on such debt can be deferred which may result in them being treated as equity rather than debt. It is therefore necessary to consider carefully the detailed terms of any undated subordinated loan notes to ensure that the classification of such instruments is appropriate.

Proforma-Gen Limited has not issued any undated subordinated loan notes.

Recognition and measurement of financial instruments under IAS 39

Recognition under IAS 39

IAS 39, 14 An entity only recognises a financial asset or liability at the time it becomes a party to the instrument's contractual provisions i.e. at the time it has the contractual rights or obligations.

Initial measurement under IAS 39

IAS 39, 43 When a financial asset (or liability) is recognised initially, an entity shall measure it at its fair value plus, in the case of a financial asset (or liability) not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

IAS 39, 9 Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

IAS 39, 43A, IAS 39, AG76 The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). If an entity determines that the fair value at initial recognition differs from the transaction price, the entity accounts for that instrument at that date as follows:

(a) At fair value, if that fair value is evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique that uses only data from observable markets. The difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss.

(b) In all other cases, the value is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, that deferred difference is recognised as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

IAS 39, AG64 If part of the consideration given or received is for something other than the financial instrument, the fair value of the financial instrument is estimated, using a valuation technique. For example, the fair value of a long-term loan or receivable that carries no interest can be estimated as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset.

IAS 39, 38 A 'regular way' purchase of securities may be recognised using either trade date or settlement date accounting, providing the method is applied consistently within each of the four categories of financial assets.

IAS 39, 9 IAS 39 defines a regular way purchase (or sale) of securities as a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. A contract that requires or permits net settlement of the change in the value of the contract is not a regular way contract. Instead, such a contract is accounted for as a derivative in the period between the trade date and the settlement date.

Subsequent measurement under IAS 39

IAS 39, 46 After initial recognition, an entity shall measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets:

i. loans and receivables shall be measured at amortised cost using the effective interest method;

ii. held-to-maturity investments shall be measured at amortised cost using the effective interest method; and

iii. investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, shall be measured at cost.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment.

Fair value option under IAS 39

IAS 39, 9
IAS 39, 55 Under IAS 39 financial assets that are measured at fair value are either accounted for at fair value through profit and loss (where all gains and losses are taken to the profit and loss account) or as AFS where unrealised gains and losses (other than impairment losses) are initially recorded in the statement of total recognised gains and losses.

IAS 39, 9 Financial assets that are held for trading (including all derivatives) are required to be accounted for at fair value through profit and loss.

IAS 39, 9(b) Other financial assets measured at fair value will be accounted for as AFS unless they are designated as at fair value through profit and loss. A financial asset may be so designated where doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel, for example the entity's board of directors and chief executive officer.

Amortised cost

IAS 39, 9 The amortised cost is the amount at which the financial asset, or financial liability, is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Effective interest method

IAS 39, 9 The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

IAS 39, AG6 When applying the effective interest method, an entity generally amortises any fees, points paid or received, transaction costs and other premiums or discounts included in the calculation of the effective interest rate over the expected life of the instrument. However, a shorter period is used if this is the period to which the fees, points paid or received, transaction costs, premiums or discounts relate.

IAS 39, AG7 For floating rate financial assets and floating rate financial liabilities, periodic re-estimation of cash flows to reflect movements in market rates of interest alters the effective interest rate. If a floating rate financial asset or floating rate financial liability is recognised initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability.

IAS 39, AG8

If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised as income or expense in profit or loss.

Reclassification of certain financial assets under IAS 39

IAS 39, 50B, 50D

Reclassifications of financial assets classified as held for trading (but not designated under the fair value option), are permitted:

- if the financial asset meets the definition of a loan or receivable at the date of reclassification and the entity now has the intent and ability to hold it for the foreseeable future or to maturity; and
- for other financial assets (that is, those that do not meet the definition of a loan or receivable at the date of reclassification), only in rare circumstances.

IAS 39, 50E

Assets classified as available-for-sale (AFS) may be reclassified as loans and receivables provided:

- they would have met the definition of a loan or receivable, and
- the company has the intent and ability to hold the asset for the foreseeable future or to maturity.

IAS 39, 26, 50F

At the date of reclassification the fair value of any financial asset reclassified under these provisions becomes its new cost or amortised cost as applicable. The entity will spread over the life of the asset the effect of any subsequent increase in the estimated cash receipts of a reclassified asset as a result of increased recoverability of those cash receipts by adjusting the effective interest rate prospectively, rather than recognising the impact of the increasing cash receipts immediately in the profit or loss account under the cumulative catch-up approach in IAS 39.

Proforma-Gen has not reclassified any financial assets.

Derecognition under IAS 39

PwC

Recognition issues for financial assets and liabilities tend to be straightforward whereas derecognition issues, particularly in relation to financial assets, can be complex. Many financial instruments comprise components – bundles of contractual rights and/or contractual obligations that are financial assets and financial liabilities in their own right. Transactions may occur that leave in place certain of the components that give rights to future benefits, while transferring the other components to one or more parties. Securitisation transactions, loan transfers and transfers involving derivatives, debt factoring, repurchase agreements and stock lending agreements are examples of such complex transactions.

IAS 39, 15-23

Derecognition of a financial asset occurs only when the seller has transferred the asset's risks and rewards (either substantially or partially) or control of the contractual rights have been transferred from the seller to the buyer. The evaluation of the transfer of risks and rewards should precede an evaluation of the transfer of control for all types of transaction. The positions of both the buyer and the seller should be considered but the seller's position is seen as more relevant. An entity may achieve partial derecognition whereby it recognises the components that have been retained, or new assets or liabilities such as those that arise from issuing a guarantee.

IAS 39, 20(c)

If the entity determines that it has neither retained nor transferred substantially all of an asset's risks and rewards and that it has retained control, the entity should continue to recognise the asset to the extent of its continuing involvement.

PwC

Even though legal transfer may have occurred, this does not necessarily lead to the derecognition of a financial asset if risks and rewards of the asset are retained.

IAS 39, AG36

IAS 39 acknowledges the complexity of the derecognition provisions in relation to financial assets and introduces a step-by-step approach to analysing transactions that sets out when and in what order the various approaches are to be applied. A flowchart is provided to assist in evaluating whether and to what extent a financial asset is derecognised.

IAS 39, 26

On derecognition, the difference between the amount received and the asset's carrying amount is recognised in profit or loss. Any fair value adjustment to the asset formerly reported in equity is recycled to profit or loss.

IAS 39, 39

The derecognition rules for financial liabilities focus solely on the legal release of the contractual obligations.

IAS 39, 41

On derecognition, the difference between the consideration paid and the liability's carrying amount is recognised in profit or loss.

IAS 39, 10, 11, 71

IAS 39 'Financial instruments: Recognition and Measurement'

Hedging

If there is a designated hedging relationship between a hedging instrument (which in most circumstances will be a derivative) and a hedged item, accounting for the gain or loss on the hedging instrument and the hedged item will follow the treatments set out in IAS 39.

IAS 39, 86 There are three types of hedging relationships:

- **IAS 39, 29** fair value hedges (where the gain or loss on the hedging instrument and gains or losses on the hedged item arising from the hedged risk are recognised in profit or loss);
- **IAS 39, 95** cash flow hedges (where the gain or loss on the effective portion of the hedging instrument is taken through the statement of total recognised gains and losses until the hedged transaction affects the profit and loss account); or
- **IAS 39, 102** hedges of a net investment in a foreign operation (where the gain or loss on the effective portion of the hedging instrument is taken through the statement of total recognised gains and losses to match the gain or loss on net assets).

IAS 39, 73 ***Qualifying hedges***

For hedge accounting purposes, only instruments that involve a party external to the reporting entity (i.e. external to the group, segment or individual entity that is being reported on) can be designated as hedging instruments. Although individual entities within a consolidated group or divisions within an entity may enter into hedging transactions with other entities within the group or divisions within the entity, any such intragroup transactions are eliminated on consolidation. Therefore, such hedging transactions do not qualify for hedge accounting in the consolidated financial statements of the group. However, they may qualify for hedge accounting in the individual or separate financial statements of individual entities within the group or in segment reporting provided that they are external to the individual entity or segment that is being reported on.

IAS 39, 88 A hedge relationship qualifies for hedge accounting if, and only if, all of the following conditions are met:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;
- the effectiveness of the hedge can be reliably measured; and
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Disclosure of hedging transactions

FRS 102, 12.27 For each of the three types of hedging relationship the following should be disclosed:

(a) a description of the hedge;

(b) a description of the financial instruments designated as hedging instruments and their fair values at the reporting date; and

(c) the nature of the risks being hedged, including a description of the hedged item.

FRS 102, 12.28 If an entity uses hedge accounting for a fair value it shall disclose the following:

(a) the amount of the change in fair value of the hedging instrument recognised in profit or loss for the period; and

(b) the amount of the change in fair value of the hedged item recognised in profit or loss for the period.

FRS 102, 12.29 If an entity uses hedge accounting for cash flow hedges it shall disclose the following:

(a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;

(b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;

(c) the amount of the change in fair value of the hedging instrument that was recognised in other comprehensive income during the period;

(d) the amount, if any, that was reclassified from equity to profit or loss for the period; and

(e) the amount, if any, of any excess of the fair value of the hedging instrument over the change in the fair value of the expected cash flows that was recognised in profit or loss for the period.

FRS 102, 12.29A If an entity uses hedge accounting for a net investment in a foreign operation it shall disclose separately the elements of the gain or loss on the hedging instrument recognised in other comprehensive income in respect of the effective hedge and in profit or loss in respect of the ineffective portion.

Proforma-Gen Limited has no designated hedging relationships.

Embedded derivatives

Some financial instruments and other contracts combine a derivative and a non-derivative in a single contract. The derivative part of the contract is referred to as an 'embedded derivative'. Its effect is that some of the contract's cash flows vary in a similar way to a stand-alone derivative.

Financial instruments with embedded derivatives
Firms that have chosen to apply FRS 102 Section 11 and 12 in full

There is no concept in FRS 102 of embedded derivatives. Firms that have chosen to apply FRS 102 Section 11 and 12 in full are therefore not required to identify or separately account for any derivatives embedded in financial instrument host contracts.

Firms that have chosen to recognise and measure financial instruments in accordance with IAS 39

IAS 39, 10 Under IAS 39 an embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract.

IAS 39, 11 Firms that have chosen to apply IAS 39 have to firstly separate embedded derivatives from the host contracts and then account for them as stand-alone derivatives (i.e. at fair value through profit or loss) if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

IAS 39, 11 If an embedded derivative is separated, the host financial instrument is accounted for in accordance with IAS 39.

IAS 39, 11A If a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless:

- the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or
- it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.

IAS 39, 12 If an entity is required to separate an embedded derivative from its host contract, but is unable to measure the embedded derivative separately either at acquisition or at a subsequent financial reporting date, it shall designate the entire hybrid (combined) contract as at fair value through profit or loss.

Insurance contracts with embedded derivatives

FRS 103, 2.20 Insurance contracts might contain embedded derivatives. FRS 102's requirements in respect of financial instruments apply to separable embedded derivatives contained in insurance contracts, unless the embedded derivative is itself an insurance contract.

FRS 103, 2.21 As an exception to this requirement, an insurer need not separate, and measure at fair value, a policyholder's option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate).

FRS 103, 2.30(d) In addition, where an insurer has elected to apply the recognition and measurement provisions of either IAS 39 or IFRS 9, and a contract with a discretionary participation feature contains an embedded derivative within the scope of IAS 39 or IFRS 9, then IAS 39 or IFRS 9 is applied to that embedded derivative.

An embedded derivative is considered to be separable where:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- the hybrid (combined) instrument is not measured at fair value, with changes in fair value recognised in profit or loss.

FRS 103 Appendix

In determining whether an embedded derivative is separable, an entity must apply the guidance in IAS 39 and IFRS 4.

FRS 103, A2.11

Payments under an insurance contract can be linked to a price index. This link to a price index can be an embedded derivative, but it might also transfer insurance risk. If the transfer of insurance risk is significant, the embedded derivative will meet the definition of an insurance contract. In this case, the embedded derivative need not be separated and measured at fair value according to FRS 102.

Disclosures

The disclosure requirements of FRS 102 in respect of financial instruments will apply to any separated embedded derivatives.

Proforma-Gen Limited has no embedded derivatives that require separation.

x. Investment return

FRS 102, 23.28, 23.29(a)

Interest income is recognised using the effective interest rate method.

Dividend income is recognised when the right to receive payment is established.

FRS 102, 2.36

Interest, rents and expenses are accounted for on an accruals basis.

FRS 102, 23.29(c)
FRS 103, Glossary

Realised gains and losses on investments carried at fair value through profit and loss are calculated as the difference between net sales proceeds and purchase price. In the case of investments included at amortised cost, realised gains and losses are calculated as the difference between sale proceeds and their latest carrying value. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price or their fair value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

FRS 102, 11.40

An entity is required to disclose, in the summary of significant accounting policies, the measurement basis (or bases) used for financial instruments and the other accounting policies used for financial instruments that are relevant to an understanding of the financial statements.

FRS 102, 23.29(c)

Dividends shall be recognised when the shareholder’s right to receive payment is established.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the technical account of the longer-term investment return (as estimated by the directors) on investments supporting the insurance technical provisions and related shareholders’ funds. This transfer is made so that the balance on the technical account is based on a longer-term rate of investment return and is not subject to distortion from short-term fluctuations in investment return.

IG 2.64

IG 2.68

FRS 103 permits, but does not require, a form of presentation which enables the reader to identify operating results based on the longer term rate of investment return. This return may be recorded within the general business and long term business technical accounts and may also be disclosed separately as part of the total operating profit. For general insurers, this can be achieved by allocating the element of investment return reflecting the longer-term investment return on investments supporting the general insurance technical provisions and all the relevant equity from the non-technical account to the technical account. The technical account will then include the longer-term investment return relating to the investments attributable to the general insurance business. This is the treatment adopted in Proforma-Gen Limited’s accounts.

PwC

No guidance is given as to what comprises “related” equity. We interpret this to refer to the element of equity supporting the carrying out of general insurance. Investment return relating to any surplus shareholders’ funds or to shareholders’ funds supporting other activities of the group should remain in the non-technical account.

In these accounts it has been assumed that all investment return supports the general insurance technical provisions and related equity. As a result, the net investment return included in the non-technical accounts relates solely to short-term fluctuations in investment return.

IG 2.64

Alternatively, disclosure of technical results reflecting the longer-term rate of return may be made as a memorandum item on the face of the profit and loss account without making any allocation of investment return.

IG 2.65

If the longer-term rate is not used, an allocation of actual investment return from investments supporting the general insurance technical provisions and associated shareholders’ funds, from the non-technical account to the technical account, may be made.

IG 2.65

The allocation may not be made on any other basis.

FRS 103, Glossary

The longer term rate of investment return is an estimate of the long-term trend investment return for the relevant category of investments having regard to past performance, current trends and future expectations.

IG 2.71 (b) In respect of equities and properties the directors have estimated the longer term rates of investment return to be as follows:

Longer-term rates of investment return

	2015	2014
Equities		
– Sterling	**7.9%**	8.4%
– US$	**6.1%**	6.2%
Properties	**5.7%**	5.7%

IG2.71 (a) Longer term rates of investment return for equities and properties are estimated based on past performance, current trends as well as expectations about future economic and financial developments.

IG 2.76 The longer term rate of investment return for fixed interest securities of 5.4% (2014: 5.6%) is calculated on the amortised cost basis with realised gains and losses subject to continuing amortisation over the remaining period to the maturity date.

IG 2.73
IG 2.74
IG 2.75
Longer term rates of investment return for equities and properties must be calculated separately. The calculations should use best estimates based on historical rates experienced and current inflation expectations. Consideration should be given to the business's actual returns over a period of not less than five years, to longer term rates of return used by the business for other purposes (e.g. product pricing) and to external expectations and influences. The rates thus determined should be reviewed at least annually although changes would be expected only infrequently.

PwC In practice, the setting of the longer term rate of return is a subjective area, particularly in determining how much weight to give to historical performance and how much to current expectations.

PwC Judgement will also need to be exercised in assessing when deviations of actual investment return from the assumed longer-term rate indicate that the longer-term rate requires adjustment.

IG 2.76 The longer term rate of return in respect of redeemable fixed interest securities may be determined either by using a redemption yield or on the amortised cost basis. In the case of irredeemable fixed interest securities and short-term assets, the longer term investment return should be the interest income receivable in respect of the financial year.

IG 2.72 The allocation of investment return is calculated by applying the longer term rate of investment return for each investment category to the quarterly weighted average of the corresponding assets. The allocation is adjusted to exclude the effect of any short-term market movements.

IG 2.72 The alternative method, set out in FRS 103's implementation guidance, of calculating the transfer of investment return for equities and properties is to gross up actual investment income by a factor representing the longer-term rate of investment return divided by an assumed longer term dividend or rental yield (making adjustments for any special factors which have distorted the underlying yield of the portfolio).

IG 2.71 If this method is adopted, the assumed long-term rates of dividend yield or rental yield should be disclosed.

y. Share capital

FRS 102, 22.3, 22.7-22.10 Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

z. Distributions to equity holders

Dividends and other distributions to the Group's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the shareholders.

These amounts are recognised in the statement of changes in equity.

Directors can propose final dividends to be approved by members. Dividends become a legally binding liability when approved by members of a public company in a general meeting or when a private company's members' written resolution is passed, regardless of the date on which it is to be paid.

FRS102, 32.8 A proposed unapproved final dividend is not a legal obligation to shareholders at the balance sheet date.

FRS 102, App A4.29 The determination of profits available for distribution is a complex area where accounting and company law interface. In determining profits available for distribution an entity may refer to ICAEW/ICAS Technical Release 02/10 'Guidance on realised and distributable profits under the Companies Act 2006'.

aa. Related party transactions

FRS 102, 33.1A,
FRS102, 33.14
The Group discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Group financial statements.

FRS 102, 33.8-33.12

Where the entity is not a member of a group there are additional disclosure requirements which are addressed in Section 33 of FRS 102.

FRS102, 33.13

An entity shall not state that related party transactions are on terms equivalent to an arm's length transaction unless these terms can be substantiated.

4. Critical accounting judgements and estimation uncertainty

FRS 102, 8.6-8.7

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Significant judgements in applying the accounting policies

i. *Significant insurance risk*

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

ii. *Allowance for risk and uncertainty within claims outstanding*

In setting the provision for insurance liabilities, a best estimate is determined on an undiscounted basis and an allowance for risk and uncertainty is added. The objective of the allowance for risk and uncertainty is to achieve a targeted confidence level of between 70 and 80 per cent. At 31 December 2015, the allowance for risk and uncertainty in excess of the best estimate of net reserves was £675 million (2014: £698 million), equivalent to 3.5% of best estimate net reserves (2012 : 3.8%).

b) Sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i. *The ultimate liability arising from claims made under insurance contracts*

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. The carrying amount of the liability is £19,910m (2014: £19,286m). There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims. In particular, in respect of claims arising from the policies written in the industrial segment, particularly in respect of asbestos, legislative and judicial actions to date have failed to determine the basis of liability to indemnify losses. These claims are not expected to be settled for many years and there is considerable uncertainty as to the amounts at which they will be settled. The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices, experience of development of similar claims and case law.

The most significant assumptions made relate to the level of future claims, the level of future claims settlements and the legal interpretation of insurance policies. Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly. See Notes 22, 24 and 25 for disclosures relating to these provisions and Note 5 for discussion of the related risks.

ii. *Fair value of financial instruments*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The carrying value of these instruments is £126m (2014: £29m). The group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. See Note 5 for discussion of the related risks.

iii. *Fair value of land and buildings*

The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental revenues from that particular property. As a result, the valuations are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the property market. The carrying value at year end is £1,304m (2014: £1,156m).

The investment property valuation contains a number of assumptions upon which independent, professionally qualified valuers have based their valuation of the Group's properties. The assumptions on which the property valuation reports have been based include, but are not limited to, matters such as the tenure and tenancy details for the properties, ground conditions at the properties, the structural condition of the properties, prevailing market yields and comparable market transactions. These assumptions are market standard and accord with the

Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards 2012. However, if any assumptions made by the property valuer prove to be inaccurate, this may mean that the value of the Group's properties differs from their valuation, which could have a material effect on the Group's financial position.

iv. *Estimated impairment of goodwill*

In accordance with the accounting policy stated in Note 3(j), the Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (see Note 14). The carrying value of goodwill is £210m (2014: nil). The assumptions on which the goodwill impairment testing is based include, but are not limited to, discount rate, useful economic life and cash flow forecasts for future business generation. These assumptions have been subject to sensitivity analysis, however, if any assumptions made prove to be inaccurate, this may mean that the value of the goodwill is not supportable, which could have a material effect on the Group's financial position.

v. Defined benefit pension scheme

The Group has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See Note 30 for the disclosures relating to the defined benefit pension scheme. The carrying value of the net scheme liability is £81m (2014: £82m).

vi. Pipeline premium

The Group makes an estimate of premiums written during the year that have not yet been notified by the financial year ('pipeline premiums') end based on prior year experience and current year business volumes. The pipeline premium is booked as written and an assessment is made of the related unearned premium provision and an estimate of claims incurred but not reported in respect of the earned element. The pipeline premium included within gross written premium is £1,622m (2014: £1,828m), of that £1,379m is unearned at 31 December 2015 (2014: £1,462m).

FRS 102, 8.6 Judgements (other than those involving estimations) made in the process of applying accounting policies that have the most significant effect on the amounts recognised in the financial statements must be disclosed.

FRS 102, 8.6 Information shall be disclosed about key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the coming year. Detail shall be given of the nature of those assets and liabilities and their carrying amount.

The items disclosed above are for illustration purposes only and do not purport to be those applicable to any specific entity. This is a new disclosure in UK GAAP and requires significant consideration by management.

5. Management of insurance and financial risk

The group issues contracts that transfer insurance or financial risk or both. The group is also exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and policyholder liabilities. This section summarises these risks and the way the group manages them.

FRS 103, 4.8(a)

a) Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

i. *Frequency and severity of claims*

Motor contracts claims are predominately in the personal sector and tend to be higher frequency but lower severity than for other classes of business. Higher value claims can arise where the inured event results in severe personal injury. The group applies underwriting criteria to the book to limit the number of younger drivers where accidents are more likely.

FRS 103, 4.8(a), 4.5(c)

For property insurance contracts and marine cover, climatic changes give rise to more frequent and severe extreme weather events (for example, river flooding, hurricanes and typhoons) and their consequences (for example, subsidence claims, storm damage). For certain contracts, the Group has also limited the number of claims that can be paid in any policy year or introduced a maximum amount payable for claims in any policy year.

The Group has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. Property contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claims payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties or restricting vessels, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm or flood damage. The Group has reinsurance cover for such damage to limit losses to £300m in any one year for property cover and £500m for marine.

The insurance risk arising from these contracts is not concentrated in any of the territories in which the Group operates, and the portfolio is focused in the commercial sector.

The accident and health and third party liability contracts frequency and severity of claims can be affected by several factors. The most significant are the increasing level of awards for the damage suffered as a result of exposure to asbestos, and the increase in the number of cases coming to court that have been inactive or latent for a long period of time. Estimated inflation is also a significant factor due to the long period typically required to settle these cases. The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs (for example, subrogation). Furthermore, the Group's strategy limits exposure to any one industry to 25% of the total Group exposure. In certain territories, legislation requires the maximum loss under each employers' liability contracts never to be lower than a prescribed amount. All the Group employers' liability contracts offer maximum cover in compliance with such minimums (£5m in the UK). Any contract in which the Group is committed to cover risks in excess of £25m requires head office approval.

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Group should not suffer total net insurance losses of more than £40m in any one year. In addition to the overall Group reinsurance programme, individual business units are permitted to purchase additional reinsurance protection.

The Group has specialised claims units dealing with the mitigation of risks surrounding known asbestos claims. This unit investigates and adjusts all asbestos claims. The asbestos claims are reviewed individually at least semi-annually and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Group actively manages and pursues early settlements of asbestos claims to reduce its exposure to unpredictable developments.

FRS 103, 4.8(b)(ii)

The concentration of insurance risk before and after reinsurance by territory in relation to the type of insurance risk accepted is summarised below, with reference to the carrying amount of outstanding claims (gross and net of reinsurance) arising from insurance contracts:

Year ended 31 December 2015

Territory		Motor	Accident and health	Third-party liability	Fire and other damage to property	Marine	Aviation	Total
		£m	£m	£m	£m	£m	£m	£m
United Kingdom	Gross	8,734	1,542	3,139	611	5,098	39	19,163
	Net	7,674	1,355	1,089	2,206	4,329	4	16,657
United States	Gross	463	82	166	32	270	2	1,015
	Net	407	72	58	117	238	0	892
Total	**Gross**	**9,197**	**1,624**	**3,305**	**643**	**5,368**	**41**	**20,178**
	Net	**8,081**	**1,427**	**1,147**	**2,323**	**4,567**	**4**	**17,549**

The relative geographical concentration of the risk is stable in comparison to last year.

Year ended 31 December 2014

Territory		Motor	Accident and health	Third-party liability	Fire and other damage to property	Marine	Aviation	Total
		£m	£m	£m	£m	£m	£m	£m
United Kingdom	Gross	8,348	1,475	3,084	500	4,873	37	18,317
	Net	7,225	1,276	1,026	2,077	4,245	2	15,851
United States	Gross	442	78	163	26	258	2	969
	Net	383	68	54	110	225	1	841
Total	**Gross**	**8,790**	**1,553**	**3,247**	**526**	**5,131**	**39**	**19,286**
	Net	**7,608**	**1,344**	**1,080**	**2,187**	**4,470**	**3**	**16,692**

The following tables disclose the concentration of insurance liabilities by the industry sector in which the contract holder operates and by the maximum insured loss limit included in the terms of the policy. The amounts are the carrying amount of outstanding claims (gross and net of reinsurance) arising from insurance contracts.

Year ended 31 December 2015

		Maximum insured loss				
		£0m-15m	**£15-25m**	**£25-100m**	**£50-100**	**Total**
		£m	£m	£m	£m	£m
Commercial:						
Construction	Gross	758	1,152	879	244	3,033
	Net	610	1,062	663	318	2,653
Manufacturing	Gross	1,137	1,729	1,319	364	4,549
	Net	959	1,668	1,043	500	4,170
Service	Gross	1,365	1,456	1,501	227	4,549
	Net	1,092	1,023	990	307	3,412
Shipping	Gross	121	303	774	318	1,516
	Net	68	250	534	285	1,137
Personal	Gross	3,412	2,778	273	68	6,531
	Net	2,729	3,145	182	121	6,177
Total	Gross	**6,793**	**7,418**	**4,746**	**1,221**	**20,178**
	Net	**5,458**	**7,148**	**3,412**	**1,531**	**17,549**

The concentration by sector or maximum insured loss at the end of the year is broadly consistent with the prior year.

Year ended 31 December 2014		**Maximum insured loss**				
		£0m-15m	**£15-25m**	**£25-100m**	**£50-100**	**Total**
		£m	**£m**	**£m**	**£m**	**£m**
Commercial:						
Construction	Gross	720	1,093	835	230	2,878
	Net	579	1,007	630	302	2,518
Manufacturing	Gross	1,079	1,641	1,252	345	4,317
	Net	911	1,583	989	475	3,958
Service	Gross	1,295	1,382	1,425	216	4,318
	Net	1,036	973	939	291	3,239
Shipping	Gross	115	288	734	302	1,439
	Net	65	237	507	270	1,079
Personal	Gross	3,238	2,772	259	65	6,334
	Net	2,590	3,020	173	115	5,898
Total	Gross	**6,447**	**7,176**	**4,505**	**1,158**	**19,286**
	Net	**5,181**	**6,820**	**3,238**	**1,453**	**16,692**

ii. *Sources of uncertainty in the estimation of future claim payments*

FRS 103, 4.8(a), 4.5(c), 4.9(b) The sources of estimation uncertainty in establishing the ultimate liability arising from claims made under insurance contracts is discussed in Note 4.

Claims on casualty contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time, and a larger element of the claims provision relates to incurred but not reported claims (IBNR). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employer's liability covers) or members of the public (for public liability covers). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period. The amount of casualty claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Casualty contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the end of the reporting period.

FRS 103, 4.7, 4.5(c) In calculating the estimated cost of unpaid claims (both reported and not), the Group estimation techniques are a combination of loss-ratio-based estimates (where the loss ratio is defined as the ratio between the ultimate cost of insurance claims and insurance premiums earned in a particular financial year in relation to such claims) and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes. An allowance for risk and uncertainty is made within claims outstanding as discussed in Note 4.

The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation. The initial estimate of the loss ratios used for the current year (before reinsurance) are analysed below by territory, type of risk and industry where the insured operates for current and prior-year premiums earned.

Territory		**Motor**	**Accident and health**	**Third-party liability**	**Fire and other damage to property**	**Marine**	**Aviation**
United Kingdom	2015	67%	47%	121%	53%	66%	n/a
	2014	64%	45%	148%	51%	71%	50%
United States	2015	58%	43%	110%	46%	63%	n/a
	2014	63%	44%	113%	49%	69%	49%

		£0m-15m	**£15-25m**	**£25-100m**	**£50-100m**
Commercial:					
Construction	2015	103%	110%	145%	102%
	2014	101%	103%	131%	95%
Manufacturing	2015	200%	87%	115%	101%
	2014	72%	79%	122%	114%
Service	2015	51%	54%	52%	38%
	2014	44%	51%	49%	36%
Shipping	2015	68%	63%	64%	45%
	2014	69%	71%	69%	67%
Personal	2015	50%	48%	51%	38%
	2014	49%	49%	50%	39%

FRS 103, 4.5(c) The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For casualty contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the Group considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

A development of the estimate of ultimate claim cost for claims notified in a given year is presented later in this note. This gives an indication of the accuracy of the Group's estimation technique for claims payments.

iii. Process used to decide on assumptions

FRS 103, 4.5(c) The exposure of the Group to claims associated with asbestos-related diseases is material and is described in detail in this section. This exposure is geographically concentrated in the US and UK.

The Group uses assumptions based on a mixture of internal and market data to measure its asbestos-related claims liabilities. Internal data is derived mostly from the Group's quarterly claims reports and screening of the actual insurance contracts carried out at year-end 2014 to derive data for the contracts held. The Group has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

These projections are carried out separately for two classes in which asbestos claims have been classified. The aim in this classification is to group claims based on their severity. The categories used in the analysis are non-malignant diseases (mainly pleural plaques), and mesothelioma and asbestosis.

The modelling of claims arising from mesothelioma, the most severe disease associated with asbestos, is based on studies published in the US and the UK and attempts to extrapolate historical asbestos-related mortality rates. Individuals with asbestosis and non-malignant types of disease are entitled to lower compensation due to the fact that the disease arises from a relatively limited exposure to asbestos and is less severe than mesothelioma.

For each disease category, the cost of the future claims includes estimates of the cost for the pure indemnity and the associated handling costs (including defence and legal costs). Market data is used to assess the indemnity inflation rates for each type of disease and its estimated future evolution. An inflation factor is therefore calculated for each year/ disease. Different rates are used for UK claims and US claims.

The estimated cost of claims for each year and each disease is the product of the projections of claims number, the average claims sizes and the inflation factor. These figures are then summed up over years and types of disease. For each contract, estimated losses are compared to the maximum loss payable under the terms of the policy and reduced to such amount if lower than the estimated loss.

For all other casualty risks, the Group uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The two methods more commonly used are the chain-ladder and the Bornhuetter-Ferguson methods.

Chain-ladder methods may be applied to premiums, paid claims or incurred claims (for example, paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

Chain-ladder techniques are most appropriate for those accident years and classes of business that have reached a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business.

The Bornhuetter-Ferguson method uses a combination of a benchmark or market- based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations in which developed claims experience was not available for the projection (recent accident years or new classes of business).

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual accident years or groups of accident years within the same class of business.

iv. Change of assumptions

FRS 103, 4.5(c)

The change in the assumptions for asbestos amounts to a net increase of £300m and relates to the frequency of mesothelioma and asbestosis and non-malignant diseases claims. These projections have been updated to take account of claims experience during the year. During 2015, the Group estimation model for asbestos- related claims has been updated to reflect the following changes in assumptions:

- The increasingly heavy punitive elements included in litigation awards in the US and in the other territories where the Group has incurred this type of claim.
- The increase in the tendency for non-US claimants to seek a resolution through a court decision (more expensive on average than out-of-court settlements).
- Changes to the actual legal costs incurred driven by the method of paying these costs (for example, fixed cost or share of court award).

The revised assumptions resulted in an increased charge to the income statement reflecting an increased liability.

FRS 103, 4.8(b)(i), 4.9(a)

v. *Sensitivity analysis*

The following tables present the sensitivity of the value of insurance liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance liabilities. The sensitivities to economic movements relate mainly to business in the UK given that this is Proforma-Gen's largest exposure.

General insurance and health business sensitivities as at 31 December 2015

	Discount rates +1%	Discount rates -1%	Claims inflation assumption +0.5%	Claims inflation assumption -0.5%	Claims handling expenses +10%	Claims handling expenses -10%	Number of IBNR claims +5%	Number of IBNR claims -5%
2015 Impact on profit after tax and equity (£m)								
Gross of reinsurance	305	(300)	(157)	157	(151)	151	(737)	737
Net of reinsurance	262	(255)	(142)	142	(151)	151	(646)	646

General insurance and health business sensitivities as at 31 December 2014

	Discount rates +1%	Discount rates -1%	Claims inflation assumption +0.5%	Claims inflation assumption -0.5%	Claims handling expenses +10%	Claims handling expenses -10%	Number of IBNR claims +5%	Number of IBNR claims -5%
2014 Impact on profit after tax and equity (£m)								
Gross of reinsurance	299	(294)	(154)	154	(148)	148	(703)	703
Net of reinsurance	257	(250)	(139)	139	(148)	148	(662)	662

vi. *Claims development tables*

Claims outstanding (gross) **Reporting year**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Estimate of ultimate claims costs:											
- at end of reporting year	4,523	5,047	5,511	6,047	6,589	6,822	7,065	8,589	9,001	10,098	69,292
- One year later	5,001	5,253	5,505	6,406	6,601	6,832	7,144	8,002	8,500		59,244
- Two years later	4,754	5,021	5,687	6,504	6,711	7,056	7,176	8,351			51,260
- Three years later	5,331	5,543	5,702	6,548	6,790	6,960	7,115				43,989
- Four years later	5,524	5,781	5,785	6,457	6,818	7,059					37,424
- Five years later	5,569	5,859	5,889	6,401	6,694						30,412
- Six years later	5,405	5,864	5,883	6,577							23,729
- Seven years later	5,392	5,732	6,019								17,143
- Eight years later	5,410	5,570									10,980
- Nine years later	5,435										5,435
Current estimate of cumulative claims	5,435	5,570	6,019	6,577	6,694	7,059	7,115	8,351	8,500	10,098	71,418
Cumulative payments to date	(5,400)	(5,408)	(5,775)	(6,195)	(5,709)	(6,300)	(5,492)	(4,991)	(4,000)	(2,000)	(51,270)
Liability recognised in the balance sheet	35	162	244	382	985	759	1,623	3,360	4,500	8,098	20,148
Provision in respect of prior years											30
Total provision included in balance sheet											20,178

Claims outstanding (net)

Reporting year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Estimate of ultimate claims costs:											
- at end of reporting year	4,123	4,647	4,811	5,347	6,089	5,972	6,215	7,339	7,901	8,303	60,747
- One year later	4,601	4,853	4,805	5,706	6,101	5,982	6,294	6,752	7,400		52,494
- Two years later	4,354	4,621	4,987	5,804	6,211	6,206	6,326	7,101			45,610
- Three years later	4,931	5,143	5,002	5,848	6,290	6,110	6,265				39,589
- Four years later	5,124	5,381	5,085	5,757	6,318	6,209					33,874
- Five years later	5,169	5,459	5,189	5,701	6,240						27,758
- Six years later	5,005	5,464	5,183	5,877							21,529
- Seven years later	4,992	5,332	5,319								15,643
- Eight years later	5,010	5,170									10,180
- Nine years later	5,035										5,035
Current estimate of cumulative claims	5,035	5,170	5,319	5,877	6,240	6,209	6,265	7,101	7,400	8,303	62,919
Cumulative payments to date	(5,000)	(5,000)	(5,200)	(5,600)	(5,100)	(5,500)	(4,500)	(4,200)	(3,500)	(1,800)	(45,400)
Liability recognised in the balance sheet	35	170	119	277	1,140	709	1,765	2,901	3,900	6,503	17,519
Provision in respect of prior years											30
Total provision included in balance sheet											17,549

Insurance risk

PwC

FRS 103, 4.7

FRS 103 has introduced into UK GAAP new insurance contract disclosures in line with the disclosure requirements under IFRS 4 and those for other financial instruments. Insurers have to disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts.

FRS 103, 4.8(a)

An insurer shall disclose its objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks.

FRS 103, 4.8(b)

An insurer also has to disclose information about insurance risk (both before and after risk mitigation by reinsurance). This includes sensitivity to insurance risk, information on insurance risk concentrations and claims development.

FRS 103, 4.8(b)(i)
FRS 103, 4.9

Sensitivity to insurance risk

An insurer shall disclose either (a) or (b) as follows:

(a) A sensitivity analysis that shows how profit or loss and equity would have been affected if changes in the relevant risk variable that were reasonably possible at the end of the reporting period had occurred; the methods and assumptions used in preparing the sensitivity analysis; and any changes from the previous period in the methods and assumptions used. However, if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may meet this requirement by disclosing that alternative sensitivity analysis and the disclosures required by paragraph 34.30 of FRS 102.

(b) Qualitative information about sensitivity, and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows.

Insurance risk concentrations

FRS 103, 4.8(b)(ii)

Disclosures should include a description of how management determines concentrations and a description of the shared characteristic that identifies each concentration (e.g. type of insured event, geographical area, or currency).

Claims development

FRS 103, 4.8(b)(iii)

Actual claims must be compared to previous estimates (i.e. claims development). The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. An insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year.

FRS 103, 6.3 An entity need not disclose information about claims development that occurred earlier than five years before the end of the first financial year in which it applies this FRS. Furthermore, if it is impracticable, when an entity first applies this FRS, to prepare information about claims development that occurred before the beginning of the earliest period for which an entity presents full comparative information that complies with this FRS, the entity shall disclose that fact. Proforma-Gen has elected not to take this exemption.

Market risk from embedded derivatives

FRS 103, 4.8 (d) An insurer has to disclose information about exposures to market risk arising from embedded derivatives contained in a host insurance contract if the insurer is not required to, and does not, measure the embedded derivatives at fair value.

Proforma-Gen has no embedded derivatives that require separation.

b) Financial risk management objectives

Sch7, 6(1)(a) The Group is exposed to a range of financial risks, in particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group faces due to the nature of its investment and liabilities are interest rate risk and equity price risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. It manages these positions within an asset liability management (ALM) framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The Group produces regular reports at portfolio, legal entity and asset and liability class level that are circulated to the Group's key management personnel. The principal technique of the Group's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. Separate portfolios of assets are maintained for direct insurance business and inwards reinsurance business. The Group's ALM is also integrated with the management of the financial risks associated with the Group's other financial assets and liabilities not directly associated with insurance and investment liabilities ("Corporate"). The Group does not use hedge accounting.

The Group has not changed the processes used to manage its risks from previous periods. The notes below explain how financial risks are managed using the categories utilised in the Group's ALM framework.

The following tables reconcile the balance sheet to the categories used in the Group's ALM framework:

2015	Direct business				
	Insurance contracts	Investment contracts	Reinsurance business	Corporate	Total
	£m	£m	£m	£m	£m
Shares and other variable yield securities and units in unit trusts, at fair value through profit or loss:					
- listed securities	5,217	444	2,749	897	9,307
- unlisted securities	1,092	63	537	300	1,992
Derivative financial instruments, at fair value through profit or loss	476	-	26	-	502
Debt securities and other fixed income securities -held-to-maturity					
- listed securities	4,414	86	2,749	1,281	8,530
- unlisted securities	600	-	241	916	1,757
Loans and receivables	3,038	112	426	237	3,813
Deposits with ceding undertakings	109	-	-	-	109
Reinsurance assets	2,879	-	-	180	3,059
Other assets	6,222	113	2,767	4,851	13,953
Total assets	**24,047**	**818**	**9,495**	**8,662**	**43,022**
Provision for unearned premiums	4,772	-	1,918	800	7,490
Claims outstanding	14,014	-	6,164	-	20,178
Equalisation provision	150	-	52	-	202
Provision for unexpired risks	178	-	-	-	178

2015	**Direct business**				
	Insurance contracts	**Investment contracts**	**Reinsurance business**	**Corporate**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Financial liabilities under investment contracts	-	674	-	-	674
Provisions for other risks	293	24	157	553	1,027
Deposits received from reinsurers	58	-	-	-	58
Borrowings	-	-	-	1,502	1,502
Other liabilities	1,585	-	194	911	2,690
Total liabilities	**21,050**	**698**	**8,485**	**3,766**	**33,999**

2014	**Direct business**				
	Insurance contracts	**Investment contracts**	**Reinsurance business**	**Corporate**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Shares and other variable yield securities and units in unit trusts, at fair value through profit or loss:					
- listed securities	4,111	415	3,641	907	9,074
- unlisted securities	901	56	474	293	1,724
Derivative financial instruments, at fair value through profit or loss	434	-	23	-	457
Debt securities and other fixed income securities -held-to-maturity					
- listed securities	4,242	74	2,511	1,020	7,847
- unlisted securities	637	109	157	1,074	1,977
Loans and receivables	2,723	-	355	211	3,289
Deposits with ceding undertakings	118	-	-	-	118
Reinsurance assets	2,989	-	-	-	2,989
Other assets	5,364	107	2,494	4,089	12,054
Total assets	**21,519**	**761**	**9,655**	**7,594**	**39,529**
Provision for unearned premiums	4,720	-	2,136	-	6,856
Claims outstanding	13,194	-	6,092	-	19,286
Equalisation provision	71	-	31	-	102
Provision for unexpired risks	-	-	-	-	-
Financial liabilities under investment contracts	-	598	-	-	598
Provisions for other risks	144	16	110	475	745
Deposits received from reinsurers	62	-	-	-	62
Borrowings	-	-	-	1,438	1,438
Other liabilities	1,800	-	203	236	2,239
Total liabilities	**19,991**	**614**	**8,572**	**2,149**	**31,326**

Financial instruments and insurance contracts: Disclosures

FRS 102, Glossary

Financial instruments are broadly defined as 'a contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another entity'. The definition of a financial instrument is wide and includes simple instruments such as borrowings, other creditors and debtors, and cash, as well as more complex instruments. The disclosure requirements apply equally to all financial instruments.

FRS 103, 1.2 & 1.6

An insurer has to meet both the requirements in FRS 103 for insurance contracts, including reinsurance contracts, and other financial instruments with a discretionary participation feature and the requirements in FRS 102 for financial instruments.

Sch7, 6(1)

In relation to the use of financial instruments by a company, the directors' report must contain an indication of— (a) the financial risk management objectives and policies of the company, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used, and (b) the exposure of the company to price risk, credit risk, liquidity risk and cash flow risk, unless such information is not material for the assessment of the assets, liabilities, financial position and profit or loss of the company. Where this information is included in the financial statements the directors' report should cross refer to where this information is included.

Financial institutions (including general and life assurance entities) also have to make the disclosures required by FRS 102, paragraphs 34.17 – 34.33, as follows:

FRS 102, 11.48

Significance of financial instruments for financial position and performance

FRS 102, 34.19 Information required to enable users of the financial statements to evaluate the significance of financial instruments for its financial position and performance.

FRS 102, 34.20 Disclosure of a disaggregation of the balance sheet line item by class of financial instrument. A class is a grouping of financial instruments that is appropriate to the nature of the information disclosed and that takes into account the characteristics of those financial instruments.

Nature and extent of risks arising from financial instruments

FRS 102, 34.23 - 24 Information is required to enable users of its financial statements to evaluate the nature and extent of credit risk, liquidity risk and market risk arising from financial instruments to which the financial institution is exposed at the end of the reporting period.

For each type of risk arising from financial instruments:

(a) the exposures to risk and how they arise;

(b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

(c) any changes in (a) or (b) from the previous period.

FRS 103, 4.8(c) An insurer shall disclose information about credit risk, liquidity risk and market risk that, as a financial institution, Section 34 Specialised Activities of FRS 102 would require if the insurance contracts were within the scope of Sections 11 Basic Financial Instruments and 12 Other Financial Instruments Issues of FRS 102. However: (i) an insurer need not provide the maturity analyses required by paragraph 34.28 of FRS 102 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the statement of financial position; (ii) if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may use that sensitivity analysis to meet the requirement in paragraph 34.29 of FRS 102. Such an insurer shall also provide the disclosures required by paragraph 34.30 of FRS 102.

vii. ***Market risk***

Sch7, 6(1)(b) **Interest rate risk**

FRS 102, 34.29 Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk.

The Group monitors interest rate risk on a monthly basis by calculating the mean duration of the investment portfolio and of the liabilities to policyholders under insurance and investment contracts. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The mean duration of the liabilities is determined by means of projecting expected cash flows using standard actuarial claims projection techniques. This is calculated in a consistent manner with the prior year.

Any gap between the mean duration of the assets and the estimated mean duration of the liabilities is minimised by means of buying and selling fixed interest securities of different durations.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase of 100 basis points in interest yields would result in additional profit for the period and increase in equity of £100m (2014: £80m) assuming all other assumptions remain unchanged. A decrease in 100 basis points in interest yields would result in an additional loss for the period and decrease in equity of £100m (2014: £50m) assuming all other assumptions remain unchanged.

Sch7, 6(1) (b) **Equity price risk**

FRS 102, 34.30 The Group is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit or loss. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the UK and other recognised stock exchanges (primarily in Europe and North America).

The Group has a defined investment policy which sets limits on the Group's exposure to equities both in aggregate terms and by geography, industry and counterparty. This policy of diversification is used to manage the Group's price risk arising from its investments in equity securities.

Investment Management meetings are held monthly. At these, senior investment managers representing all Group companies meet to discuss investment return and concentration across the Group.

Listed equity securities represent 82% (2014: 84%) of total equity investments. If equity market indices had increased/decreased by 5%, with all other variables held constant, and all the Group's equity investments moving according to the historical correlation with the index, the profit for the year would increase/decrease by £470m (2014: £450m).

Currency risk

Sch7, 6 (1) (b)
FRS 102, 34.30

Group companies manage their foreign exchange risk against their functional currency. Foreign exchange arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than Sterling. The most significant currency to which the Group is exposed is the US Dollar. The Group seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. The Group also uses currency swaps which have the economic effect of converting certain US Dollar exposures at floating rates to fixed rates.

The Group has a US branch operation, whose net assets are exposed to foreign currency translation risk. Currency exposures are managed primarily through borrowings, although the Group has no designated hedging contracts.

At 31 December 2015, if the pound had weakened/strengthened by 20% against the US Dollar with all other variables held constant, profit for the year would have been £1.7m (2014: £0.6m) lower/higher, mainly as a result of foreign exchange gains/losses on the translation of US Dollar denominated financial assets, carried at fair value through profit or loss and foreign exchange losses/gains on translation of US Dollar denominated borrowings.

Market risk - Sensitivity analysis

FRS 102, 34.29 A sensitivity analysis is required for each type of market risk (e.g. interest rate risk, currency risk, other price risk) it is exposed to, showing the impact on profit or loss and equity. Details of the methods and assumptions used should be provided.

FRS 102, 34.30 If a financial institution prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (e.g. interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis instead.

PwC Proforma-Gen Limited manages its exposure to risk within an ALM framework and, accordingly, the quantitative data disclosed here reflects this basis of financial risk management. These disclosures are provided for illustrative purposes only and will not necessarily be applicable for all unlisted general insurance groups/companies. Entities will need to reflect their own individual circumstances and the specific framework in place for managing financial risk. Furthermore, it is likely that emerging best practice will develop over time.

FRS 102, 34.29, Proforma-Gen Limited discloses three types of market risk - interest, equity price and currency risks. The methods and assumptions used in preparing the analysis should be given.

Sch7, 6 (1) (b)

viii. *Credit risk*

FRS 102, 34.25-27 Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- amounts due from corporate bond issuers; and
- counterparty risk with respect to derivative transactions.

The Group manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to regular review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. In certain circumstances, deposits from reinsurers are also held as collateral.

Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the management. An analysis of policyholders and reinsurers by credit ratings produced by external rating agencies is produced periodically.

The assets bearing credit risk are summarised below, together with an analysis by credit rating:

	2015 **£m**	2014 £m
Derivative financial instruments	**502**	457
Debt securities	**15,814**	14,872
Loans and receivables	**3,813**	3,289
Assets arising from reinsurance contracts held	**4,991**	4,810
Cash at bank and in hand	**781**	940
Total assets bearing credit risk	**25,901**	24,368
AAA	**18,398**	16,546
AA	**3,764**	2,477
A	**2,107**	3,467
BBB	**1,252**	1,341
Below BBB or not rated	**380**	537
Total assets bearing credit risk	**25,901**	24,368

The concentration of credit risk is substantially unchanged compared to prior year. No credit limits were exceeded during the period. No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

The Group maintains strict control limits on open derivative positions, by both amount and term. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets.

Credit risk

FRS 102,11.46

When an entity has pledged financial assets as collateral for liabilities or contingent liabilities, it shall disclose the following:

(a) the carrying amount of the financial assets pledged as collateral; and

(b) the terms and conditions relating to its pledge.

FRS 102, 34.25-27

Additional disclosures for financial institutions

By class of financial instrument:

(a) The amount that best represents its maximum exposure to credit risk at the end of the reporting period. This disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk.

(b) A description of collateral held as security and of other credit enhancements, and the extent to which these mitigate credit risk.

(c) The amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.

(d) Information about the credit quality of financial assets that are neither past due nor impaired.

A financial institution shall provide, by class of financial asset, an analysis of:

(a) the age of financial assets that are past due as at the end of the reporting period but not impaired; and

(b) the financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the financial institution considered in determining that they are impaired.

When a financial institution obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees), and such assets meet the recognition criteria in other sections, a financial institution shall disclose:

(a) the nature and carrying amount of the assets obtained; and

(b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

i. *Liquidity risk*

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of Proforma-Gen Limited is the obligation to pay claims to policy holders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand. The table below analyses the maturity of the Group’s financial liabilities and outstanding claims. All liabilities are presented on a contractual cash flow basis except for the insurance liabilities, which are presented with their expected cash flows.

Of the £260m disclosed in the 2015 debenture and other loans time band ‘Between 2 and 5 years’ the Group intends to redeem the £100m guarantee bonds in the first quarter of 2015 (2014: nil).

The amounts disclosed in the table represent undiscounted cash flows.

FRS 102, 11.48A(f)

FRS 103, 4.8 (c)(i)

Financial liabilities and outstanding claims	**No contractual maturity date**	**< 6 mths or on demand**	**Between 6 mths and 1 year**	**Between 1 year and 2 years**	**Between 2 years and 5 years**	**> 5 years**	**Total**	**Carrying value**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 31 December 2015								
Debenture and other loans	-	30	31	66	260	623	1,010	950
Bank loans and overdrafts	-	322	556	-	-	-	878	552
Financial liabilities under investment contracts	-	445	259	-	-	-	704	674
Deposits received from reinsurers	-	-	58	-	-	-	58	58
Creditors	-	1,974	364	-	-	-	2,338	2,490
Financial liabilities	**-**	**2,771**	**1,268**	**66**	**260**	**623**	**4,988**	**4,724**
Claims outstanding	-	5,466	2,160	4,370	8,760	1,030	21,786	20,178
Financial liabilities and outstanding claims	**-**	**8,237**	**3,428**	**4,436**	**9,020**	**1,653**	**26,774**	**24,902**

Financial liabilities and outstanding claims	**No contractual maturity date**	**< 6 mths or on demand**	**Between 6 mths and 1 year**	**Between 1 year and 2 years**	**Between 2 years and 5 years**	**> 5 years**	**Total**	**Carrying value**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 31 December 2014								
Debenture and other loans	-	28	30	64	260	638	1,020	950
Bank loans and overdrafts	-	162	652	-	-	-	814	488
Financial liabilities under investment contracts	-	393	255	-	-	-	648	598
Deposits received from reinsurers	-	-	62	-	-	-	62	62
Creditors	-	1,751	363	-	-	-	2,114	2,114
Financial liabilities	**-**	**2,334**	**1,362**	**64**	**260**	**638**	**4,658**	**4,212**
Claims outstanding	-	5,067	2,090	4,280	8,700	876	21,013	19,286
Financial liabilities and outstanding claims	**-**	**7,401**	**3,452**	**4,344**	**8,960**	**1,514**	**25,671**	**23,498**

FRS 102, 34.25-27

FRS 102, 34.28

FRS 103, 4.8(c)(i)

Liquidity risk (maturity analysis)

A maturity analysis is required for financial liabilities showing the remaining contractual maturities at undiscounted amounts separated between derivative and non-derivative financial liabilities. An insurer need not provide this maturity analysis in respect of its insurance contract liabilities if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the balance sheet.

ix. *Capital management*

FRS 102, 34.31

Proforma-Gen Limited maintains an efficient capital structure from a combination of equity shareholders' funds and borrowings, consistent with the Group's risk profile and the regulatory and market requirements of its business.

The Group's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth; and
- to manage exposures to movement in exchange rates.

An important aspect of the Group's overall capital management process is the setting of target risk-adjusted rates of return for individual business units, which are aligned to performance objectives and ensure that the Group is focused on the creation of value for shareholders.

The Group has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders. The Group considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance and securitisation, as appropriate, when assessing its deployment and usage of capital. The Group manages as capital all items that are eligible to be treated as capital for regulatory purposes.

Insurance entities within the Proforma-Gen group are regulated by the Prudential Regulation Authority and the Group and those regulated entities are subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities.

The Group has historically managed capital in accordance with Solvency I rules and embedded in its ALM framework the necessary tests to ensure continuous and full compliance with such regulations.

During the year, the Group was subject to the PRA's Group capital adequacy requirements (which are based on EU Directive requirements). The Group aims to maintain capital at a level of 200% of these minimum requirements. At 31 December 2015, under Solvency I the total capital available to meet this requirement is approximately £7,000m (2014: £6,500m) which exceeds this 200% target. In addition, each regulated entity within the Proforma-Gen Group managed its own regulatory capital by reference to both minimum capital requirements based on EU Directive and also self-assessed risk-based capital determined under the PRA's individual capital adequacy regime. Both the Group and the regulated entities within it have complied with all externally imposed capital requirements throughout the year. In addition, in the UK, general insurers were required to maintain equalisation provisions in respect of certain classes of business to protect against the impact of large claims and catastrophes. The basis on which these equalisation provisions are established is set out in regulations. The amount of equalisation provision is set out in Note 23.

The Solvency II regime has been effective from 1 January 2016 and establishes a new set of EU-wide capital requirements, risk management and disclosure standards. All of the EEA insurance entities within the Proforma-Gen group are subject to these regulations. The Group and each EEA insurer within the group are required to meet a Solvency Capital Requirement (SCR) which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12 month time horizon. The Group calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations as the assumptions underlying the standard formula are considered to be a good fit for the Group's risk profile. In the period leading up to Solvency II's implementation the group has been managing its capital having regard to Solvency II's capital requirements and definition of capital.

ix. Capital management

FRS 102, 34.31

Information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. A financial institution shall disclose the following:

(a) Qualitative information about its objectives, policies and processes for managing capital, including:

  i. a description of what it manages as capital;
  ii. when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
  iii. how it is meeting its objectives for managing capital.

(b) Summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (e.g. some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (e.g. components arising from cash flow hedges).

(c) Any changes in (a) and (b) from the previous period.

(d) Whether during the period it complied with any externally imposed capital requirements to which it is subject.

(e) When the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

A financial institution bases these disclosures on the information provided internally to key management personnel.

FRS 102, 34.32

A financial institution may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or would distort a financial statement user's understanding of the financial institution's capital resources, the financial institution shall disclose separate information for each capital requirement to which the entity is subject.

v. *Fair value estimation*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices in an active market (Level 1).
- Recent transactions in an identical asset if there is unavailability of quoted prices (Level 2).
- Use of a valuation technique if there is no active market or other transactions which are a good estimate of fair value (Level 3).

The following table presents the Group's assets measured at fair value at 31 December 2015 and at 31 December 2014. No liabilities were measured at fair value at 31 December 2015 or 31 December 2014.

FRS 102, 34.22, 11.27

2015	**Level 1**	**Level 2**	**Level 3**	**Total balance**
	£m	**£m**	**£m**	**£m**
Assets				
Financial assets at fair value through profit or loss:				
- derivatives	-	376	126	502
- shares and other variable-yield securities and units in unit trusts	9,307	1,992	-	11,299
	9,307	**2,368**	**126**	**11,801**

2014	**Level 1**	**Level 2**	**Level 3**	**Total balance**
	£m	**£m**	**£m**	**£m**
Assets				
Financial assets at fair value through profit or loss:				
- derivatives	-	428	29	457
- shares and other variable-yield securities and units in unit trusts	8,743	2,055	-	10,798
	8,743	**2,483**	**29**	**11,255**

FRS 102, 34.22 &
FRS 102, 11.27

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date as described in Note 3(t). These instruments are included in Level 1. Instruments included in Level 1 comprise primarily FTSE listed equity investments.

FRS 102, 11.43

If observable prices are available for recent arm's length transactions, the instrument is included in Level 2. Proforma-Gen has derivatives and units in unit trust investments which are classified as Level 2. The valuations for these reflect the price of a recent transaction for an identical asset. The Group closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique. The techniques applied incorporate relevant information available and reflect appropriate adjustments for credit and liquidity risks. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. The relative weightings given to differing sources of information and the determination of non-observable inputs to valuation models can require the exercise of significant judgement.

The Group's Level 3 financial instruments are currency swaps. The valuation techniques used for these instruments utilise forward exchange rates at the balance sheet date discounted back to present value. The discount rate used is equal to LIBOR plus appropriate credit rating.

FRS 102 fair value guidance

FRS 102, 34.22 For financial instruments held at fair value in the balance sheet, a financial institution has to disclose for each class of financial instrument, an analysis of the level in the fair value hierarchy into which the fair value measurements are categorised.

PwC It is important to note that the hierarchy to be used in determining the fair value of an asset in FRS 102 paragraph 11.27 is not the same as the 'fair value hierarchy' set out in IFRS.

FRS 102, 11.27

Fair value hierarchy

An entity shall use the following hierarchy to categorise fair value financial instruments:

(a) The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the current bid price.

(b) When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

(c) If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

In November 2015, the FRC released an exposure draft proposing amendments to FRS 102 (FRED 62). The proposed changes align the fair value hierarchy for financial institutions under FRS 102 with the fair value hierarchy in IFRS 13. If the amendment is finalised before financial statements for a December 2015 year end are issued early adoption will be permitted, but not required.

Impairment

FRS 102, 34.21 Where a financial institution uses a separate allowance account to record impairments, it shall disclose a reconciliation of changes in that account during the period for each class of financial asset.

Proforma-Gen Limited has no impairment losses.

6. Particulars of business

a) Gross premiums written and gross premiums earned by class of business

Sch3, 85(1)

	Gross premiums written		**Gross premiums earned**	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Direct insurance				
Motor				
– Third-party liability	**581**	479	**614**	548
– Other	**5,574**	4,818	**4,122**	4,571
Accident and health	**1,173**	894	**1,335**	994
Third-party liability	**1,178**	1,068	**1,218**	1,119
Fire and other damage to property	**2,387**	2,421	**2,778**	2,382
Reinsurance acceptances	**3,856**	4,379	**4,282**	4,746
Total per income statement	**14,749**	14,059	**14,349**	14,360

b) Gross claims incurred, gross operating expenses and the reinsurance balance by class of business

Sch3, 85(1)

	Gross claims incurred		**Gross operating expenses**		**Reinsurance balance**	
	2015	2014	**2015**	2014		
	£m	£m	**£m**	£m		
Direct insurance						
Motor						
– Third-party liability	**448**	412	**171**	152	**1**	(13)
– Other	**4,534**	4,981	**1,460**	1,283	**104**	(107)
Accident and health	**880**	734	**328**	302	**(11)**	(13)
Third-party liability	**707**	694	**293**	253	**(8)**	1
Fire and other damage to property	**1,432**	1,744	**701**	681	**33**	(34)
	8,001	8,565	**2,953**	2,671	**119**	(166)
Reinsurance acceptance	**3,758**	3,984	**937**	972	**86**	26
	11,759	12,549	**3,890**	3,643	**205**	(140)

The reinsurance balance represents the credit/(charge) to the technical account from the aggregate of all items relating to reinsurance outwards.

Particulars of business

Sch3, 85(3) *Schedule 3 disclosures*

Analysis by class of business is required to be made in respect of direct insurance business when the amount of gross premiums written for a particular class, as defined in Schedule 3, exceeds 10 million euros. If a company has fewer than three classes of business meeting this criterion, disclosure is required in any case of the three largest classes.

The classes defined in Schedule 3 are as follows:

- Accident and health
- Motor (third-party liability)
- Motor (other classes)
- Marine, aviation and transport
- Fire and other damage to property
- Third-party liability
- Credit and suretyship
- Legal expenses
- Assistance
- Miscellaneous.

Analysis by way of direct insurance and reinsurance acceptances

Sch3, 85(2) Where reinsurance inwards business is undertaken, reinsurance acceptances are required to be analysed if they amount to 10% or more of gross premiums written.

Reinsurance balance

IG 2.62 Schedule 3 requires disclosure of the 'reinsurance balance'. This is defined in FRS 103's implementation guidance as the aggregate total of all those items included in the technical account for general business which relate to reinsurance outwards transactions including reinsurance commission and profit participation.

Sch6, 40(6) *Application to group financial statements*

The disclosures given above are only mandatory in respect of insurance company (as opposed to group) financial statements. These illustrative financial statements include such disclosures both to aid users preparing unconsolidated entity financial statements and as indicative of the types of disclosures that may be voluntarily made in group financial statements.

c) Analysis by geographic area

Sch3, 87(1)

Gross direct written premiums

	2015	2014
	£m	£m
United Kingdom	**10,145**	8,987
United States	**748**	693
	10,893	9,680

Segmental analysis by geographical area

Schedule 3 disclosures

Sch3, 87(1)

Where overseas business is conducted, a geographical analysis of gross direct premiums is required resulting from contracts concluded:

i. in the EU Member State of a company's head office;

ii. in other EU Member States; and

iii. in other countries.

The disclosure is only required where such amounts for each area exceed 5% of total gross premiums. The disclosure is only mandatory in entity, as opposed to group, financial statements.

7. Movement in prior year's provision for claims outstanding

An adverse run-off deviation of £179m was experienced during the year in respect of marine treaty reinsurance acceptances (2014: positive run-off deviation of £87m in respect of motor business).

Sch3 PL (4)

IG 2.19

PwC

The requirement of Schedule 3 to disclose any material surplus or deficiency in claims provisions established at the previous year-end also includes the need to analyse the surplus/deficiency by category. The effect of the unwinding of the discount in respect of discounted claims should be ignored in considering whether material run-off deviations have arisen.

The comparatives given are the figures that were disclosed in the prior year's note rather than comparatives in respect of classes for which material deviations have occurred in the current year.

8. Expenses

a) Net operating expenses

	2015	2014
	£m	£m
Acquisition costs	**3,138**	2,856
Change in deferred acquisition costs	**(154)**	(89)
Administrative expenses	**906**	876
Reinsurance commissions and profit participation	**(170)**	(121)
	3,720	3,522

b) Auditors' remuneration

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and its associates at costs as detailed below:

SI2008/489 (as amended by SI 2011/2198)

ICAEW Tech 14/13

	2015	2014
	£m	£m
Fees payable to the Company's auditor and its associates for the audit of the parent Company and consolidated financial statements	**1.0**	0.9
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries	**0.6**	0.5
Audit-related assurance services	**0.4**	0.2
Tax advisory services	**0.4**	0.1
Tax compliance services	**0.1**	0.1
Other assurance services	**0.2**	0.1
Total amount payable to the Company's auditor and its associates	**2.7**	1.9
Fees in respect of the Proforma-Gen Limited pension scheme:		
Audit	**0.2**	0.2
Audit-related assurance services	**0.1**	-
	0.3	0.2

SI2008/489 (as amended by SI2011/2198)

Auditor remuneration

The requirements in the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI2008/489 as amended by SI 2011/2198) on disclosure of auditor remuneration, apply to all financial statements with the following exceptions:

- Where a parent company is required to (and does) prepare consolidated financial statements, there is no requirement to disclose, in addition to the group audit fee, the audit fee for the company.
- Large companies disclose the audit fee receivable by the auditor and its associates; small and medium-sized companies disclose the audit fee receivable by the auditor only.
- The disclosures in respect of fees for 'Other services' are not required to be given by:
  - small or medium companies or groups (reduced disclosure requirements apply);
  - subsidiary companies in their individual financial statements, whose parents are required to, and do, prepare consolidated financial statements in accordance with the Companies Act 2006 and the subsidiary company is included in the consolidation; or
  - parent companies in their individual financial statements, where the company is required to, and does, prepare consolidated financial statements in accordance with the Companies Act 2006.
- The disclosure in respect of fees for 'Other services' provided by a distant associate of the company's auditor are not required if the total remuneration receivable for all of those services supplied by that associate does not exceed £10,000 or, if higher, 1% of the total audit remuneration received by the company's auditor in the most recent financial year of the auditor.

The statutory requirements in relation to auditors' remuneration are supported by guidance published by the ICAEW in Tech 14/13, 'Disclosure of auditor remuneration', which also provides example disclosures.

Disclosure is required in the parent company's group and individual financial statements in respect of fees paid in the following categories:

- fees payable to the company's auditor and its associates for the audit of the parent and consolidated financial statements; and
- fees payable to the company's auditor and its associates from the company and its associates for other services including:

- audit of accounts of any associate of the company;
- audit-related assurance services;
- taxation compliance services;
- all other taxation advisory services;
- internal audit services;
- all other assurance services;
- services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the company or any of its associates; and
- all other non-audit services.

Separate disclosure is required of:

- fees in respect of the company and its subsidiaries; and
- fees in respect of company pension schemes.

The ‘company and its associates’ refers to the subsidiaries of the company (except where its control over a subsidiary is subject to severe long-term restrictions) and associated pension schemes. This is potentially confusing as it is not the same definition of associates used in FRS 102. Similarly, references to the ‘Auditor and its associates’ refer to members of the same network of firms as the company’s auditor.

Where fees for services performed by other parts of the audit firm that assist in the audit are invoiced either as part of, or separately from, the audit fee, those fees are included within the audit fees disclosed.

The above disclosure requirements will still apply to parent company’s individual financial statements where it chooses to take advantage of section 401 Companies Act 2006 exemption from consolidation for intermediate holding companies within a group headed by a non-EEA parent company (where the financial statements are drawn up in accordance with the Insurance Accounts Directive or in an equivalent manner).

ICAEW Tech 14/13 Audit fees presented exclude VAT because auditors are not the beneficiaries of the VAT paid so it would be inappropriate to show the VAT as a benefit to them irrespective of whether the VAT is recoverable or irrecoverable by the company.

FRS 102, 20.16(b)

c) Operating lease rentals

Total operating lease charges paid during the year amounted to £14m (2014: £13m).

d) Commission for direct insurance

Sch3, 88 Total commissions for direct insurance accounted for by the Group during the year amounted to £1,536m (2014: £1,448m).

Sch6, Pt 3, 40(6)
FRS 103, 4.6

The disclosure of total commission for direct insurance is not required in group financial statements. It is included here for illustrative purposes.

The amount should exclude any commissions payable to employees.

9. Employees and directors

s411(1), s411(5)

Employees

Group

	2015	2014
	£m	£m
Wages and salaries	**1,457**	1,195
Social security costs	**86**	85
Other pension costs	**141**	105
	1,684	1,385

The average number of employees of the Group (including executive directors) during the year was as follows:

	2015	2014
	No.	No.
Administration and finance	**8,849**	8,407
Underwriting	**14,141**	11,824
Claims	**4,472**	3,682
Investments	**480**	420
	27,942	24,333

The Company has no employees.

s411(2) **Employee numbers**
The Companies Act 2006 requires an analysis of average number of employees having regard to the manner in which the company's activities are organised.

Directors
The directors' emoluments were as follows:

		2015	2014
		£m	£m
Sch5, 1(1) (a)	Aggregate emoluments	**5.2**	4.8
Sch5, 4(1)	Compensation for loss of office (excluding shares)	**-**	1.1
Sch5, 5(1)	Sums paid to third parties for directors' services	**0.9**	-
	Excess retirement benefits		
Sch5, 3(1) (a)	– current directors	**1.0**	-
Sch5, 3(1) (b)	– past directors	**0.9**	1.0
		8.0	6.9

Sch5, 1(2) Post-employment benefits are accruing for five directors (2014: five) under the Group's defined benefit pension scheme.

s413(2) No advances or credits granted to any director subsisted during the year. Also, no guarantees on behalf of any director subsisted during the year.

Highest paid director
The highest paid director's emoluments were as follows:

		2015	2014
		£m	£m
Sch5, 2(1) (a)	Aggregate emoluments	**1.2**	1.1
Sch5, 2(2)	Defined benefit pension scheme: Accrued pension at the end of year (per annum)	**0.6**	0.5

Sch5, 1(3)(b) Where applicable, the number of directors who exercised share options in the year and the number of directors who have become entitled to receive shares under any long-term incentive schemes are required to be disclosed.

Sch5, 2(1) The highest paid director's disclosures are only required to be given where the aggregate of directors' emoluments and benefits under long-term incentive schemes exceeds £200,000. If the highest paid director is

Sch5, 2(2) (b)

entitled to a lump sum payment on attaining normal pensionable age, the amount accrued at the balance sheet date is required to be disclosed.

Sch5, 2(3) A non-listed entity must state whether the highest paid director exercised any share options and whether any shares were received or receivable by that director in respect of qualifying services under long term incentive schemes.

s413(2), (3) Where applicable, the amounts and interest rate on any advances or credits granted to the directors by the company or by any of its subsidiary undertakings are required to be disclosed. The main conditions of those advances or credits and amounts repaid are also required to be disclosed.

s413(2), (4) Where applicable, the main terms and the amounts of maximum liability in respect of guarantees of any kind entered into on behalf of the directors, by the company or by any of its subsidiary undertakings, are required to be disclosed. Any amounts paid and any liability incurred by the group, in respect of those guarantees, are also required to be disclosed.

Key management compensation

Key management includes the directors and members of senior management. The compensation paid or payable to key management for employee services is shown below:

		2015	2014
		£m	£m
DV	Salaries and other short-term benefits	**7.2**	6.9
DV	Post-employment benefits	**1.9**	1.8
FRS 102, 33.7		**9.1**	8.7

FRS 102, 33.7 An entity shall disclose key management personnel compensation in total.

FRS 102, 33.6 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Compensation includes all employee benefits (as defined in FRS 102, Section 28 Employee Benefits) including those in the form of share-based payments (see FRS 102, Section 26 Share-based Payment).

Employee benefits include all forms of consideration paid, payable or provided by the entity, or on behalf of the entity (e.g. by its parent or by a shareholder), in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of goods or services provided to the entity.

Share-based payments

Share-based payment transactions include:

- equity-settled share-based payment transactions – Transactions in which an entity receives goods or services, including employee services, as consideration for its own equity instruments. Such transactions include employee share option and share incentive plans;
- cash-settled share-based payment transactions – Transactions in which an entity acquires goods or services by incurring liabilities (typically to be settled in cash), but where the amount paid is based on the value of the entity's shares or other equity instruments. Typical examples include 'phantom' share schemes, share appreciation rights and certain long-term incentive schemes; and
- transactions in which either party may choose settlement in the form of cash (or other assets) or equity instruments of the entity.

FRS 102, 26.18 An entity shall disclose the following information about the nature and extent of share-based payment arrangements that existed during the period:

(a) A description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (e.g. whether in cash or equity). An entity with substantially similar types of share-based payment arrangements may aggregate this information.

(b) The number and weighted average exercise prices of share options for each of the following groups of options:

  i. outstanding at the beginning of the period;
  ii. granted during the period;
  iii. forfeited during the period;
  iv. exercised during the period;

v. expired during the period;

vi. outstanding at the end of the period; and

vii. exercisable at the end of the period.

FRS 102, 26.19 For equity-settled share-based payment arrangements, an entity shall disclose information about how it measured the fair value of goods or services received or the value of the equity instruments granted. If a valuation methodology was used, the entity shall disclose the method and its reason for choosing it.

FRS 102, 26.20 For cash-settled share-based payment arrangements, an entity shall disclose information about how the liability was measured.

FRS 102, 26.21 For share-based payment arrangements that were modified during the period, an entity shall disclose an explanation of those modifications.

FRS 102, 26.22 If the entity is part of a group share-based payment plan, and it recognises and measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group, it shall disclose that fact and the basis for the allocation (see paragraph 26.16).

FRS 102, 25.23 An entity shall disclose the following information about the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position:

(a) the total expense recognised in profit or loss for the period; and

(b) the total carrying amount at the end of the period for liabilities arising from share-based payment transactions.

Proforma-Gen Limited has no share-based payments.

10. Investment return

		2015	2014
		£m	£m
	Investment income		
FRS 102, 11.48(b)	Interest income on financial assets not at fair value through profit and loss	**730**	774
FRS 102, 11.48(a)	Income from financial assets at fair value through profit and loss	**902**	946
Sch3 PL	Income from other financial investments	**1,632**	1,720
FRS 102, 14.13	Income from associated undertakings	**55**	95
Sch3 PL	Income from land and buildings	**69**	52
Sch3 PL	Net gains on the realisation of investments	**856**	-
		2,612	1,867
	Investment expenses and charges		
FRS 102, 11.48(a) **SI 2008/410 3(83)**	Interest payable on financial liabilities at amortised cost	**(135)**	(130)
	Other investment management expenses	**(75)**	(76)
	Net losses on the realisation of investments	**-**	(50)
	Total investment management expenses, including interest	**(210)**	(256)
	Net unrealised gains / (losses) on investments	**302**	(189)
PwC	**Total investment return**	**2,704**	1,422
IG 2.66	**Investment return is analysed between:**		
	Allocated investment return transferred to the general business technical account	**2,167**	2,020
	Net investment return included in the non-technical account	**537**	(598)
	Total investment return	**2,704**	1,422

FRS 102, 11.48(a) Included in the above are net gains on financial assets at fair value through profit and loss of £2,016m (2014: £693m).

Sch3, 83 Interest payable on financial liabilities at amortised cost comprises £64m (2014: £59m) in respect of bank loans and overdrafts and £71m (2014: £71m) in respect of other loans made to the company.

IG 2.71(d) A 1% increase/decrease in the longer-term rate of investment return would result in an increase/decrease in longer-term investment return of £301m (2014: £277m).

FRS 102, 11.48 FRS 102 requires disclosure of the following items of income, expense, gains and losses either on the face of the financial statements or in the notes:

i. Income, expense, net gains or net losses on:
   - financial assets measured at fair value through profit or loss;
   - financial liabilities measured at fair value through profit or loss (with separate disclosure of movements on those which are not held as part of a trading portfolio and are not derivatives);
   - financial assets measured at amortised cost;
   - financial liabilities measured at amortised cost.

ii. total interest income and total interest expense (calculated using the effective interest method) for financial assets and liabilities that are not measured at fair value through profit or loss;

iii. the amount of any impairment loss for each class of financial asset. A class of financial asset is a grouping that is appropriate to the nature of the information disclosed and that takes into account the characteristics of the financial assets.

FRS 102, 17.15E Unrealised gains on revaluation of owner-occupied land and buildings are included in other comprehensive income.

		2011 – 2015 £m	2010 – 2014 £m
	Investment returns over past five years		
	Actual return attributable to shareholders	**9,273**	7,692
	Longer-term return credited to operating results	**(9,047)**	(8,117)
IG 2.71(c)	**Excess/(deficit) of actual returns over longer-term returns**	**226**	(425)

11. Other technical income and other income

Other technical income in the technical account comprises fees for policy administration arising from financial liabilities on investment contracts, carried at amortised cost.

FRS 102 , 30.25(a) Net foreign exchange gains of £25m (2014: £6m) are included within other income in the non-technical account.

FRS 102, 30.25(a) The amount of exchange differences recognised in profit or loss should be disclosed (except those arising on financial instruments measured at 'fair value through profit or loss').

12. Taxation

		2015 **£m**	2014 £m
	UK corporation tax at 20.25% (2014: 21.5%)		
Sch3, 84	Current tax on income for the period	**589**	(107)
	Adjustments in respect of prior periods	**(27)**	8
		562	(99)
FRS 102, 29.26(b) & Sch3, 84(2)	Double taxation relief	**(4)**	(3)
		558	(102)
FRS 102, 29.26b & Sch3, 84(2)	Foreign tax – Current tax on income for the period	**12**	11
	Total current tax	**570**	(91)
FRS 102, 29.26c	Deferred tax		
	- Origination and reversal of timing differences	**12**	(90)
	- Impact of change in UK tax rate	**(38)**	(18)
	Total deferred tax	**(26)**	(108)
	Tax on profit on ordinary activities	**544**	(199)

FRS 102, 29.27(a)

Tax expense/(income) included in other comprehensive income

		2015 **£m**	2014 £m
	Deferred tax		
FRS 102, 29.26(c)	**-** Origination and reversal of timing differences	**1**	6
		1	6

Factors affecting the tax charge for the period

FRS 102, 29.27(b)

The tax assessed for the year is higher (prior year: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

		2015 **£m**	2014 £m
FRS 102, 29.27(b)(ii)	**Non-technical account**		
	Profit/(loss) on ordinary activities before tax	**1,393**	**(342)**
	Profit on ordinary activities multiplied by standard rate of corporate tax in the UK of 20.25% (2014: 21.5%)	**282**	(74)
	Income not taxable for tax purposes	**(10)**	(20)
	Expenses not deductible for tax purposes	**154**	6
	Tax on share of income from associates	**(14)**	(26)
	Origination and reversal of timing differences	**12**	(90)
	Different tax rates on overseas earnings	**45**	2
	Adjustments to tax charge in respect of previous periods	**75**	3
	Tax charge/(credit) for the period	**544**	(199)

Factors affecting current and future tax charges

The calculation of taxes at the balance sheet date takes into account the reduction in the UK main corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020.

FRS 102, 29.27(b)

Companies are required to provide a reconciliation between the tax charge or credit reported in the profit and loss account to the tax charge that would result from applying a relevant standard rate of tax to the profit on ordinary activities before tax.

Other disclosures

Sch3, 84(1)

Particulars of any special circumstances that affect the overall tax liability of the current or future periods, should be disclosed.

13. Dividends on equity shares

		2015	2014
		£m	£m
	Equity shares		
Sch3 64(b)	Final 2014 dividend paid 15.4p per share (2014: Final 2013 dividend paid 30.8p per share)	**75**	150

FRS 102, 32.8, Sch3, 64(a)

In addition the directors are proposing a final dividend in respect of the financial year ended 31 December 2015 of 2.0p per share, which will absorb an estimated £10m of shareholders' funds.

14. Goodwill and other intangible assets – Group

FRS 102, 18.27 (e), 19.26 Sch3, 69

	Goodwill	Other intangible assets		
		Acquired claims provisions	Software costs	Total other intangible assets
	£m	£m	£m	£m
At 31 December 2014				
Cost	–	–	39	39
Accumulated amortisation and impairment	–	–	(11)	(11)
Net book amount	**–**	**–**	**28**	**28**
Year ended 31 December 2015				
Opening net book amount	–	–	28	28
Acquisitions	230	76	–	76
Amortisation	(20)	(13)	(11)	(24)
Closing net book amount	**210**	**63**	**17**	**80**
At 31 December 2015				
Cost	230	76	39	115
Accumulated amortisation and impairment	(20)	(13)	(22)	(35)
Net book amount	**210**	**63**	**17**	**80**

FRS 102, 19.25(g) Sch3, 42

The directors have assessed the useful economic life of the goodwill arising on the acquisition during the period as 10 years based on the period over which the value of the underlying business acquired is expected to exceed the values of the acquired identifiable net assets.

The useful economic life acquired claims provisions has been assessed as three years, being the run-off period of the claims arising from the portfolio of business acquired.

Please refer to Note 17 for details of the disclosure requirements for acquired claims provisions.

15. Land and buildings – Group

FRS 102, 16.10(e) The carrying value of the Group's land and buildings was as follows:

Sch3, BS (4)

		Owner-occupied £m	Investment properties £m	Total £m
	At 31 December 2014	292	864	1,156
	Additions	-	43	43
	Acquisitions	-	55	55
	Net fair value gain	15	40	55
FRS 102, 17.31(e)	Depreciation	(5)	-	(5)
	At 31 December 2015	**302**	**1,002**	**1,304**

Sch3, BS(4) The cost of land and buildings at the balance sheet date was £937m (2014: 847m).

Sch3, 70

FRS 102, 16.10 (a) & (b)

The Group's properties were valued at 31 December 2015 by independent professionally qualified valuers (Tweed & Co, a firm of independent Chartered Surveyors) who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use. The Group's finance department includes a team that review the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC, the valuation team and the independent valuers at least once every quarter, in line with the Group's quarterly reporting dates.

At each financial year end the finance department:

- verifies all major inputs to the independent valuation report;
- assesses property valuation movements when compared to the prior year valuation report; and
- holds discussions with the independent valuer.

Sch3, 79(4) Bank borrowings are secured on freehold land and buildings to a value of £122m (2014: £281m) (Note 27).

Sch3, 10(4) The amount of any land and buildings occupied by the company for its own activities must be shown separately in the notes to the accounts.

FRS 102, 16.7
FRS 102, 16.10

An entity shall disclose the following for all investment property accounted for at fair value through profit or loss:

(a) the methods and significant assumptions applied in determining the fair value of investment property;

(b) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;

(c) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal;

(d) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements; and

(e) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:

   i. additions, disclosing separately those additions resulting from acquisitions through business combinations;
   ii. net gains or losses from fair value adjustments;
   iii. transfers to property, plant and equipment when a reliable measure of fair value is no longer available without undue cost or effort;
   iv. transfers to and from inventories and owner-occupied property; and
   v. other changes.

FRS 102, 16.10 This reconciliation need not be presented for prior periods.

16. Investment in Group undertakings and participating interests

a) Investments in participating interests

Group

The carrying value of the Group's investment in an associates was as follows:

		2015	2014
		£m	£m
	At 1 January 2015	**347**	272
FRS 102, 14.4	Share of profit	**55**	95
FRS 102, 14.12(b)	Dividends received	**(37)**	(20)
	At 31 December 2015	**365**	347

Sch 4, 19,
FRS 102, 14.4A
SI 2015/980

The Group holds a 30% equity investment in the A class shares of Associates Limited, an online insurance broker incorporated in the UK. The holding is indirect and held directly by Proforma-Gen's wholly owned subsidiary, Shakespeare Limited. The investment is accounted for using the equity method.

The aggregate capital and reserves of Associates Limited is £1,240m at 31 December 2015 (2014: £1,170) and profit for the year ended 31 December 2015 was £175m (2014: £150m).

Company
The company had no associates at 31 December 2015 (2014: none).

b) **Investments in Group undertakings – Company**

	Shares in Group undertakings	Loans to Group undertakings	Total
	£m	£m	£m
At 1 January 2015	5,657	859	6,516
Acquisitions	799	–	799
Loan repaid	–	(258)	(258)
At 31 December 2015	**6,456**	**601**	**7,057**

Sch4, 1 & 11

Set out below are the company's subsidiaries, all of which undertake general insurance business, as at 31 December 2015, with details of the percentages of nominal value and voting rights held by the Company and the Group.

SI 2015/980

Subsidiary undertakings	Class of shares Held	Percentage of nominal value and voting rights held by Company	Percentage of nominal value and voting rights held by Group
Shakespeare Limited - UK	Ordinary	100	100
Dickens Limited - UK	Ordinary	100	100

All subsidiaries are included in the consolidation and are incorporated within Great Britain.

SI 2015/980 &
2008/410 Sch 4

An entity shall disclose information about related undertakings in the notes to the financial statements. There is no longer an exemption to do so, and the information is no longer required to be annexed to the company's next annual return.

Related undertakings include subsidiaries, joint ventures, associates and other significant holdings. The disclosure requirements apply to both non-dormant and dormant related undertakings.

17. Business combinations

FRS 102,
19.25(a),(b),(c)

On 7 July 2015, the company acquired 100% of the issued share capital of Dickens Limited (a motor insurer) for a cash consideration of £799m. The Group has used acquisition accounting to account for the purchase.

FRS 102, 19.25A

The revenue from Dickens Limited included in the consolidated statement of comprehensive income for 2015 was £403m. Dickens Limited also contributed profit of £90m over the same period.

FRS 102, 19.25

For each business combination, excluding any group reconstructions, that was effected during the period, the acquirer shall disclose:

- the names and descriptions of the combining entities or businesses;
- the acquisition date;
- the percentage of voting equity instruments acquired;
- the cost of the combination and a description of the components of that cost (such as cash, equity instruments and debt instruments);
- the amounts recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities, including goodwill;
- the useful life of goodwill, and if this exceeds ten years, supporting reasons for this; and
- the periods in which any negative goodwill will be recognised in profit or loss.

FRS 102, 19.25A

The acquirer shall disclose, separately for each material business combination that occurred during the reporting period, the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period. The disclosure may be provided in aggregate for business combinations that occurred during the reporting period which, individually, are not material.

The following tables summarise the consideration paid by the Group, the fair value of the assets acquired and liabilities assumed at the acquisition date.

FRS 102, 19.25(d)
Sch6, 13(3)

Consideration at 7 July 2015:

		£m
FRS 102, 19.25(d)	Cash consideration	698
FRS 102, 19.11(a), 19.25(d)	Contingent consideration	98
FRS 102, 19.25(d)	Directly attributable costs	3
		799

FRS 102, 7.10

For cash flow disclosure purposes the amounts disclosed are as follows:

	£m
Cash consideration	698
Less cash and cash equivalents acquired	(11)
Directly attributable costs	3
New cash outflow	**690**

The subsidiary undertaking acquired during the year contributed £27m to the Group's net operating cash flows, and utilised £2m for capital expenditure.

FRS 102, 7.10

The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units shall be presented separately and classified as investing activities.

FRS 102
p19.25(e)
6Sch13(4)

	Book value of net assets on acquisition £m	Adjustments £m	Adjusted net assets £m
Assets			
Intangible assets	-	76	76
Investments			
- land and buildings	23	32	55
- financial assets	1,156	-	1,156
Technical provisions – reinsurers' share			
– unearned premiums	2	-	2
– outstanding claims	30	4	34
Debtors	114	-	114
Other assets			
- Tangible assets	4	-	4
- Cash at bank and in hand	11	-	11
Prepayments and accruals	38	-	38
Liabilities			
Technical provisions – gross			
– unearned premiums	(251)	-	(251)
– outstanding claims	(482)	(93)	(575)
– equalisation	(6)	–	(6)
Creditors	(48)	–	(48)
Contingent liability	-	(41)	(41)
Net assets/(liabilities)	591	(22)	569
Cost of acquisition			**799**
Goodwill arising on acquisition			**230**

Sch6, 13(3)

The adjustments arising on acquisition were in respect of the following:

Sch6, 13(4)

- The recognition of an intangible asset in respect of acquired claims provisions. This asset represents the difference between the fair value of the acquired contractual obligations and the value of the liability calculated in accordance with the group's accounting policies (see Note 14).
- The revaluation of investments represents a reassessment of the market value of land and buildings at the date of acquisition.
- The alignment of accounting policies in respect of other assets represents the adjustment required to write off capitalised computer software costs.
- The revaluation adjustment in respect of outstanding claims represents a reassessment of the level of outstanding claims at the date of acquisition.
- No adjustment has been made to the carrying value of equalisation provisions as their carrying value is determined by statute.
- A provision for a contingent liability in respect of employee claims for holiday pay and equal wages.

PwC As a result of the acquisition, the Group expects to increase its sales of motor insurance by leveraging Dickens Limited's market presence which extends into cities in Wales where the Group has previously only had a minimal presence. Goodwill arising from the acquisition is attributable to economies of scale expected from combining the operations into the Group.

FRS 102, 19.25(d) Contingent consideration is payable based on the loss ratio of the acquired book for the year ended 31 December 2016. The amount payable is capped at £150m.

Insurance contracts acquired in a business combination or portfolio transfer

FRS 103, 2.27 To comply with Section 19 Business Combinations and Goodwill of FRS 102, an insurer shall, at the acquisition date, measure at fair value the insurance liabilities assumed and insurance assets acquired in a business combination. However, an insurer is permitted, but not required, to use an expanded presentation that splits the fair value of acquired insurance contracts into two components:

(a) a liability measured in accordance with the insurer's accounting policies for insurance contracts that it issues; and

(b) an intangible asset, representing the difference between (i) the fair value of the contractual insurance rights acquired and insurance obligations assumed and (ii) the amount described in (a). As an exception to Section 18 Intangible Assets other than Goodwill of FRS 102, the subsequent measurement of this asset shall be consistent with the measurement of the related insurance liability.

FRS 103, 2.28 An insurer acquiring a portfolio of insurance contracts may also use the expanded presentation described above.

The intangible assets described above are excluded from the scope of Sections 18 and 27 of FRS 102, Impairment of Assets, however, Sections 18 and 27 of Impairment of Assets FRS 102 do apply to customer lists and customer relationships reflecting the expectation of future contracts that are not part of the contractual insurance rights and contractual insurance obligations that existed at the date of a business combination or portfolio transfer.

Equalisation provisions on acquisition

Where an acquired entity has established an equalisation provision it could be argued that the fair value of that provision is nil as it does not represent a liability at the date of acquisition.

However, such provisions must be carried both in the acquired entity's financial statements and in the consolidated financial statements of the acquirer. As a result of this, including the equalisation provisions as part of the acquired liabilities, the goodwill arising on acquisition is increased. A potential treatment is to separately identify and amortise this additional goodwill in a similar fashion to the goodwill in the acquired provisions. However, in practice it is unlikely to be practical to develop an appropriate amortisation basis to match the amortisation with the release of the acquired equalisation provisions. Therefore, in most cases, such goodwill will not be separately identified.

18. Other financial investments – Group

		Carrying Value		Purchase Price	
Sch3, 73(3)		**2015**	2014	**2015**	2014
		£m	£m	**£m**	£m
FRS 102, 11.41(a)	Financial assets at fair value through profit or loss	**11,801**	11,255	**9,860**	9,983
FRS 102, 11.41(b)	Financial assets that are debt instruments held at amortised cost	**14,100**	13,113	**13,684**	12,702
	Total financial assets	**25,901**	24,368	**23,544**	22,685

A disaggregation of the statement of financial position line item by class of financial instrument in line with the ALM framework is included within Note 5(b).

FRS 102, 11.41

FRS 102 requires the carrying amounts of each of the following categories, as defined in IAS 39, to be disclosed either on the face of the balance sheet or in the notes:

i. financial assets measured at fair value through profit or loss;

ii. financial assets that are debt instruments measured at amortised cost;

iii. financial assets that are equity instruments measured at cost less impairment;

iv. financial liabilities measured at fair value through profit or loss. Financial liabilities that are not held as part of a trading portfolio and are not derivatives shall be shown separately (see Note 27);

v. financial liabilities measured at amortised cost (see Note 27);

vi. loan commitments measured at cost less impairment.

Significance of financial instruments for financial position and performance

FRS 102, 34.19

A financial institution shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.

FRS 102, 34.20

Financial institutions have to disclose a disaggregation of the statement of financial position line item by class of financial instrument. A class is a grouping of financial instruments that is appropriate to the nature of the information disclosed and that takes into account the characteristics of those financial instruments.

a) Listed investments

Sch3, 72

Included in the carrying values above are amounts in respect of listed investments as follows:

	2015	2014
	£m	£m
Shares and other variable-yield securities and units in unit trusts	**9,307**	9,074
Debt securities and other fixed-income securities	**8,530**	7,847
	17,837	16,921

b) Derivative financial instruments, at fair value through profit or loss

Sch3, 73(4)(c)

To match the expected liability of certain insurance contracts, the Group has purchased over-the-counter ('OTC') currency swap contracts to swap variable exchange rates of the backing assets to fixed exchange rates to meet foreign currency cash flows over the expected period to settlement of the related insurance contracts.

Sch3, 73(2)

The currency swap contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the derivatives are the forward exchange rates for GBP:USD and GBP:EUR.

	Fair value asset		Contract/notional amount	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Currency swap contracts – held for trading	**502**	457	**3,887**	3,769

Information about fair value of assets and liabilities

Sch3, 73 Where financial instruments have been valued using the fair value accounting rules, Schedule 3 requires the following disclosures:

- the items affected and the basis of valuation adopted in determining the amounts of the financial instruments,
- the purchase price of the financial instruments,
- the significant assumptions underlying the valuation models and techniques, and
- the fair value and movements recorded in the profit and loss.

FRS 102, 11.43 When a valuation technique is used, the entity shall disclose the assumptions applied in determining fair value for each class of financial assets or financial liabilities.

FRS 102, 11.44 If a reliable measure of fair value is no longer available for ordinary or preference shares measured at fair value through profit or loss, the entity shall disclose that fact.

Sch3, 75 (1) Where the carrying amount of financial fixed assets exceeds their fair value the following needs to be disclosed:

Sch3, 75 (2)

- the amount at which either the individual assets or appropriate groupings of those individual assets are included in the company's accounts,
- the fair value of those assets or groupings, and
- the reasons for not making a provision for diminution in value of those assets, including the nature of the evidence that provides the basis for the belief that the amount at which they are stated in the accounts will be recovered.

Additional disclosures for derivatives

Sch3, 73(4)(c) For each class of derivatives, the extent and nature of the instrument, including significant terms and conditions that may affect the amount, timing and uncertainty of future cash flows must be disclosed.

Sch3, 74 Where the company has derivatives that it has not included at fair value, there must be stated for each class of such derivatives the fair value of the derivatives in that class, if such a value can be determined, the extent and nature of the derivatives.

c) Held-to-maturity financial assets, at amortised cost

Sch3, 24(6) Debt securities and other fixed-interest securities are valued at amortised cost. The fair value of these securities is £9,979m (2014: £10,632m). The fair value is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Sch3, 75(2) The fair value of debt securities and other fixed-interest securities is £490m below carrying value (2014: £808m above). At the balance sheet date the Group assessed whether there was objective evidence to impair the carrying value of debt securities and other fixed-interest securities. An exercise was carried out to identify potential evidence to trigger impairment of the assets such as significant financial difficulties of issuers or debtors and disappearance of an active market for the securities and data indicating a measurable decrease in the future cash flow related to the assets in question. However, it was concluded that no objective evidence existed at balance sheet date to prompt impairment of the carrying value. It remains the Group's intention to carry its debt and other fixed-interest securities to maturity.

Sch3, 24(5) The net excess of the amounts payable at maturity over the amortised cost is £421m (2014: £372m).

Loans secured by mortgages, other loans and other investments

Proforma-Gen Limited does not have any amounts falling in the above categories.

Sch3 BS (7) "Other" investments should comprise those investments that may not sensibly be included in the other investment categories per the balance sheet format. Where such amounts are significant they should be separately disclosed in the notes to the financial statements.

19. Tangible assets – Group

		Computer equipment	Motor vehicles	Fixtures, fittings and office equipment	Total
Sch3, 38, 69(3) **FRS 102,17.31,**		£m	£m	£m	£m
	At 31 December 2014				
FRS 102, 17.31(d)	Cost	210	158	119	487
FRS 102, 17.31(d)	Accumulated amortisation and impairment	(160)	(75)	(74)	(309)
	Net book amount	**50**	**83**	**45**	**178**
	Year ended 31 December 2015				
FRS 102, 17.31(e)	Opening net book amount	50	83	45	178
FRS 102, 17.31(e)(i)	Additions	359	376	299	1,034
FRS 102, 17.31(e)(iii)	Acquisitions	2	-	2	4
FRS 102, 17.31(e)(ii)	Disposals	(15)	(13)	(23)	(51)
FRS 102, 17.31(e)(vii)	Depreciation	(71)	(38)	(11)	(120)
FRS 102, 17.31(e)	**Closing net book amount**	**325**	**408**	**312**	**1,045**
	At 31 December 2015				
	Cost	517	476	378	1,371
	Accumulated amortisation and impairment	(192)	(68)	(66)	(326)
	Net book amount	**325**	**408**	**312**	**1,045**

Sch3, 38(2) The charge for depreciation for the year ended 31 December 2014 was £120m.

FRS 102, 17.31 This reconciliation need not be presented for prior periods.

FRS 102, 17.32 The entity shall also disclose the following:

(a) the existence and carrying amounts of property, plant and equipment to which the entity has restricted title or that is pledged as security for liabilities; and

(b) the amount of contractual commitments for the acquisition of property, plant and equipment.

FRS 102, 17.32A If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:

(a) the effective date of the revaluation;

(b) whether an independent valuer was involved;

(c) the methods and significant assumptions applied in estimating the items' fair values; and

(d) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model. If material, the financial effect of a change in estimated useful economic lives or residual values should be disclosed.

FRS 102, 10.8 – 10.18 If the entity wants to change its method of depreciation, this is a change in accounting policy so FRS 102, 10.8 – 10.18 applies and additional disclosures will be required.

20. Deferred acquisition costs

	2015	2014
	£m	£m
On insurance contracts	**1,359**	1,222
On investment contracts	**76**	70
	1,435	1,292

FRS 103, 4.5(d) The reconciliation of opening and closing deferred acquisition costs is as follows:

	2015	2014
	£m	£m
At 1 January 2015	**1,292**	1,224
Expenses for the acquisition of insurance and investment contracts deferred during the year	**3,138**	2,856
Amortisation	**(2,984)**	(2,767)
Foreign exchange losses	**(11)**	(21)
At 31 December 2015	**1,435**	1,292

21. Share capital

		2015	2014
Sch3, 65(1)	**Ordinary shares**	**£m**	£m
	Allotted and fully paid:		
FRS 102, 4.12(a)	486,700,000 ordinary shares of £10 each	**4,867**	4,867
Sch3, 65(1)	**Preference shares**		
	Allotted, called up and fully paid:		
FRS 102, 4.12(a)	600,000,000 8% cumulative redeemable preference shares	**600**	600

FRS 102, 4.12(v) There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

Sch3, 65(2)
FRS 102 4.12(a)(v) The 8% cumulative preference shares carry a fixed cumulative preferential dividend at the rate of 8% per annum, payable half yearly in arrears on 31 December and 30 June. The preference shares may be redeemed, at the shareholders' option, between 1 January 2017 and 31 December 2017 at par or, if still outstanding on 31 December 2017, must then be redeemed at par. On winding up, the holders have priority before all other classes of shares to receive repayment of capital plus any arears of dividend. The holders have no voting rights unless the dividend is in arears by six months or more.

Preference shares are classified as liabilities in the balance sheet.

Sch3, 54(2)

22. Discounted claims

The claims relating to third-party liability business have been discounted as follows:

	Discount rates		**Mean term of**
Class of business	**2015**	2014	**liabilities**
Employers' liability	**6.0%**	6.5%	4.7 years (2014: 4.8)
Public liability	**6.0%**	6.5%	5.1 years (2014: 5.8)

The period that will elapse before claims are settled is determined using a statistical analysis of historical settlement patterns.

The claims provisions before discounting are as follows:

	Before discounting		Effect of discounting		Discounted provision	
	2015	2014	**2015**	2014	**2015**	2014
	£m	£m	**£m**	£m	**£m**	£m
Total claims provisions	**21,786**	21,013	**(1,608)**	(1,727)	**20,178**	19,286
Reinsurers' share of total claims provisions	**(2,793)**	(2,723)	**164**	129	**(2,629)**	(2,594)
	18,993	18,290	**(1,444)**	(1,598)	**17,549**	16,692

IG2.20 The unwinding of the discount, included within claims incurred net of reinsurance, during the year was £228m (2014: £213m). The investment return on the assets supporting the liabilities being discounted was £256m (2014: £242m).

Sch3,54(2) Schedule 3 requires the following disclosures to be made:

- total provision before discounting;
- categories of claims discounted; and
- methods used, rates and criteria for establishing claim settlement period.

PwC Schedule 3 does not specify whether the total provision before discounting to be disclosed is gross or net of reinsurance. Both have been given here.

23. Equalisation provision

As explained in Note 3(f), an equalisation provision is established in the Group financial statements. The effect of this provision is to reduce shareholders' funds by £202m (2014: £102m). The increase in the provision during the year had the effect of reducing the balance on the technical account for general business and the profit on ordinary activities before taxation by £100m (2014: £88m).

FRS 103, 4.5(d) The reconciliation of opening and closing equalisation provision is as follows:

	2015	2014
	£m	£m
At 1 January	**102**	13
Increase/(decrease) in provision	**100**	88
Acquisitions	**6**	-
Foreign exchange (losses)/gains	**(6)**	1
At 31 December	**202**	102

24. Reconciliation of insurance balances

FRS 103, 4.5(d) The reconciliation of opening and closing unearned premium provision is as follows:

	Gross		Reinsurers' share	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
At 1 January	**6,856**	7,088	**395**	345
Increase/(decrease) in provision	**400**	(301)	**35**	46
Acquisitions	**251**	-	**(2)**	-
Foreign exchange movements	**(17)**	69	**2**	4
At 31 December	**7,490**	6,856	**430**	395

FRS 103, 4.5(d)

The reconciliation of opening and closing provision for claims is as follows:

	Gross		Reinsurers' share	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
At 1 January	**19,286**	17,861	**2,594**	2,384
Increase/(decrease) in provision	**403**	1,232	**90**	184
Acquisitions	**575**	-	**(34)**	-
Foreign exchange movements	**(86)**	193	**(21)**	26
At 31 December	**20,178**	19,286	**2,629**	2,594

25. Other technical provisions

		2015	2014
		£m	£m
IG 2.21	Provision for unexpired risks	**178**	-
	Financial liabilities arising from investment contracts (Note 27)	**674**	598
		852	598

26. Provisions for other risks and charges – Group

Provisions and contingencies

FRS 102, 21.1B

Provisions and contingencies are covered by FRS 102 Section 21. This section does not apply to insurance contracts (including reinsurance contracts) that an entity issues and reinsurance contracts that the entity holds, or financial instruments issued by an entity with a discretionary participation feature that are within the scope of FRS 103 Insurance Contracts.

Provisions for deferred tax are within the scope of FRS 102 Section 29.

An entity shall recognise a provision only when:

FRS 102, 21.4

(a) the entity has an obligation at the reporting date as a result of a past event;

(b) it is probable (i.e. more likely than not) that the entity will be required to transfer economic benefits in settlement; and

(c) the amount of the obligation can be estimated reliably.

FRS 102, 21.14

Disclosure about provisions

For each class of provision, an entity shall disclose the following:

- A reconciliation showing:
    - i. the carrying amount at the beginning and end of the period;
    - ii. additions during the period, including adjustments that result from changes in measuring the discounted amount;
    - iii. amounts charged against the provision during the period; and
    - iv. unused amounts reversed during the period;
- A brief description of the nature of the obligation and the expected amount and timing of any resulting payments;
- An indication of the uncertainties about the amount or timing of those outflows; and
- The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Comparative information for prior periods is not required.

Sch3, 77
FRS 102, 21.14 (a)

	Deferred tax	Termination provision	Acquired contingent liabilities	Other provisions	Total
	£m	£m	£m	£m	£m
At 1 January 2015	282	50	-	45	377
Additions dealt with in profit and loss	12	-	-	242	254
Additions dealt with in other comprehensive income	1	-	-	-	1
Business combinations	-	-	41	98	139
Utilised in year	-	(50)	-	(61)	(111)
At 31 December 2015	**295**	**-**	**41**	**324**	**660**

a) Termination provision

The termination provision represents the restructuring provision for staff redundancies in relation to the aviation business which the Group ceased writing on 31 December 2007. Employees impacted have been notified. It is estimated that all of the costs will have been incurred by 31 December 2016.

A restructuring gives rise to a constructive obligation only when an entity:

FRS 102, 21.11C

- has a detailed formal plan for the restructuring identifying at least:
  i. the business or part of a business concerned;
  ii. the principal locations affected;
  iii. the location, function, and approximate number of employees who will be compensated for terminating their services;
  iv. the expenditures that will be undertaken; and
  v. when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

FRS 102, 21.11D

An entity recognises a provision for restructuring costs only when it has a legal or constructive obligation at the reporting date to carry out the restructuring. On a termination of a business segment, provision should be made covering only the direct costs of sale or termination and any operating losses up to the date of termination.

b) Deferred tax

FRS 102, 27(a)

The provision for deferred taxation provided in the financial statements is as follows:

	Group	
	2015	2014
	£m	£m
Unrealised gains on financial investments	**262**	317
Unrealised gains on investment properties	**8**	6
Unrealised gains on land and buildings	**3**	2
Acquired intangible assets	**10**	6
Acquired tangible assets	**1**	3
Capital allowances	**7**	5
Provisions	**(37)**	(75)
Other timing differences	**41**	18
Total deferred tax	**295**	282

FRS 102, 29.27(e) - (g)

A potential deferred tax asset of £112m (2014: £118m) in respect of certain unutilised tax losses has not been recognised as there is insufficient evidence that it will be recoverable. This asset would be recovered should sufficient taxable profits be generated in future which would be eligible for relief against the unutilised tax losses.

FRS 102, 29.6 – FRS 102, 29.9

Timing differences

Timing differences are differences between taxable profits and total comprehensive income as stated in the financial statements that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax shall be recognised in respect of all timing differences at the reporting date, except:

- Unrelieved tax losses and other deferred tax assets shall be recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits (the very existence of unrelieved tax losses is strong evidence that there may not be other future taxable profits against which the losses will be relieved).
- Deferred tax shall be recognised when the tax allowances for the cost of a fixed asset are received before or after the depreciation of the fixed asset is recognised in profit or loss. If and when all conditions for retaining the tax allowances have been met, the deferred tax shall be reversed.
- Deferred tax shall be recognised when income or expenses from a subsidiary, associate, branch, or interest in joint venture have been recognised in the financial statements, and will be assessed to or allowed for tax in a future period, except where (a) the reporting entity is able to control the reversal of the timing difference; and (b) it is probable that the timing difference will not reverse in the foreseeable future. Such timing differences may arise, for example, where there are undistributed profits in a subsidiary, associate, branch or interest in a joint venture.
- When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination is less (more) than the value at which it is recognised, a deferred tax liability (asset) shall be recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) shall be recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax. The amount attributed to goodwill shall be adjusted by the amount of deferred tax recognised.

FRS 102, 29.12

Measurement of deferred tax

In general, an entity shall measure a deferred tax liability (asset) using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

FRS 102, 29.17

An entity shall not discount current or deferred tax assets and liabilities.

Provision for deferred tax

FRS 102, 29.25

An entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the current and deferred tax consequences of recognised transactions and other events.

FRS 102, 29.27 (e

An entity shall disclose the amount of deferred tax liabilities and deferred tax assets at the end of the reporting period for each type of timing difference.

FRS 102, 19.15(c), 21.14(b),(c)

c) **Acquired contingent liabilities**

As part of the acquisition of Dickens Limited the Group has recognised the contingent liabilities of the acquired business where they can be measured reliably.

The amounts relate to certain employee claims for holiday pay and equal wages, some of which the Group settled following acquisition. The Group will defend the remaining claims. Any settlement of the provisions will be paid in 2016, dependent upon the outcome of any arbitration, mediation or legal proceedings.

d) **Other provisions**

FRS 102 p21.14(b),(c)

£219m (2014: nil) relates to a provision for certain legal claims brought against the group by customers of the US segment in relation to the cross-selling of other services alongside motor insurance. The provision charge is recognised in profit or loss. The balance at 31 December 2015 is expected to be utilised in the first half of 2016. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2015.

The remaining balance, £105m, (2014: £45m) relates to levies and fees raised during the present year for which an obligation exists at the balance sheet date as a result of a past event and contingent consideration on the acquisition of Dickens Limited (see Note 17).

FRS 102,21.4

Provisions for premium levies should be made in accordance with FRS 102 Section 21. An entity shall recognise a provision only when:

- the entity has an obligation at the reporting date as a result of a past event;
- it is probable (i.e. more likely than not) that the entity will be required to transfer economic benefits in settlement; and

- the amount of the obligation can be estimated reliably.

PwC These rules are similar to those in IFRS. Under IFRS, IFRIC 21 clarifies that the 'obligating event that gives rise to a liability to pay a levy' is the event identified by the legislation that triggers the obligation to pay the levy.

The FSCS levy should be provided for on the date identified by the legislation that triggers the obligation to pay the levy. This is 1 April for each levy year. Thus, the FSCS levy should be provided for 1 April for each levy year, so the 2015/16 levy should be provided on 1 April 2015.

Members of the Motor Insurance Bureau ("MIB") as at 31 December will be obliged to pay levies for the following 12 months based on the premiums in the year then ended. As a result, a provision would be established for the MIB levies anticipated to be raised in the following 12 months.

FRS 102, 21.5 The entity shall recognise the provision as a liability in the balance sheet and shall recognise the amount of the provision as an expense.

Where the conditions for establishing a provision are not satisfied, consideration should be given to whether disclosure of a contingent liability is required.

27. Financial liabilities

		Group		Company	
		2015	2014	**2015**	2014
		£m	£m	**£m**	£m
Sch3, 79(1)&(2)	**Debenture and other loans, repayable otherwise than by instalments (unsecured), at amortised cost**				
	In less than five years:				
	6.25% guaranteed bonds 2017	**250**	250	**–**	–
	In more than five years:				
	7.375% guaranteed bonds 2022	**100**	100	**–**	–
	60.0m 8% cumulative preference shares of £1 each	**600**	600	**600**	600
		950	950	**600**	600
	Amounts owed to credit institutions, at amortised cost				
Sch3, 79(4)	Bank loans – secured	**284**	416	**135**	469
	– unsecured	**203**	31	**303**	31
	Bank overdrafts	**65**	41	**151**	41
		552	488	**589**	541
	Total borrowings – financial liabilities at amortised cost	**1,502**	1,438	**1,189**	1,141
	Other financial liabilities, at amortised cost				
	Investment contract liabilities (included in Other technical provisions – see Note 25)	**674**	598	**-**	-
	Deposits received from reinsurers	**58**	62	**-**	-
	Creditors	**2,490**	2,114	**73**	258
	Total financial liabilities, at amortised cost	**4,724**	4,212	**1,262**	1,399

The bank loans at 31 December 2015 and 2014 are repayable within one year or on demand and are chargeable at various interest rates from 0.75% to 2.0% above LIBOR.

Sch3, 79(4) The secured loans are secured as a first charge over the freehold properties of the companies concerned.

The aggregate fair values of borrowings are determined using a discounted cash flow model, based on a current yield curve appropriate for the remaining term to maturity. The discount rate used in the valuation technique is based on the borrowing rate of 5.5% (2014: 5.2%).

The carrying amounts of the Group’s borrowings are denominated in the following currencies:

	2015	2014
	£m	£m
UK Pounds	**1,465**	1,413
US Dollars	**37**	25
	1,502	1,438

Sch3, 79 The specific disclosure requirements of Schedule 3 in respect of each category shown under creditors in a company’s balance sheet are as follows:

- the aggregate amount of debts which are payable or repayable otherwise than by instalments and fall due for payment or repayment after five years, together with debts which are payable or repayable by instalments, any of which fall due for payment after five years;
- the terms of payment or repayment and the rate of any interest payable in respect of debts falling within (i) above. (Where the directors are of the opinion that the number of debts would result in this disclosure being of excessive length, it is permissible to give a general indication of the terms of payment or repayment and the rates of any interest payable on the debts.);
- the aggregate amount of any debts in respect of which security has been given by the company and an indication of the nature of such securities so given; and
- amounts owed by group undertaking or undertakings in which the company has a participating interest should be shown separately as sub-items.

Sch3 BS (29) In addition, the amount of any convertible loans included within debenture loans are required to be disclosed.

FRS 102, 11.41 FRS 102 requires the carrying amounts of each of the following categories, as defined in IAS 39, to be disclosed either on the face of the balance sheet or in the notes:

- financial liabilities at fair value through profit or loss. Financial liabilities that are not held as part of a trading portfolio and are not derivatives shall be shown separately;
- financial liabilities measured at amortised cost;
- loan commitments measured at cost less impairment.

Proforma-Gen Limited carries all financial liabilities at amortised cost and has no loan commitments

28. Other creditors including tax and social security

	Group		**Company**	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Corporation tax	**311**	–	**18**	–
Other creditors	**248**	111	**17**	81
	559	111	**35**	81

29. Reconciliation of profit before tax to net cash inflow from operating activities

		2015	2014
		£m	£m
FRS 102, 7.7	**Profit/(Loss) before tax and non-controlling interests**	**1,393**	(342)
	Adjustments for:		
	Interest received	**(730)**	(774)
	Interest paid	**135**	130
	Income from interests in associated undertakings	**(37)**	(20)
	Amortisation of goodwill	**20**	-
	Amortisation of other intangibles	**24**	7
	Depreciation of tangible fixed assets	**120**	159
	(Profit)/loss on disposal of fixed assets	**-**	17
	(Increase)/Decrease in debtors prepayments and accrued income	**(763)**	(295)
	(Decrease)/Increase in creditors accruals and deferred income	**451**	320
	Increase/(Decrease) in net technical provisions	**1,810**	500
	(Decrease)/Increase in deposits received from reinsurers	**(4)**	10
	Decrease/(Increase) in deposits with ceding undertakings	**9**	5
	Realised and unrealised investment (gains)/losses	**(1,158)**	189
	Net proceeds on purchases and sales of financial investments	**(62)**	500
	Realised and unrealised gains on investment properties	**(40)**	29
	Difference between pension charge and cash contributions	**(30)**	(40)
	Net cash (outflow)/inflow from operating activities	**1,138**	395

FRS 102, 7.7

Reporting cash flows from operating activities

An entity shall present cash flows from operating activities using either:

(a) the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows; or

(b) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

Indirect method

FRS 102, 7.8

Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as depreciation, provisions, deferred tax, accrued income (expenses) not yet received (paid) in cash, unrealised foreign currency gains and losses, undistributed profits of associates, and non-controlling interests; and

(c) all other items for which the cash effects relate to investing or financing.

Direct method

FRS 102, 7.9

Under the direct method, net cash flow from operating activities is presented by disclosing information about major classes of gross cash receipts and gross cash payments. Such information may be obtained either:

(a) from the accounting records of the entity; or

(b) by adjusting sales, cost of sales and other items in the statement of comprehensive income (or the income statement, if presented) for:

  i. changes during the period in inventories and operating receivables and payables;

  ii. other non-cash items; and

  iii. other items for which the cash effects are investing or financing cash flows.

30. Post-employment benefits

FRS 102, 28.41(a) The Group operates a defined benefit pension scheme with assets held in a separately administered fund. The scheme provides retirement benefits on the basis of members' final salary. The plan is administered by an independent trustee, who is responsible for ensuring that the plan is sufficiently funded to meet current and future obligations. The Group has agreed a funding plan with the trustee, whereby ordinary contributions are made into the scheme based on a percentage of active employees' salary. Additional contributions are agreed with the trustee to reduce the funding deficit where necessary.

FRS 102, 28.41(d) A comprehensive actuarial valuation of the Group pension scheme, using the projected unit credit method, was carried out at 31 March 2015 by Actuary & Actuary LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

FRS 102, 28.41 (k)		**2015**	2014
	Inflation assumption	**3.6%**	3.3%
	Rate of increase in salaries	**3.6%**	3.0%
	Rate of increase in pensions in payment	**3.0%**	4.0%
	Discount rate	**6.0%**	5.5%

		2015 years	2014 years
FRS 102, 28.41 (k)(v)	The mortality assumptions used were as follows:		
	Longevity at age 65 for current pensioners		
	- Men	**22.5**	22.1
	- Women	**24.8**	24.3
	Longevity at age 65 for future pensioners		
	- Men	**24.8**	24.3
	- Women	**26.8**	26.3

		Assets £m	**Liabilities £m**	**Total £m**
FRS 102, 28.41(e), 28.41(f)	Reconciliation of scheme assets and liabilities			
	At 1 January 2015	882	(1,250)	(368)
	Benefits paid	(89)	89	–
	Employer contributions	193	–	193
	Current service cost	–	(141)	(141)
	Interest income / (expense)	53	(75)	(22)
	Re-measurement gains / (losses)			
	- Actuarial losses	–	(41)	(41)
	- Return on plan assets excluding interest income	12	–	12
	At 31 December 2015	**1,051**	**(1,418)**	**(367)**

		2015	2014
FRS 102, 28.41(g)(i)	**Analysis of amount charged/(credited) to profit or loss**	**£m**	£m
	Current service cost	**141**	105
	Interest cost	**22**	33
		163	138

FRS 102, 28.41(g)(ii) No amounts (2014: nil) were included in the cost of assets.

		2015	2014
FRS 102, 28.41(h)	**The fair value of plan assets was:**	**£m**	£m
	Equity instruments	**376**	289
	Bonds	**650**	576
	Property	**25**	17
		1,051	882

FRS 102, 28.41(i)(ii) The plan assets do not include any of the Group's own financial instruments nor is any property occupied by any Group entity.

		2015	2014
FRS 102, 28.41(j)	**The return on plan assets was:**	**£m**	£m
	Interest income	**53**	90
	Return on plan assets less interest income	**12**	10
FRS 102, 28.41(j)	Total return on plan assets	**65**	100

FRS 102, 28.40

Disclosures about defined contribution plans

An entity shall disclose the amount recognised in profit or loss as an expense for defined contribution plans.

Proforma-Gen does not have a defined contribution plan.

FRS 102, 28.41

Disclosures about defined benefit plans

An entity shall disclose the following information about defined benefit plans.

- A general description of the type of plan, including funding policy.
- The date of the most recent comprehensive actuarial valuation and, if it was not as of the reporting date, a description of the adjustments that were made to measure the defined benefit obligation at the reporting date.
- A reconciliation of opening and closing balances for:
  - the defined benefit obligation;
  - the fair value of plan assets; and
  - any reimbursement right recognised as an asset.

Each of these reconciliations shall show the following, if applicable:

- the change in the defined benefit liability arising from employee service rendered during the reporting period in profit or loss;
- interest income or expense;
- re-measurement of the defined benefit liability, showing separately actuarial gains and losses and the return on plan assets less amounts included in (ii)above; and
- plan introductions, changes, curtailments and settlements.

These reconciliations need not be presented for comparative periods.

- The total cost relating to defined benefit plans for the period, disclosing separately the amounts recognised in profit or loss as an expense and included in the cost of an asset.
- For each major class of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major class constitutes of the fair value of the total plan assets at the reporting date.
- The amounts included in the fair value of plan assets for each class of the entity's own financial instruments and any property occupied by, or other assets used by, the entity.
- The return on plan assets.
- The principal actuarial assumptions used, including the discount rates, expected rates of salary increases, medical cost trend rates and any other material actuarial assumptions used.

If an entity has more than one defined benefit plan, these disclosures may be made in aggregate, separately for each plan, or in such groupings as are considered to be the most useful:

FRS 102, 28.41A If an entity participates in a defined benefit plan that shares risks between entities under common control (see FRS 102, paragraph 28.38) additional disclosures are required by FRS 102, paragraph 28.41A.

FRS 102, 11 and FRS 102, 28.40A If an entity treats a defined benefit multi-employer plan as a defined contribution plan because sufficient information is not available to use defined benefit accounting it shall:

- disclose the fact that it is a defined benefit plan and the reason why it is being accounted for as a defined contribution plan, along with any available information about the plan's surplus or deficit and the implications, if any, for the entity;
- include a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan; and
- disclose how any liability has been determined.

31. Operating leases

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

		2015	2014
		£m	£m
FRS 102, 20.16(a)	Operating leases which expire:		
	Within one year	**48**	19
	Between one and five years	**84**	114
	After five years	**17**	-
		149	133

FRS 102, 20.13

An entity should disclose the total future minimum lease payments rather than the payments committed to be made during the next financial year as required under existing UK GAAP. In addition, an analysis is not required showing separately the commitments in respect of leases of land and buildings and other operating leases.

32. Contingent liabilities

The Company has given a guarantee in respect of the bank borrowings of Shakespeare Limited, the Company's subsidiary. At 31 December 2015, the Group guaranteed £5m (2013: £5m) being the debt to Localbank Ltd. The guarantee is secured by a charge on the Group's properties.

Contingent assets and liabilities

FRS 102, 21.1 B

The requirements relating to disclosure of contingent assets and liabilities are set out in FRS 102 Section 21. Insurance entities are exempt from making any disclosures in respect of contingencies arising from contracts with policyholders.

FRS 102,21.12 & 21.13

Under FRS 102 neither contingent assets nor contingent liabilities should be recognised in the balance sheet.

FRS 102, 21.15

Unless the possibility of any loss is remote, disclosure should be made of the nature, estimated financial effect and timing of contingent liabilities, together with details of associated uncertainties and any potential reimbursement.

FRS 102, 21.16

Only where the inflow of a benefit is probable should disclosure of the nature and quantum of contingent assets be given.

33. Controlling parties

FRS 102, 33.5
Sch4, 8 & 9

The directors regard Proforma-US Inc, a company incorporated in the USA, as the immediate and ultimate parent company and ultimate controlling party. Copies of the consolidated financial statements of Proforma-US Inc can be obtained from The Secretary, Proforma-US Inc, 589 Fourth Avenue, New York 59361.

34. Related party transactions

FRS 102, 33.1A

The company is exempt from disclosing related party transactions with other companies that are wholly owned within the Group. See Note 9 for disclosure of key management compensation. There are no other material related party transactions requiring disclosure.

Related parties

FRS 102, 33.2 A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity).

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- has control or joint control over the reporting entity;
- has significant influence over the reporting entity; or
- is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions apply:

- The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- The entity is a post-employment benefit plan for the benefit of the employees of either the reporting entity or an entity related to it. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- The entity is controlled or jointly controlled by a person who is a related party.
- A person who controls the reporting entity has significant influence over the entity or is a member of the key management personnel of the entity or of a parent of the entity.

Related party disclosures

FRS 102,33.8 A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Examples of related party transactions that are common to entities within the scope of this FRS include, but are not limited to:

(a) transactions between an entity and its principal owner(s);

(b) transactions between an entity and another entity when both entities are under the common control of a single entity or person; and

(c) transactions in which an entity or person that controls the reporting entity incurs expenses directly that otherwise would have been borne by the reporting entity.

FRS 102, 33.1
Sch3, 90

Under FRS 102, transactions and outstanding balances with related parties must be disclosed. In addition, details of material related party transactions not concluded under normal market conditions are also required to be disclosed by virtue of Schedules 3.

FRS 102, 33.1A
Sch3, 90
Sch6, 22 & 39

There is no requirement to disclose in consolidated financial statements balances and transactions that are eliminated on consolidation. Where the company is a wholly owned subsidiary, there is also an exemption from disclosing transactions with other members of the parent company's group (provided that any subsidiary undertaking which is a party to the transaction is wholly owned by a member of that group).

FRS 102,33.9 If an entity has related party transactions, it must disclose:

(a) The amount of the transactions.

(b) The amount of outstanding balances and:

  i. their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

  ii. details of any guarantees given or received.

(c) Provisions for uncollectible receivables related to the amount of outstanding balances.

(d) The expense recognised during the period in respect of bad or doubtful debts due from related parties.

These disclosures are required separately for each of the following categories:

(a) entities with control, joint control or significant influence over the entity;

(b) entities over which the entity has control, joint control or significant influence;

(c) key management personnel of the entity or its parent (in the aggregate); and

(d) other related parties.

FRS 102, 33.13 An entity shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.

FRS 102, 33.14 An entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

35. Transition to FRS 102

FRS 102, 35.12 This is the first year that the Group and Company have presented their results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. Set out below are the changes in accounting policies which reconcile Group profit for the financial year ended 31 December 2014 and the total Group equity as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102. There were no changes to the Company profit for the financial year ended 31 December 2014 and the total Company equity as at 1 January 2014 and 31 December 2014 as a result of the adoption of FRS 102.

Section 35 of FRS 102 does not require the opening balance sheet to be presented, nor does it prescribe the formats for the transition disclosures. Staff Education Note ("SEN") 13 includes two suggested formats; the first shows reconciling items per balance sheet and profit and loss line items, the second is shown below.

FRS 102, 35.12 An entity is required to provide an explanation of how the transition to FRS 102 has affected the reported financial position and financial performance. This shall include:

(a) A description of the nature of the changes in accounting policies;

(b) Reconciliations of its equity at the date of transition and the end of the previous financial period; and

FRS 102, 35.13 (c) A reconciliation of its profit or loss for the previous financial period.

These illustrative financial statements also include reconciliations of other comprehensive income and transactions with owners to facilitate an understanding of the movements in equity which do not impact the profit and loss account.

FRS 102, 35.14 The reconciliations should separate the changes in accounting policies from any errors identified in the previous financial statements.

FRS 102, 35.13(c) **Profit/(loss) for the financial year**

	Note	2014	
		£m	£m
UK GAAP - As previously reported			**(138)**
Insurance balances treated as monetary items	A	21	
Holiday pay accrual	B	(6)	
Defined benefit pension scheme	C	(10)	
Rent free period for operating leases	D	(8)	
Levies	H	4	
Restructuring/ run-off provision	I	(10)	
Total adjustment to profit before tax for the financial year			**(9)**
Deferred tax impact of adjustments	E		
- Holiday pay accrual		1	
- Defined benefit pension scheme		2	
- Rent free period for operating leases		1	
Total adjustment to tax expense			**4**
Total adjustment to profit for the financial year			**(5)**
FRS 102			**(143)**

DV

Other comprehensive income

		2014 £m
UK GAAP - As previously reported		**(32)**
Defined benefit pension scheme	C	**10**
Deferred tax impact of adjustments	E	
- Defined benefit pension scheme		**(2)**
FRS 102		**(24)**

DV

Transactions with owners – Dividends

	2014 £m
UK GAAP - As previously reported and FRS 102	**(150)**

FRS 102, 35.13(b)

Total equity

		1 January 2014 £m	31 December 2014 £m
UK GAAP - As previously reported		8,447	8,127
Insurance balances treated as monetary items	A	(6)	14
Holiday pay accrual	B	(5)	(11)
Rent free period for operating leases	D	-	(8)
Levies	H	3	7
Restructuring/ run-off provision	I	80	70
Deferred tax impact of adjustments	E		
- Holiday pay accrual		1	3
- Rent free period for operating leases		-	1
FRS 102		**8,520**	**8,203**

FRS 103, 2.26

A Insurance balances treated as monetary items

FRS 103 requires that all assets and liabilities arising from an insurance contract are treated as monetary items for foreign currency translation purposes. Previously, balances such as unearned premiums and deferred acquisition costs were treated as non-monetary items. This had the impact of decreasing total equity by £6m upon transition and increasing comprehensive income by £21m for the year ended 31 December 2014 (£21m increase in profit or loss and £nil decrease in other comprehensive income).

SEN 9

B Holiday pay accrual

FRS 102 requires short term employee benefits to be charged to the profit and loss account as the employee service is received. This has resulted in the Group recognising a liability for holiday pay of £5m on transition to FRS 102. Previously, holiday pay accruals were not recognised and were charged to the profit and loss account as they were paid. In the year to 31 December 2014 an additional charge of £6m was recognised in the profit and loss account and the liability at 31 December 2014 was £11m.

C Defined benefit scheme

Under previous UK GAAP the Group recognised an expected return on defined benefit plan assets in the profit and loss account. Under FRS 102 a net interest expense, based on the net defined benefit liability, is recognised in the profit and loss account. There has been no change in the defined benefit liability at either 1 January 2014 or 31 December 2014. The effect of the change has been to reduce the credit to the profit and loss account in the year to 31 December 2014 by £10m and increase the credit in other comprehensive income by an equivalent amount.

SEN 6

D Rent free period for operating leases

Under previous UK GAAP operating lease incentives, including rent free periods and fit-out contributions, were spread over the shorter of the lease period or the period to when the rental was set to a fair market rent. FRS 102 requires that such incentives to be spread over the lease period. The Group has taken advantage of the exemption for existing leases at the transition date to continue to recognise these lease incentives on the same basis as previous UK GAAP. Accordingly, the FRS 102 accounting policy has been applied to new operating leases entered into since 1 January 2014 and the operating lease charge has increased by £8m for the year to 31 December 2014, with a corresponding increase in the accrued lease liability at 31 December 2014.

E Deferred taxation

The impact on deferred tax as a result of the adjustments above and the subsequent effect of the change in tax rates was to decrease the deferred tax liability at 1 January 2014 by £1m and decrease the profit and loss account charge by £4m in the year ended 31 December 2014. The impact on other comprehensive income was a decrease of £2m for the year ended 31 December 2014. The deferred tax liability at 31 December 2013 was decreased by £4m.

F Other adjustments arising on transition to FRS 102

In addition to the transition adjustments identified above which affect profit for the financial year the following adjustments have arisen which have had no effect on net equity or profit and loss account but which have affected the presentation of these items on the balance sheet. The main items are:

(a) Computer software, with a net book value of £3m at 1 January 2014, has been reclassified from tangible to intangible assets as required under FRS 102. This has no effect on the Group's net assets nor on the profit for the year, except that the previous depreciation charge is now described as amortisation.

(b) Under FRS 102 the deferred tax asset at 1 January 2014 of £20m, arising on the post-employment benefit liability, is now included within deferred tax on the balance sheet. Under previous UK GAAP the deferred tax asset arising on the post-employment liability was offset against the liability. This has no effect on the Group's equity or profit for the year.

Under FRS 102, the share of profits from investments in associates is net of any tax charges incurred by the associates. For the year ended 31 December 2014, income tax incurred by the associates of £20m is netted off the share of income from associates. Under previous UK GAAP, the operating results from associates was stated gross of tax and the related tax charge included within the total tax charge of the Group as disclosed in the notes to the previous accounts.

G Statement of cash flows

The Group's cash flow statement reflects the presentation requirements of FRS 102, which is different to that prepared under FRS 1. In addition, the cash flow statement reconciles to cash and cash equivalents whereas under previous UK GAAP the cash flow statement reconciled to cash. Cash and cash equivalents are defined in FRS 102 as 'cash on hand and demand deposits and short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value' whereas cash is defined in FRS 1 as 'cash in hand and deposits repayable on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand'. The FRS 1 definition is more restrictive.

H Levies

Historically, Proforma-Gen recognised levies on the basis of the premiums upon which the levies were based. Under FRS 102 recognition of levies has been performed in accordance with Section 21 so that now provisions are recognised on the occurrence of the event identified by legislation that triggers the obligation to pay the levy. This has resulted in a decrease in the levy recognised at year end as the trigger by the relevant legislation has not occurred at that point. The impact is an increase in profit of £4m and an impact on equity of £3m and £7m for 1 January 2014 and 31 December 2014 respectively.

I Restructuring/run-off provision

Under FRS 102 and 103, insurance business in run-off does not constitute a discontinued operation (FRS 103 IG 2.37 and Appendix 1). Under previous UK GAAP and the ABI SORP Proforma-Gen recognised a provision for its business in run-off which constituted the aviation line of business. The provision was composed of all costs associated with running off the book of business offset by investment income the associated assets were expected to generate. Under FRS 102 no such allowance exists and thus the provision has been reduced to reflect solely the cost of redundancies associated with terminating the aviation department to the extent they meet the criteria under FRS 102, Section 21. Upon transition the decrease in the liability was £80m. The impact is a decrease in profit for the year ended 31 December 2014 of £10m and a decrease in the provision of £70m at that date.