Registered Number: 00093792

Royal & Sun Alliance Insurance plc

Annual Report and Accounts

for the year ended 31 December 2019

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Royal & Sun Alliance Insurance plc

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Royal & Sun Alliance Insurance plc

Company information

Directors

Alastair Barbour
Sonia Baxendale
Enrico Cucchiani
Scott Egan
Stephen Hester
Charlotte Jones
Martin Scicluna
Kath Cates
Martin Strobel

Secretary

Roysun Limited

Registered Office

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

Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

The directors present their annual report on the affairs of Royal & Sun Alliance Insurance plc (the 'Company') and the audited financial statements for the year ended 31 December 2019.

The Company is a member of the RSA Insurance Group plc group of companies (the 'Group' or 'RSA'), headed by RSA Insurance Group plc ('RSAIG'). The Company is a subsidiary of Royal Insurance Holdings Limited. The Group provides the Company with access to all central resources that it needs and provides policies in all key areas including finance, risk, human resources and environment. The Company transacts the majority of the Group's UK business, as described in the Annual Report and Accounts of the Group. The directors of the Company have concluded that the Group approach to strategy, risk management, performance review and custody of assets fully meets the needs of the Company as a separate regulated entity.

The Company is authorised by the Prudential Regulation Authority ('PRA') and regulated by the PRA and the Financial Conduct Authority ('FCA').

Principal activity

The principal activity of the Company, its subsidiaries and overseas branches is the transaction of insurance and related financial services in the United Kingdom and overseas. The subsidiary undertakings are listed in note 46 of the Accounts.

Business review

The results for the Company show a profit on ordinary activities before tax of £525m (2018: £270m) for the year, due principally to £2,955m (2018: £262m) of dividend income from subsidiary undertakings and £169m (2018: £179m) of investment income offset by impairments of subsidiary undertakings of £2,408m (2018: £49m) and a loss on the technical account of £29m (2018: £43m loss).

Gross premiums written were £3,771m (2018: £3,754m). The funds attributable to equity holders of the Company were £8,199m as at 31 December 2019 (31 December 2018: £8,312m).

On 1 January 2019, the Company transferred its European insurance business to its subsidiary RSA Luxembourg S.A. (RSAL) under a Part VII legal arrangement. As a result of this transfer, RSAL became the insurer for risks previously underwritten through the Company's European branch network. Further information can be found in note 41 of the Accounts.

Key performance indicators ('KPIs')

The most relevant KPIs to the financial performance of the Company are as follows:

- Underwriting performance[1]; the Company aims to achieve an underwriting performance that is as sustainably high as possible - that is without uncompetitive pricing or compromising reserves. The Company targets further improvements to its underwriting performance.
- Profit before tax; the Company seeks to maximise its profit before tax, which is a key statutory measure of the earnings of the Company. The Company targets continued growth in its profit before tax as performance actions take further effect.

[1]Underwriting performance for the Company can be measured using the balance on the technical account for general business.

The directors of RSAIG manage the Group's operations on a divisional basis as described in the Annual Report & Accounts of the Group. For this reason, the Company's directors believe that analysis using KPIs for the UK business in aggregate is also relevant to the Company. Further information on KPIs can be found in the Strategic Report of the 2019 Annual Report & Accounts of the Group.

Strategic review

Our operations

RSA operates across both Personal and Commercial Lines in the UK. Personal insurance is offered to our customers through MORE TH>N and affinity partners, which include major retailers, large building societies and banks. RSA has a strong presence in the motor, home and pet markets and Personal Lines accounts for 49% of our business.

Some 51% of our UK business is in Commercial Lines. In 2019, we substantially completed the run-off of several portfolio exits announced in 2018, notably in the London Market, and simplified our business structure to better reflect our distinct markets and customer needs. This included creating a single Commercial insurance business for UK markets, and a separate European business.

UK market context and risk profile

The UK market is extremely competitive, with aggregators driving both high price transparency and low switching costs for customers. This has also led to an influx of digital-only players and margin contraction in some areas. In addition, growing customer expectations around service have led incumbents to upgrade their digital offerings to keep pace.

Customer conduct has continued to be a focus in 2019, with the FCA investigating pricing practices in home and motor markets and taking steps to review commissions in partner and broker markets. The initial findings of an FCA market study led to criticism of dual pricing, the gap between pricing of new business and renewals. In 2018, insurers, including RSA, drew up principles to address this problem, and the continued concern of the regulators and our customers has further sharpened our focus on the issue.

Conditions in the UK Commercial market remain competitive, despite hardening in the specialty and wholesale and London market, as capacity reduces, following a few years of elevated losses. The most successful players in both UK regional trading centres and international markets trade off strong brand reputation, robust broker relationships and industry-specific expertise. Digital trading is also maturing, with brokers seeking faster ways to process quotes for small and medium-sized businesses in particular.

Doing more for customers

Our customers are at the heart of our business, and we continue to focus on improving our service and our products.

Our UK Customer Committee, established in 2018, accelerated its work to analyse areas where we can do more to support good customer outcomes, and ensure we remediate any issues as quickly and smoothly as possible.

In Personal Lines, our operations teams remain focused on creating better digital journeys and improving telephony and webchat systems, so our policyholders can communicate with us with ease and through the channel that best suits them. We are continuing work to bring all our Personal insurance customer policies and servicing onto one platform. This will bring a series of benefits for our business and customers, improving management information and enabling faster processing and response times, as well as introducing new features such as online claims tracking and video calling.

As part of efforts to recognise and reward loyalty among Personal Lines customers, we launched MORE TH>N Rewards. The scheme gives home, pet and car insurance customers unlimited cashback on purchases across a number of high street stores and household brands. At renewal, the cashback can either contribute to the cost of a new policy, making renewal cheaper, or be returned to the customer to spend elsewhere.

In Commercial Lines, we progressed work to upgrade our underwriting and pricing capabilities, investing in new tools to better harness data and increase automation. We also launched two new online tools, to help our customers choose the insurance that best meets their requirements. The Business Interruption Calculator and Risk Survey helps brokers to safeguard prospective policyholders against underinsurance, ensuring that they are fully protected should the worst happen.

Playing our part in the community

Working closely with the communities where we are based is important to both our business and our people and, in 2019, our office champions have continued their excellent work with local interest groups and charities.

We have focused our efforts this year on boosting our involvement with local communities, resulting in a 40% increase in volunteering hours and participation, as well as record engagement with our match-funding scheme.

To progress this agenda, we are now working alongside Neighbourly, an organisation that matches large companies with local good causes. We also strengthened our relationship with Enabling Enterprise, hosting events across the country, positively impacting young people and highlighting the opportunities available to them in the insurance industry.

We also developed a new partnership with the Royal Society for the Prevention of Accidents, with a shared objective to drive risk awareness, education and behaviour change.

Exit portfolios

In 2018, we announced portfolio exits and changes in underwriting appetite for our London Market business. Additional exits included two UK generalist Managing General Agent (MGA) schemes. This was in response to challenging market conditions as well as our own strategic reassessment. The total net written premium we targeted for exit was c.£250m against a 2017 baseline, of which substantially all has been implemented.

The technical account loss from these portfolios was £47m in 2019. Net written premiums were £10m. Net earned premiums were higher at £77m reflecting the ongoing run-off of exposures.

Our strategy

Our aim is to improve the underwriting result of the UK Business. We will achieve this by stabilising and then strengthening our Commercial Lines business, growing our direct channel in Personal Lines, and continuing to improve our productivity. We are therefore focused on simplifying our business, equipping it with the tools and digital capabilities required to serve customers efficiently and well, and building a culture that values high performance and develops talent.

Outlook

Digital investment to support Personal Lines growth and continued portfolio actions to reshape our Commercial Lines business will help us to achieve consistent and sustainable profits in competitive markets.

Principal risks and uncertainties

The Company's principal risks and uncertainties are integrated within and managed together with the principal risks of the Group. The principal risks and uncertainties of the Group, which include those of the Company, are set out in the Risk management note on pages 31 to 37 of the Company's Accounts and the Strategic report of the 2019 Annual Report & Accounts of the Group.

Post-Brexit transition

The Company recognises that leaving the European Union could bring unexpected challenges and extend economic uncertainties.

The creation of RSA Luxembourg has insulated the Company from the main regulatory impacts of Brexit. The transfer of risk underwritten through the European branch network to RSA Luxembourg has ensured a smooth transition for our customers and brokers following the UK's departure from the European Union.

As the Company moves into the Brexit transition period, there is the potential for economic shocks, claims inflation and supply chain disruption but the Company is working hard to prevent that happening.

The Company continues to monitor all scenarios closely.

Employment policy

RSA's vision is to create an inclusive workplace where everyone can bring their best selves to work. RSA does this by building diversity across all levels of the organisation and creating an inclusive culture which attracts, encourages and is strengthened by diverse perspectives, establishing the best foundation to serve its customers.

The Company is committed to the promotion of equal opportunities for all employees and the only acceptable form of discrimination is on the basis of an individual's ability to do the job. The Company aims to ensure that no employee or job applicant or leaver receives less favourable treatment on the grounds of sex, sexual orientation, gender re-assignment, marital status, race - including colour and nationality, disability, religion and belief, age or pregnancy and maternity.

Equal Opportunities and Dignity at Work policies support these commitments and the Company welcomes applications from all sections of the community. The Company has a close working relationship with trade unions and employee associations in all parts of the business where they exist and consults with employees and representatives on relevant matters taking their views into consideration. There is also a European Works Council ('EWC') which consults with employee representatives on transnational matters across UK, Ireland, Sweden, Norway, Denmark, France, Spain, the Netherlands, Belgium and Germany. The annual meeting of the EWC took place in Malahide, Ireland in March 2019. Regular consultations with employee representatives took place throughout the year.

Anti-bribery and Corruption

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

The Anti-Corruption, Conflicts of Interest, Gifts and Hospitality policies apply Group-wide and are supported by extensive resources and guidance, including an anti-bribery toolkit, which is available to all our businesses. Mandatory Group-wide Anti-bribery and Corruption training is supplemented by targeted training for staff in higher risk roles, and all employees are required to complete training on whistleblowing. As a result, employees are equipped to identify and escalate issues and behaviours which may constitute corruption. The Company seeks to maintain the right culture by regular reminders of expectations. Anti-Corruption processes are subject to review by internal audit.

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

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

Information on policy compliance is escalated to management. The board receives updates on the anti-corruption controls at least annually. Where a breach is material or not in compliance with regulations, it will be reported externally.

Human rights

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

Section 172 Companies Act 2006

The Board recognises the importance of positive relationships between the Company, its ultimate shareholder and other stakeholders, and is committed to fostering and maintaining strong engagement with them. Open and collaborative dialogue and interaction is in the best interests of the Company and helps us to make a positive contribution to society.

The Board believes that through the Group's stakeholder engagement programme it gains a meaningful insight into the views, priorities and issues facing its key stakeholder groups. In 2019, the directors and senior management engaged with key stakeholder groups across the different lines of business through a number of forums; from informal meetings and social events to presentations and leadership events.

The directors sought to meet employees from across the business at different levels of seniority and role type and discuss issues relevant to them.

The below table sets out some highlights from the Board's engagement with key stakeholders during 2019, together with details of the actions taken as a result of the engagement.

Stakeholder group and why it is important to engage	Form of engagement and consideration of interests	Outcomes and actions
Customers Good business starts with our customers and we strive to keep them at the heart of what we do. To ensure that we offer the right products at the right price and on the right terms, we work hard to increase our understanding of our customers' risks and their evolving needs. Customer satisfaction and customer retention is critical to the long-term sustainable prospects of the Company.	The Board receives regular updates on customer and conduct matters, as well as receiving quarterly updates from the UK Customer Committee, which has been established to support good customer outcomes and ensure that decisions are taken with the impact on customers at front of mind. The directors also receive insight from the Group on feedback from our customers, which suggests that their areas of priority include not only efficient underwriting and responsive customer service, but also corporate responsibility, use of technology, innovation	Our aim to be a best-in-class insurer means an intense focus on improving customer service and our underwriting and claims technical skills. The Company aims to be proactive, digitally enabled whilst providing tailored products that address evolving customer demands and needs. The regular updates received by the Board have helped ensure the Company promotes and secures positive outcomes for its

Stakeholder group and why it is important to engage	Form of engagement and consideration of interests	Outcomes and actions
One of the Company's strategic goals is the ambition of delivering improvements in customer service. While the type of customer we serve ranges from individuals through to large corporations, our ambition to provide support and excellent service remains the same and it is vital that we engage with our customers to ensure that we are meeting their expectations.	and new and changing areas of risk such as cyber and climate change.	customers and enabled the Board to focus on all areas which are important to its customers. The Board also acknowledges an increased focus from all stakeholders on corporate responsibility and sustainable business practices. Therefore, the Board has sought to ensure that these are relevant considerations in all Board decisions.
Shareholders The Company is wholly-owned by Royal Insurance Holdings Limited and part of the RSA Insurance Group plc group of companies. Its ultimate shareholder is RSA Insurance Group plc, a company listed on the London Stock Exchange.	An update on the Company's performance, its governance arrangements and other key aspects of the business is provided at each board meeting of RSA Insurance Group plc. This engagement ensures ongoing two-way dialogue with the ultimate shareholder on business performance and the Company's strategy.	The two-way dialogue with the ultimate shareholder over the course of 2019 was positive, engaging and beneficial with UK financial performance being a key topic of discussion. From 31 December 2019, the directors of the Company and RSA Insurance Group plc have been the same, ensuring alignment between the Company and the ultimate shareholder.
Workforce RSA is a people-centred business, with an ambition to perform at best-in-class levels. The Board recognises the key role of the workforce in delivering the strategy and values time spent with these individuals. RSA aims to be a place where fulfilling careers can be built. We can achieve this through success in our business goals and living our People Principles: building a culture of high performance, working together effectively, and sustaining the diverse capabilities we require to succeed. We engage with our workforce to ensure that we are fostering this environment and meeting the needs of our workforce. Although we engage with different members of the workforce in different ways, the Board acknowledges that the entire workforce can be affected by Board decisions and that engagement with all sections of the workforce will ensure that the widest possible range of views are taken into account. Activities in the year provided a meaningful and regular dialogue between the Board and the workforce and allowed for all members of the Board to be involved directly in workforce engagement matters.	During the course of 2019, the directors – as members of the Group executive committee and senior management – hosted regular 'town hall' meetings to update employees on topical issues and other matters of concern to the workforce, including giving quarterly performance updates following the announcement of results or a trading update. At these quarterly updates, senior management will present on the results and the key factors affecting performance of the Group and the UK business and provide an opportunity for individuals to ask questions. These 'town hall' meetings are supplemented by internal communications, including emails, internal social collaboration tools and intranet postings, which provide our entire workforce with relevant updates and further information on key issues. We also regularly undertake employee engagement and cultural surveys to gain insight into the opinions of our employees. These surveys address the medium and long-term aspects of employment relationship growth and are therefore targeted at people we directly employ. Other members of our workforce who may be with us on a shorter-term, contingent basis are encouraged to share their views at any time through their line managers or various online feedback tools. The Board received regular updates through other committees and fora on diversity and inclusion, culture and workforce, and employee engagement updates, as well as reports from the Ethics and Compliance team. These reports take into account the results of any relevant employee surveys. Through this engagement with the workforce, we have identified a number of areas of particular interest, including culture, diversity and inclusion, flexible working and personal and professional development.	Throughout 2019, the Board encouraged and supported the work of the Group executive team and senior management in improving our people proposition based on feedback from the workforce, and this will continue during 2020. The enthusiasm and passion displayed by our people during the town hall meetings demonstrates the impact of our commitment to our people strategy, 'Your Best U'. We know that it is vital to the long-term success of the Company that we invest in our people and that the Board sets and drives a good corporate culture. Our goal is a culture of high performance and engagement and this is reflected in every decision taken by the Board and senior management. The Board's direct engagement with the workforce, including through the town halls, has been successful in achieving meaningful, regular two-way dialogue between the Board and the workforce.

Stakeholder group and why it is important to engage	Form of engagement and consideration of interests	Outcomes and actions
Regulators and ratings agencies RSA is committed to working with all of its regulators in an open, cooperative and transparent manner. We seek to ensure a strong regulatory compliance culture throughout the Company in order to pre-empt and, where necessary, resolve regulatory issues and to avoid or minimise business impact and surprises. The Board continues to have constructive engagement with our regulators, ensuring that they gain a comprehensive view of the Company's governance priorities and that we understand the issues of interest to them. Given the importance of our creditworthiness to our customers, investors and other stakeholders, the Group also engages on a regular basis with our two key ratings agencies.	The directors engage regularly with the FCA and PRA, and Board members have met directly with the FCA and PRA. The Board receives periodic updates from the business on regulatory matters and priorities, including the priorities of the Group's regulators in regions other than the UK. Key topics for engagement included culture and governance, treatment of existing customers and technology resilience. Customer conduct, including pricing practices, has continued to be a focus of our regulators across the globe in 2019. The regulatory capital requirements of the Group and the UK standalone capital measures are also monitored and discussed with the relevant regulators. Senior management interacts regularly with Standard & Poor's and Moody's, our two key rating agencies. Board members are kept informed of the current credit views of debt investors and the rating agencies through regular commentary and financial metric reporting at Board meetings.	We receive positive feedback from our meetings with our regulators. The open and regular dialogue has promoted transparency between the Company and the regulators and ensures that we are in a position to reflect the views of our regulators when setting strategy. The outcomes of our engagement with our regulators influences the priorities and focus for the year set out in the Group's regulatory compliance plan which is considered and approved by the Group Audit Committee.
Pension schemes RSA is committed to fully supporting the pension schemes and, in 2018, approved the funding agreements for the Group's two large UK defined benefit pension schemes, designed to provide a more stable, lower-risk future for the plans themselves and for RSA as sponsor. The Group has committed to pay contributions at this level until the schemes are fully funded on a lower-risk basis. Quarterly business updates are provided to the pension trustees		

By order of the Board

C. Smyth

C Smyth
For and on behalf of Roysun Limited
Secretary

Approved by the board of directors on 26 February 2020

Directors

The names of the current directors are listed on page 1. From 1 January 2019 to date the following changes have taken place:

Director	Appointed	Resigned
Alastair Barbour	31 December 2019	
Sonia Baxendale	31 December 2019	
Anthony Buckle		28 October 2019
Enrico Cucchiani	31 December 2019	
Stephen Hester	31 December 2019	
Charlotte Jones	31 July 2019	
Stephen Lewis		5 February 2019
William McDonnell		31 December 2019
Martin Scicluna	31 December 2019	
Kath Cates	31 December 2019	
Martin Strobel	31 December 2019	
Nathan Williams		31 December 2019

Directors' responsibilities

The directors' responsibilities statement appears on page 10 and is incorporated by reference into this report.

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

Dividends

Interim dividends of £350m (2018: £236m) were declared and paid during the year. The directors do not recommend payment of a final dividend (2018: £nil).

Information included within the Strategic report

Information relating to overseas subsidiaries and branches of the Company, financial risk management, likely future developments and the Company's employment policy is contained within the Strategic report on pages 2 to 6 and is incorporated into this report by reference.

Political donations

The Company did not make any political donations during the financial year (2018: £nil).

Auditor

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

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

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

KPMG LLP were deemed re-appointed auditors of the Company at its Annual General Meeting on 10 May 2019 and a resolution for their reappointment will be proposed at the 2020 Annual General Meeting.

Essential contracts and change of control

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

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

Directors' indemnity

Article 118 of the Articles of Association provides that, among other things and insofar as permitted by law, the Company may indemnify its directors against any liability and may purchase and maintain insurance against any liability. The directors and officers of the Company and its subsidiaries have the benefit of Directors' and Officers' insurance which provides cover in respect of legal actions brought against them.

Post balance sheet events

There are no post balance sheet events.

Going concern

In considering the appropriateness of the going concern basis, the Board has reviewed the Company's ongoing commitments for the next 12 months and beyond. The Board's review included the Company's strategic plans and updated forecasts, capital position, liquidity and credit facilities and investment portfolio.

Based on this review no material uncertainties that would require disclosure have been identified in relation to the ability of the Company to remain a going concern for at least the next 12 months, from both the date of the balance sheet and the approval of the financial statements.

It is therefore concluded that the going concern basis is appropriate for the preparation of the 2019 financial statements.

Corporate governance

For the year ended 31 December 2019, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council in December 2018 and available at www.frc.org.uk). Details of how the Company has complied with the principles and supporting guidance are set out below.

Principle 1 – purpose and leadership

Purpose

The Company's purpose is to protect customers against risk and to serve its shareholder.

Values and culture

The Company's values are embedded throughout the business. They seek to guide employees on what is expected of them whilst they build their career at RSA. The Company aims to be a place where fulfilling careers can be built. We can achieve this through success in our business goals and living our People Principles: building a culture of high performance, working together effectively, and sustaining the diverse capabilities we require to succeed. The Company's values underpin how the Company seeks to deliver for its customers and its other stakeholders. RSA is a people-centred business which aims for a culture of high performance, where working together as a team is valued and the business invests in its people. There are various mechanisms in place to monitor and assess culture, including a cultural mini survey and cultural health update.

The Company seeks to fulfil its purpose, ambition and strategy by consistently building on its core business values: i) strong customer service; ii) great technical know-how; iii) focus and determination; iv) a culture of openness and transparency; and v) the power of teamwork.

Principle 2 – Board composition

The directors of the Company are named on page 1, and their biographies can be found on the Group's website www.rsagroup.com. Through much of 2019, the Board was composed of Group and UK executives. Since 31 December 2019, the Board has been composed of the Group Chairman, three executive directors and five independent non-executive directors. The non-executive directors provide independent challenge to the executives. There is a clear division of responsibility between the Chairman, Martin Scicluna and the Group Chief Executive, Stephen Hester.

The Group Nomination and Governance Committee is responsible for reviewing the structure, size and composition of the Board and committees. As the Company's board is composed of the same directors as the RSAIG board, the Group Nomination and Governance Committee identifies and proposes candidates to the Board. It ensures appropriate succession plans are in place for the Board and reviews executive succession planning. Further information can be found in the Annual Report and Accounts of the Group.

The Board recognises the importance of diversity, including gender, social and ethnic backgrounds, and of cognitive and personal strengths. The Board values the breadth of perspective that such diversity can bring and the beneficial effect it can have on the Board's effectiveness. As at the date of this report, the Board is composed of 33% women. The Company will continue to seek out opportunities to further improve diversity and inclusion on the Board and across the Company while always seeking to appoint the most appropriate candidates based on merit.

The Board considers that five members of the Board are independent. The independent directors, led by the chairman, seek to challenge the executive on their execution of the Company's operating plan and strategy. The independent directors ensure there is objective judgement in all Board decisions. The chairman encourages a culture of openness and debate.

Effectiveness

During the year, the Board did not undertake an effectiveness review as the composition of the Board was changing in December 2019. For future years, the Board will rely on the effectiveness review of the RSAIG Board which will be evaluated externally every three years

Principle 3 – director responsibilities

Accountability

The Board is committed to effective governance, sound risk management and a robust control environment. We consider the foundation of an effective risk management framework to be the cultivation of a risk culture that promotes accountability and openness (a willingness to admit mistakes and learn from the past). At RSA, the senior management team has been instrumental in setting the right 'tone from the top', which is further underpinned by the Group's quarterly cultural health check and annual staff survey. A key part of our culture is ensuring that our customers are at the heart of all we do, and our staff are passionate about achieving good customer outcomes. We give considerable attention to ensuring our customers are treated fairly.

Committees

In order that it can operate efficiently and give the right level of attention and consideration to relevant matters, the Board delegates authority to the Group Audit Committee. It also relies on the RSAIG board's committees for relevant matters. The Board shares these committees with the Group Board. Further information on the work of the committees can be found in the Annual Report and Accounts of the Group.

Integrity of information

The Board receives regular and timely information on all aspects of the Company's business. This includes financial performance, strategy, performance against the operational plan, internal audit, risk and compliance, and governance. Internal processes and systems are robust which ensures that management information is accurate and timely. The Company's financial statements are audited by KPMG LLP on an annual basis.

Principle 4 – opportunity and risk

Opportunity

The long-term opportunities for the Company are outlined in the 2019 Annual Report and Accounts of the Group.

Risk

The Company's principal risks and uncertainties are integrated within and managed together with the principal risks of the Group. The principal risks and uncertainties of the Group, which include those of the Company, are set out in the Risk Management note on pages 31 to 37 of the Company's accounts and the Strategic report of the 2019 Annual Report and Accounts of the Group.

Responsibilities

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

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

GIA's scope of activities is unrestricted, and its audit universe extends to all legal entities, joint ventures and other business partnerships, outsourcing and reinsurance arrangements. It includes first line of defence control validation and second line of defence assurance activities, and the system of governance as set out under Solvency II.

Principle 5 – remuneration

Setting remuneration

The Group's Remuneration Committee reviews and challenges the Company's remuneration policy and ensures this promotes the long-term sustainable success of the Company. This includes challenging and setting the remuneration of executive directors and the Chairman of the Board. The Committee also reviews workforce remuneration and related policies. It also ensures alignment between incentives and culture, and takes these into account when setting the policy for executive director remuneration. Further information on the work of the Group Remuneration Committee can be found in the Annual Report & Accounts of the Group.

The Remuneration Committee's remit is defined in its terms of reference which may be found on the Group's website www.rsagroup.com.

Principle 6 – stakeholder relationships and engagement

Information on the Company's stakeholder relationships and engagement can be found in the section 172 statement on pages 5 to 6 of the Company's Strategic report.

Signed by order of the Board

C Smyth
For and on behalf of Roysun Limited
Secretary

Approved by the board of directors on 26 February 2020

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

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

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

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

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

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

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

1 Our opinion is unmodified

We have audited the financial statements of Royal & Sun Alliance Insurance plc ("the Company") for the year ended 31 December 2019 which comprise the Balance Sheet as at 31 December 2019, and the Profit and Loss Account, Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended, and the related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We were appointed as auditor by the directors on 13 May 2013. The period of total uninterrupted engagement is for the seven financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

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

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

In the prior year, we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. As a result of developments since the prior year report, including the Company's own preparation, the relative significance of this matter on our audit work, including in relation to the valuation of claims outstanding, valuation of post-employment benefits and obligations and valuation of deferred tax assets, which remain key audit matters, has reduced. Accordingly, we no longer consider this a key audit matter.

These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

<table>
<tr><td colspan="2">Valuation of claims outstanding
(gross £4,327 million; 2018: £4,583 million; net £3,135 million; 2018: £3,337 million)

Recurring risk ◄►

Refer to page 27 (accounting policy) and pages 62 to 65 (financial disclosures).</td></tr>
<tr><td>The risk</td><td>Our response</td></tr>
<tr><td>Subjective Valuation:
Valuation of claims outstanding is highly judgmental because it requires a number of assumptions to be made with high estimation uncertainty such as loss ratios, estimates of the frequency and severity of claims and, where appropriate, the discount rates for longer tail classes of business by territory and line of business. The determination and application of the methodology and performance of the calculations are also complex.

Certain lines of business have greater inherent uncertainty, for example those where claims emerge more slowly over time, or where there is greater variability in claim settlement amounts. This includes Professional and Financial Risk classes and Liability classes and associated reinsurance recoveries in relation to these areas.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of claims outstanding has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements (note 35) disclose the sensitivity estimated by the Company.

Completeness and accuracy of data
The valuation of claims outstanding depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations</td><td>With the assistance of our actuarial specialists, we performed the following procedures:
— Control design and observation: Evaluation of the governance around the overall reserving process. We assessed the qualifications and experience of those responsible and examined the output of the reviews to assess the scope and depth of these processes. The evaluation of the methodologies and key assumptions included the most significant and subjective classes of business and enabled us to assess the quality of challenge applied through the Company's reserving process.

— Independent re-performance: Perform alternative estimates of the gross and net reserve balances using our own models on certain classes of business. The determination of which classes to perform alternative estimates was based on risk assessment and consideration of the evidence available from other data analysis procedures.

— Sector experience and Benchmarking: Comparison of assumptions, reserving methodologies and estimates of losses to expectations based on the Company's historical experience, current trends and benchmarking to our own industry knowledge.

— Sensitivity analysis: Evaluation of management's sensitivity analysis over key judgements and assumptions, such as such large claims and the discount rates for longer tail classes of business.

— Assessing transparency: Assessing the Company's disclosures relating to claims outstanding, in particular in relation to key and sensitive assumptions.

In addition to the above we performed procedures to assess the completeness and</td></tr>
</table>

about future claims. If the data used in calculating claims outstanding, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of claims outstanding may arise.	accuracy of data: — **Control design and observation:** Evaluation of key controls designed to ensure the integrity of the data used in the actuarial reserving process. The controls included reconciliations between data in the actuarial reserving systems and data in the policy administration systems. — **Test of detail:** Performing reconciliations between the claims data recorded in the policy administration systems and the data used in the actuarial reserving calculations to ensure the integrity of the data used in the actuarial reserving process. We also compared samples of claims case reserves to appropriate documentation, such as reports from loss adjusters in order to test the valuation of individual claims reserves. **Our results** — We found the valuation of the claims outstanding to be acceptable (2018 result: acceptable).

IT systems and control environment

Recurring risk ◄►

The risk	Our response
Processing errors Many financial reporting controls depend on the correct functioning of operational and financial IT systems. If these systems or controls fail, a significant risk of error in reported financial information can arise from the failure to transfer data appropriately between systems or inappropriate changes being made to financial data or systems. This is an area of significant risk in our audit due to the complexity of the IT infrastructure, particularly where there are legacy systems which require increased manual inputs, relative to more automated processes.	With the assistance of our own IT audit specialists, our procedures included: — **Controls design and observation:** Where we have planned to rely on IT systems, testing general IT controls around system access, change management and computer operations within specific applications pertinent to the financial statements by assessing if appropriate policies are in place and adhered to by inspecting supporting evidence. Where the general IT controls we have chosen to test are not operating effectively, we addressed the increased risk of financial statement misstatement by extending the scope of our work. This included assessing the operation of controls over changes or transactions being recorded in the systems and testing manual compensating controls, such as reconciliations between systems and other information sources, through re-performance or inspection. — **Extended scope:** Where general IT controls and compensating manual controls did not operate to mitigate a risk, we performed additional substantive testing, such as using extended sample sizes and performing data analysis routines over impacted accounts to test the integrity of the transactional level data that is flowing into the Group financial statements **Our results** — Where we tested general IT controls, we identified deficiencies in the design and operation of these controls. In response to weaknesses in general IT controls we expanded the extent of our detailed testing over and above that originally planned, and this work was completed satisfactorily. (2018 result: Our testing identified deficiencies in the design and operation of controls. As a result we expanded the extent of our detailed testing over and above that originally planned, and this work was completed satisfactorily.)

Valuation of shares in group undertakings
(£10,391 million; 2018: £12,998 million)

Recurring risk ◄►

Refer to page 26 (accounting policy) and page 51 to 52 (financial disclosures).

The Risk	Our Response
Subjective Valuation The Company holds its shares in group undertakings at fair value. The estimation of the fair value of the group undertakings involves the application of judgement in the selection and application of valuation methodologies. The fair value of trading subsidiaries is determined using a variety of valuation models based on market or income approaches. Market approach include valuation techniques that use observable market data of comparable companies. The income approach includes valuation techniques that measure the present value of anticipated future cash flows. These fair value models are based on a blend of valuations derived from Price Earnings multiples, analysis of book values, share price of the RSA Insurance Group and Discounted Cash Flow models.	With the assistance of our own valuation specialists, our procedures included: — **Benchmarking assumptions:** Comparing the key assumptions used by management in the application of the internal fair value models against externally derived market observable data, including price to book value and price to earnings ratios. — **Historical comparisons:** We compared the expected cash flows to the RSA Insurance Group's operating plan, and challenged the historical accuracy of previous projections. — **Sector experience:** We independently recalculated the weighted average cost of capital used to discount the cash flows. **Our results** — We found the valuation of shares in group undertakings to be acceptable (2018

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of shares in group undertakings has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements (note 21) disclose the sensitivity estimated by the Company.	result: acceptable).

Valuation of post-employment benefits and obligations
(£8,142 million; 2017: £7,467 million)

Recurring risk ◄►

Refer to page 28 (accounting policy) and pages 42 to 46 (financial disclosures).

The Risk	Our Response
Subjective Valuation Small changes in the assumptions and estimates used can have a significant effect on the valuation of the Company's **post-employment benefits and obligations** and therefore the Company's financial position. The valuation of **post-employment benefits and obligations** is dependent upon the data in respect of the members of the pension schemes being complete and accurate. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of **post-employment benefits and obligations** has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements (note 15) disclose the sensitivity estimated by the Company.	With the assistance of our own pension actuarial specialists, our procedures included: — **Membership data:** Comparing the data received from the third party administrator of the pension schemes to the data sent to the third party external expert who valued the pension schemes obligations. — **Benchmarking assumptions:** Comparing the key assumptions such as discount rate, inflation rate and life expectancy against externally derived data. — **Assessing valuer's credentials:** Evaluating the Company's external valuer's competence, objectivity, capability and scope of work. — **Assessing transparency:** Considering the adequacy of the Company's disclosures in respect of the sensitivity of the **post-employment benefits and obligations** to these assumptions. **Our results** — We found the valuation of the **post-employment benefits and obligations** to be acceptable (2018 result: acceptable).

Valuation of deferred tax assets
(£153 million; 2018: £164 million)

Recurring risk ◄►

Refer to page 28 (accounting policy) and pages 58 to 59 (financial disclosures).

The Risk	Our Response
Forecast-based valuation The recoverability of the recognised deferred tax asset is dependent on future profitability. There is inherent uncertainty involved in developing the operational plan upon on which forecast future taxable profits are based and judgement in the application of the deferred tax asset to the forecast taxable profits. These forecasts determine the extent to which deferred tax assets are or are not recognised. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of deferred tax assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 28) disclose the sensitivity estimated by the Company.	Our procedures included: — **Historical comparisons and our sector experience:** Comparing the expected growth rates to the Group's approved operating plan and assessing the accuracy of that forecasting process in the past. We considered whether projected margins are achievable with reference to the business's recent performance and operating plans, as well as our own industry knowledge. — **Sensitivity analysis:** Sensitivity analysis of taxable profits to assumptions such as the expected weather losses, the development of claims reserves and projected future expense ratio. — **Own tax expertise:** With the support of our own tax specialists and their knowledge of tax legislation, we also assessed the extent to which projected profits were taxable, in particular the Company's assumptions about how accumulated tax losses and other associated tax attributes can be utilised against taxable profits. — **Assessing transparency:** Assessing the adequacy of the Group's disclosures in respect of the assumptions applied in the calculation and the adequacy of the Group's disclosures in respect of the valuation of the deferred tax asset to key assumptions. **Our results** — As a result of our work we found the level of deferred tax assets recognised to be acceptable (2018 result: acceptable).

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

Materiality for the financial statements as a whole was set at £28m (2018: £28m), determined with reference to a benchmark of net earned premiums, of which it represents 0.9% (2018: 0.9%). We believe that net earned premiums is more appropriate benchmark than profit before tax because of the historical volatility in this metric.

We agreed to report to the Group Audit Committee any corrected or uncorrected identified misstatements exceeding £1m (2018: £1m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

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

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Company's available financial resources over this period were:

- adverse insurance reserves development;
- a deterioration in claims experience, potentially caused by market wide catastrophe event(s);
- a deterioration in the valuation of the Company's investments arising from a significant change in the economic environment; and

As these were risks that could potentially cast significant doubt on the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as such as the impact of Brexit and the impact on the economic environment, which could result in a rapid reduction in available financial resources.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in this respect, and we did not identify going concern as a key audit matter.

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

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.
Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

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

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

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 10, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of company's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

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

Jessica S.S. Katsouris

Jessica Katsouris (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
26 February 2020

Royal & Sun Alliance Insurance plc

Profit and Loss Account

for the year ended 31 December 2019

Technical account - General business	Notes	2019 £m	2018 £m
Gross premiums written	6	3,771	3,754
Outward reinsurance premiums		(752)	(843)
Premiums written, net of reinsurance		3,019	2,911
Change in the gross provision for unearned premiums		58	109
Change in provision for unearned premiums, reinsurers' share		(13)	2
Earned premiums, net of reinsurance		3,064	3,022
Other technical income, net of reinsurance	14	71	76
Claims paid			
Gross amount		(2,945)	(2,658)
Reinsurers' share		678	494
		(2,267)	(2,164)
Change in the provision for claims			
Gross amount		244	54
Reinsurers' share		(87)	79
		157	133
Claims incurred, net of reinsurance		(2,110)	(2,031)
Acquisition costs		(827)	(875)
Change in deferred acquisition costs	30	12	1
Administrative expenses		(262)	(257)
Reinsurance commissions and profit participation		23	21
Net operating expenses		(1,054)	(1,110)
Balance on the technical account for general business	6	(29)	(43)

Profit and Loss Account (continued)

for the year ended 31 December 2019

Non-technical account	Notes	2019 £m	2018 £m
Balance on the technical account for general business		**(29)**	(43)
Dividends from group undertakings	9	**2,955**	262
Investment income	9	**169**	179
Realised gains on investments	9	**3**	14
Unrealised losses on investments	9	**(19)**	(8)
Investment expenses, charges and interest	9	**(107)**	(103)
Impairment of group undertakings	9	**(2,408)**	(49)
Other charges		**-**	(9)
Foreign exchange (losses)/gains		**(20)**	16
Operating profit		**544**	259
(Loss)/profit on disposals	7	**(19)**	11
Profit on ordinary activities before tax		**525**	270
Tax on profit on ordinary activities	17	**(1)**	(4)
Profit for the financial year		**524**	266

The attached notes on pages 22 to 71 form an integral part of these financial statements.

Royal & Sun Alliance Insurance plc

Statement of Comprehensive Income

for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Profit for the financial year		**524**	266
Items that will be reclassified to profit or loss when specific conditions are met:			
Foreign exchange losses net of tax		**(1)**	-
Unrealised (losses)/gains on other financial instruments classified as available for sale net of tax	9	**(200)**	184
		(201)	184
Items that will not be reclassified to profit or loss:			
Pension – remeasurement of net defined benefit liability net of tax	15	**(85)**	154
Movement in property revaluation surplus net of tax	20	**1**	2
		(84)	156
Total other comprehensive (expense)/income for the year	33	**(285)**	340
Total comprehensive income for the year		**239**	606

The attached notes on pages 22 to 71 form an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2019

	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Foreign currency translation reserve £m	Profit and loss account £m	Shareholders' funds £m
Balance at 1 January 2018	1,215	2,954	1,915	39	1,819	7,942
Profit for the Financial Year	-	-	-	-	266	266
Other comprehensive income (note 33)	-	-	186	-	154	340
Total comprehensive income for the year	-	-	186	-	420	606
Dividends paid (note 18)	-	-	-	-	(236)	(236)
Balance at 1 January 2019	**1,215**	**2,954**	**2,101**	**39**	**2,003**	**8,312**
Opening balance adjustment (note 2)	-	-	-	-	**(2)**	**(2)**
Restated balance at 1 January 2019	**1,215**	**2,954**	**2,101**	**39**	**2,001**	**8,310**
Profit for the Financial Year	-	-	-	-	**524**	**524**
Other comprehensive income (note 33)	-	-	**(199)**	**(1)**	**(85)**	**(285)**
Total comprehensive income for the year	-	-	**(199)**	**(1)**	**439**	**239**
Dividends paid (note 18)	-	-	-	-	**(350)**	**(350)**
Balance at 31 December 2019	**1,215**	**2,954**	**1,902**	**38**	**2,090**	**8,199**

The attached notes on pages 22 to 71 form an integral part of these financial statements.

Balance Sheet

as at 31 December 2019

Assets	Notes	2019 £m	2018 £m
Intangible assets	19	**226**	165
Investments			
Land and buildings	20	**378**	328
Investments in group undertakings and participating interests			
Shares in group undertakings	21	**10,391**	12,998
Other financial investments			
Shares and other variable yield securities and units in unit trusts		**373**	263
Debt securities and other fixed income securities		**3,529**	3,829
Other loans		**195**	182
	22	**4,097**	4,274
Deposits with ceding undertakings		**76**	125
Total investments		**14,942**	17,725
Reinsurers' share of technical provisions			
Provision for unearned premiums	25	**679**	694
Claims outstanding	26	**1,192**	1,246
		1,871	1,940
Debtors			
Debtors arising out of direct insurance operations – policyholders		**370**	396
Debtors arising out of direct insurance operations – intermediaries		**1,093**	1,159
Debtors arising out of reinsurance operations		**202**	266
Amounts owed by group undertakings		**1,113**	1,161
Other debtors (including current taxation)	38	**452**	450
		3,230	3,432
Other assets			
Tangible assets	29	**35**	29
Deferred taxation	28	**153**	164
Cash at bank and in hand		**123**	99
		311	292
Prepayments and accrued Income			
Accrued interest and rent		**38**	35
Deferred acquisition costs	30	**429**	439
Other prepayments and accrued income		**30**	36
		497	510
		21,077	24,064
Assets held for sale and disposal groups	7	**-**	613
Total assets		**21,077**	24,677

The attached notes on pages 22 to 71 form an integral part of these financial statements.

Balance Sheet (continued)

as at 31 December 2019

Liabilities	Notes	**2019 £m**	2018 £m
Capital and reserves			
Called up share capital	31	**1,215**	1,215
Share premium account		**2,954**	2,954
Revaluation reserve		**1,902**	2,101
Foreign currency translation reserve		**38**	39
Profit and loss account		**2,090**	2,003
Shareholders' funds		**8,199**	8,312
Subordinated liabilities	32	**-**	32
Technical provisions			
Provision for unearned premiums	34	**2,124**	2,199
Claims outstanding	35	**4,327**	4,583
		6,451	6,782
Provisions for other risks	36	**42**	44
Deposits received from reinsurers		**-**	5
Creditors			
Creditors arising out of direct insurance operations		**45**	63
Creditors arising out of reinsurance operations		**738**	763
Amounts owed to credit institutions	37	**65**	51
Amounts owed to group undertakings		**4,987**	7,543
Other creditors (including taxation and social security)	39	**338**	257
		6,173	8,677
Accruals and deferred income		**212**	215
		21,077	24,067
Liabilities for disposal groups	7	**-**	610
Total liabilities		**21,077**	24,677

The attached notes on pages 22 to 71 form an integral part of these financial statements.

The financial statements were approved on 26 February 2020 by the Board of Directors and are signed on its behalf by:

Charlotte Jones
DIRECTOR

1. Basis of preparation

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

These financial statements have been prepared on a going concern basis and in accordance with Financial Reporting Standard 101 (FRS 101) Reduced Disclosure Framework and in compliance with the Companies Act 2006. The financial statements are prepared on an historical cost basis. Where other bases are applied, these are identified in the relevant accounting policy.

The Company's financial statements are presented in pounds sterling (£),and rounded to the nearest million (m) except where otherwise indicated.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"), but makes amendments where necessary in order to comply with the Companies Act 2006. The Company has set out below where advantage of FRS 101 exemptions has been taken.

The exemptions used by the Company are as follows:

- Cash flow statement and related notes;
- The effects of new but not yet effective IFRSs;
- Certain disclosures required by IFRS 16 Leases;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures in respect of transactions between two or more wholly owned subsidiaries of the group.

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

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

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

2. Adoption of new and revised standards

IFRS 16 'Leases'

IFRS 16 replaced the previous standard IAS 17 'Leases' with effect from 1 January 2019. Its objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represent lease transactions.

Transition

The Company elected to use the standard's modified retrospective approach. The right of use asset on transition is recognised at a value equal to the lease liability before adjustment for any prepaid or accrued rent payments recognised immediately prior to transition using a discount rate at the date of the initial application. This has been applied using the exemption not to re-present the prior reporting period.

The Company elected to use the following practical expedients on transition:

- Use of single discount rates to reflect similar lease terms and economic environments
- As an alternative to performing an impairment review, right of use assets have been adjusted by the value of provision for onerous leases recognised in the balance sheet immediately before the date of initial application
- Recognition exemptions for lease contracts that at the transition date have a remaining lease term of 12 months or less
- Exclusion of initial direct costs from the measurement of the right of use asset
- The use of hindsight in determining the lease term for contracts containing options to extend or terminate the lease

Recognition and measurement

The Company recognises a lease liability and right of use asset for all lease obligations as a lessee, except for the following recognition exemptions that the Company has elected to use: lease contracts that at the commencement date have a lease term of 12 months or less and that do not contain a purchase option; lease contracts for which the underlying asset is of low value; and lease contracts in relation to intangible assets which will be expensed on a straight line basis over the life of the contract.

The lease liability is recognised at the inception of a lease as the present value of the fixed and certain variable lease payments, plus any guaranteed residual values, any termination penalties if the lease term assumes termination options will be exercised, and the purchase option value if it is reasonably certain that it will be exercised.
Interest is accrued on the lease liability based on the discount rate at commencement of the lease and is accounted for in investment expenses, charges and interest. Subsequent payments are deducted from the lease liability.

The right of use asset is initially measured as the value of the lease liability, adjusted for any indirect costs incurred to obtain the lease (except on transition), restoration provisions and any lease payments made before the commencement of the lease.

The right of use asset will be depreciated over the life of the contract on a straight line basis.

Where the Company act as a lessor the lease will be classified as a finance lease if it transfers substantially all the risk and rewards incidental to ownership of the underlying asset, or otherwise as an operating lease.

Nature and effect of adoption of IFRS 16

On adoption the Company recognised lease liabilities in relation to leases which had been previously classified as operating leases under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rate as at 1 January 2019. The Company's weighted average incremental borrowing rate applied at that time was 2.9%.

A reconciliation to the operating commitments disclosed at 31 December 2018 is as follows:

	£m
Operating lease commitments disclosed as at 31 December 2018	**153**
Discounted using the lessee's incremental borrowing rate at the initial application	**139**
Less: short term leases	**(3)**
Less: low value leases	**(10)**
Less: contract elements reassessed as service agreements, VAT and other[1]	**(32)**
Lease liability recognised at 1 January 2019	**94**

[1] Service components and VAT within lease payments are excluded from IFRS 16.

The effect of the adoption of IFRS 16 is as follows:

Impact on the balance sheet (increase/(decrease))

	31 December 2019 £m	1 January 2019 £m
Assets		
Land and buildings – right of use assets[1]	**59**	60
Tangible assets – right of use assets[1]	**10**	13
Other debtors[2]	**9**	10
Total assets	**78**	83
Liabilities		
Profit and loss account	**(3)**	(2)
Shareholders' funds	**(3)**	(2)
Other creditors[3]	**81**	85
Total liabilities	**81**	85

[1] The value at transition is made up of £94m equal to the lease liability, less £12m derecognition of finance sub leases, less £9m adjustment for the unwind of opening accruals.
[2] Primarily relates to finance sub leases, whereby the sub lease term is for the remaining lease term of the head leases.
[3] The value at transition includes lease liabilities of £94m less the £9m unwind of opening accruals represented against the right-of-use asset, 31 December 2019 values £90m and £9m respectively.

Impact on the profit and loss account (increase/(decrease))

	2019 £m
Administrative expenses[1]	**1**
Investment expenses, charges and interest[2]	**(2)**
Profit before tax	**(1)**
Income tax expense	**-**
Profit for the period	**(1)**

[1] 2019 includes £13m depreciation charge, whereby 2018 included £17m lease payment cost and £1m sublease income recognised in accordance with IAS 17. 2019 also includes £3m costs for leases classified as low value and short term for which the financial impact is unchanged from 2018, and a £2m right-of-use asset impairment charge.
[2] Lease interest recognised as part of the lease cost within administrative expenses in 2018 in accordance with IAS 17.

There is no material impact on Other Comprehensive Income.

IAS 19 'Employee Benefits'

An amendment to IAS 19: Plan Amendment, Curtailment or Settlement issued by the IASB on 7 February 2018 was endorsed by the European Union on 13 March 2019 and became effective from 1 January 2019. This requires a net defined benefit asset or liability to be remeasured using the current assumptions and fair value of plan assets at the time of the amendment. Current service cost and net interest for the remainder of the period are remeasured using the same assumptions and the same fair value of plan assets.

This interpretation has not had a significant impact on the financial statements.

IFRIC 23 'Uncertainty over Income Tax Treatment'

IFRIC 23 'Uncertainty over income tax treatment' specifies how to reflect the effect of uncertainty in accounting for income taxes where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a tax treatment.

This interpretation has not had a significant impact on the financial statements.

There are also a small number of other narrow scope amendments arising from annual improvements to standards that are applicable to the Company for the first time in 2019, none of which have had a significant impact on the financial statements.

As set out above, the Company takes advantage of the FRS 101 exemption for disclosure of the effects of new but not yet effective IFRSs.

3. Selection of significant accounting policies

The significant accounting policies used in the preparation of these financial statements, as set out below, have been applied consistently to all periods presented, unless otherwise stated.

Apart from the implementation of IFRS 16 'Leases', which replaced IAS 17 'Leases' (as disclosed in note 2), there have been no other significant changes to the Company's accounting policies during 2019.

(i) Translation of foreign currencies

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

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

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

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

Foreign currency transactions are translated into the functional currency of the Company's business operations using the exchange rates prevailing at the time of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(ii) Intangible assets

Goodwill

Goodwill is the difference between the cost of a business acquisition and the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is initially recognised in the balance sheet at cost and is subsequently measured at cost less any accumulated impairment losses. The cost of the acquisition is the amount of cash paid and the fair value of other purchase consideration. No goodwill exists as at 31 December 2019.

This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure.

Internally developed and externally acquired software

The Company capitalises internal and external acquired software development costs where the software is separately identifiable; the Company has control over the software; and where it can be demonstrated that they provide future economic benefits for the Company through facilitating revenue, reducing costs or improved processes. In respect of internally developed software, the costs capitalised include administrative and other general overhead expenditure when they can be directly attributed to the software development and preparing it for use. Amortisation is calculated on a straight line basis and commences when the asset is available for use in the manner intended by management. The useful economic life of externally acquired and internally generated software is normally estimated to be between three and ten years, and are reviewed on an annual basis.

Other intangible assets

Other intangible assets are valued at cost less accumulated amortisation, and less any accumulated impairment losses.

Other intangible assets mainly comprise other acquired identifiable non-monetary assets without physical form. The useful economic lives are generally estimated to be between one and five years and are amortised on a straight-line basis across this period.

Impairment of goodwill, other intangible assets and, internally developed and externally acquired software

Goodwill and intangible assets not yet available to use are subject to an impairment test on an annual basis. Other intangible assets, and internally developed and externally acquired software, are reviewed for indications of impairment on an annual basis and are subject to an impairment test only if there is an indication of impairment.

Goodwill, other intangible assets and, internally developed and externally acquired software are allocated to cash generating units (CGUs) for the purpose of impairment testing. When testing for impairment, the recoverable amount of a CGU is determined based on value in use calculations. Further information on how value in use is calculated can be found in note 19.

Where the carrying amount is more than the recoverable amount, impairment of goodwill or intangible assets is recognised in the profit and loss account. Impairment losses previously recognised on other intangible assets may be reversed in subsequent periods provided that the revised carrying amount does not exceed the value that would have been determined (net of amortisation) had no impairment loss been recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(iii) Tangible assets

Tangible assets comprise fixtures, fittings and other equipment (including computer hardware and motor vehicles) and are initially recognised at cost.

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset only when it is probable that the expenditure will result directly in future economic benefits to the Company, and the cost can be measured reliably.

Tangible assets are depreciated to their residual values on a straight line basis over the useful economic life of the asset; depreciation is charged to the profit and loss account.

The estimated useful lives of the assets are as follows:

Fixtures and fittings	10 years
Equipment	3-5 years

The useful economic life and residual value are reviewed on an annual basis. Where the carrying value of an asset is deemed to be greater than its recoverable amount, the asset is impaired. Gains and losses on disposal are recognised based on the carrying amount of the asset.

(iv) Land and buildings and rental income

Land and buildings comprise investment property and Company occupied property.

Investment property

Investment property is stated at fair value. The fair value methodology is set out in more detail in note 20. Unrealised gains and unrealised losses are recognised in the profit and loss account. Rental income from operating leases on investment property is recognised in the profit and loss account on a straight line basis over the length of the lease.

Company property

Company occupied property is stated at fair value, less subsequent depreciation for buildings. The fair value methodology is set out in note 20. Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and credited to a separate revaluation reserve within equity. Decreases in the carrying amount arising on revaluation are recognised in other comprehensive income and reduce the revaluation reserve, to the extent they offset previous revaluation increases; further decreases are charged to the profit and loss account. Buildings are depreciated to their residual value on a straight line basis over the useful economic life of the building; depreciation is charged to the profit and loss account except where a building has been revalued upwards, in which case the amount of the depreciation relating to the difference between the building's revalued amount and the original cost is transferred from revaluation reserve to retained earnings. Land is not depreciated.

The estimated useful lives of Company occupied property is normally 30 years.

(v) Financial instruments

Classification and measurement of financial assets and financial liabilities

The Company initially recognises financial instruments at their fair value on the date at which they are purchased.

At initial measurement, the Company classifies its financial assets and financial liabilities in one of the following categories:

- Designated at fair value through profit and loss (FVTPL);
- Held for trading;
- Available for sale (AFS);
- Cash and cash equivalents;
- Loans and receivables; or
- Financial liabilities.

Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities that are not FVTPL are added to their fair value in their initial measurement.

The table below summarises the classification and treatment of the Company's financial assets and financial liabilities

Category	Financial instrument	Description	Subsequent measurement	Recognition of change in fair value
Designated fair value through profit and loss (FVTPL) on initial recognition	Debt securities, equity securities	Where the investment return is managed on the basis of the total return on investment (including unrealised investment gains)	Fair value using prices at the end of the period	Profit & loss account – unrealised gains/(losses); realised gains/(losses) when derecognised
Held for trading	Derivative assets/(liabilities) not designated as hedging instruments	Acquired or incurred principally for the purpose of selling or repurchasing in the near term	Carried at fair value Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative	Profit & loss account – unrealised gains/(losses); realised gains/(losses) when derecognised
Available for sale (AFS)	Debt securities, equity securities	Where the investment return on equity or debt securities is managed on the basis of the periodic cash flows arising from the investment	Fair value using prices at the end of the period	Other comprehensive income - unrealised gains/(losses) Profit & loss account – realised gains/(losses) when derecognised; Investment expenses, charges and interest when impaired
	Shares in group undertakings	Investments which provide the Company with control of the investee	Fair value using prices at the end of the period	Other comprehensive income - unrealised gains/(losses) Profit & loss account – profit/(loss) on disposal when derecognised; Investment expenses, charges and interest when impaired
Cash at bank and in hand	Cash and cash equivalents	Consist of cash and highly liquid investments that are subject to insignificant changes in value and are readily convertible into known amounts of cash	Carrying amounts at amortised cost	
Loans and receivables	Loans, reinsurance deposits, other deposits and financial assets arising from non-investment activities, and loans made for investment purposes	Financial assets with fixed or determinable payments not quoted in an active market	Amortised cost using the effective interest method	Profit & loss account – realised gains/(losses) when derecognised; Investment expenses, charges and interest when impaired
Financial liabilities	Other borrowings	Financial liabilities with fixed or determinable payments	Amortised cost using the effective interest method	Profit & loss account – realised gains/(losses) when derecognised; Investment expenses, charges and interest when impaired
	Loan capital	Financial liabilities with fixed or determinable payments and maturity date	Amortised cost using the effective interest method	Profit & loss account – realised gains/(losses) when derecognised; Investment expenses, charges and interest when impaired

Investment income

Dividends on equity investments are recognised as investment income in the profit and loss account on the date at which the investment is priced 'ex dividend'. Interest income is recognised in the profit and loss account using the effective interest rate method.

Impairment of financial instruments

The Company determines, at each reporting date, whether there is evidence that the value of a financial asset or a group of financial assets, other than those measured as FVTPL are impaired. A financial asset is impaired if there is objective evidence that indicates that an event has occurred after the initial recognition of the asset that may have resulted in a loss of value as a result of having a negative effect on the estimated future cash flows generated by that asset which can be estimated reliably.

An impairment loss in respect of debt instruments is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate of the instrument and is recognised in the profit and loss account. Interest on the impaired asset continues to be recognised using the effective interest rate method.
For equity securities whose fair values are readily determined and where there is objective evidence that such an asset is impaired by a 'significant' or 'prolonged' decline in the fair value below cost, the net loss previously charged to other comprehensive income is reclassified to the consolidated income statement.

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

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' has been issued to replace IAS 39 'Financial Instruments: Recognition and Measurement' and primarily changes the classification and measurement of financial assets. The Company qualifies for a temporary exemption from applying IFRS 9, until the implementation of IFRS 17 'Insurance Contracts', on the grounds that it has not previously applied any version of IFRS 9 and its activities are predominantly connected with insurance. Further information can be found in note 22.

(vi) Insurance Contracts

Product classification

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

Premium income

Premium written is recognised in the period in which the Company is legally bound through a contract to provide insurance cover. It represents the full amount of premiums receivable under the contract, including estimates where the amounts are not known at the date they are written. These are deferred as a provision for unearned premiums until recognised as revenue principally computed on a monthly or daily pro-rata basis. Premiums are shown before deduction of commission and exclude any sales based taxes or duties.

Technical provisions

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

Claims incurred represent the cost of agreeing and settling insurance claims on insurance contracts underwritten by the Company, net of reinsurance recoveries. Gross claims outstanding are recognised at the estimated ultimate cost, net of expected salvage and subrogation recoveries when a claim is incurred.

Gross claims outstanding and related reinsurance recoveries are discounted where there is a long period from incident to claims settlement or when nominal interest rates are high and where there exists a suitable claims payment pattern from which to calculate the discount. In defining those claims with a long period from incident to claims settlement, an average period settlement of six years or more has been used as a guide. The discount rate used is based upon an investment return expected to be earned by financial assets which are appropriate in value and duration to match the claims outstanding being discounted during the period expected before the final settlement of such claims.

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

Acquisition costs comprise the direct and indirect costs of obtaining and processing new insurance business. Levies payable are treated as costs of underwriting business. These costs are recognised as deferred acquisition costs (DAC). DAC is amortised on the same basis as the related unearned premiums are earned.

At the end of each reporting period liability tests are performed to ensure the adequacy of the technical provisions by considering the cash flows associated with the provision for unearned premium net of related DAC. In performing these tests, best estimates of future contractual cash flows, including loss adjustment and administrative expenses as well as investment income on financial assets backing such liabilities are used. Any deficiency is charged to the technical account immediately by establishing a provision for liability adequacy known as the unexpired risk provision. The requirement for an unexpired risk provision is assessed in aggregate for business classes which, in the opinion of the directors, are managed together.

Reinsurance ceded

Outward reinsurance premiums payable are recognised in the period in which the reinsurance contract is entered into and include estimates where the amounts are not finalised at the end of the reporting period. The ceded written premiums are recognised in the profit and loss account over the period of the reinsurance contract, based on the expected earning pattern in relation to the underlying insurance contract(s).

Reinsurers' share of technical provisions includes the reinsurers' share of claims outstanding and the provision for unearned premiums. The Company reports third party reinsurance balances on the balance sheet on a gross basis to present the exposure to credit risk related to third party reinsurance. The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the Company may not receive all amounts due under the reinsurance contract.

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

(vii) Other technical income

Other technical income is comprised principally of:

- Administration fee income: is received from policyholders in order for certain changes to their policy or policyholder details within their period of cover and is recognised in full on the date that the change is made
- Premium policy instalment fee income: is received from policyholders as a finance charge on premiums paid in instalments and is recognised over the period that the instalments are made on a straight line basis
- Introductory commission income is received from third parties for introducing business to them and is recognised when the introduction is made
- Service income refers to income received for operating a settlement function primarily for the Company and its Global Network Partners which is recognised over the period in which the relevant business is earned

(viii) Taxation and deferred tax

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

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

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

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

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

(ix) Employee benefits

Post-employment benefits and obligations

The Company operates both defined benefit and defined contribution pension schemes.

A defined contribution scheme is a pension scheme under which the Company pays fixed contributions and has no further payment obligations once the contributions have been paid. Contributions to defined contribution pension schemes are charged in the profit and loss account in the period in which the underlying employment services are provided to the Company.

A defined benefit scheme is a pension scheme that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

The value of the net defined benefit liability/ asset recognised in the balance sheet for each individual post-employment scheme is calculated as the difference between the present value of the defined benefit obligations of the scheme and the fair value of the scheme assets out of which the obligations are to be settled.

For those schemes in a net liability (deficit) position, the net liability is recognised in the balance sheet in provisions. For those schemes in a net asset (surplus) position, the net asset is recognised in the balance sheet in other debtors and other assets only to the extent that the Company can realise an economic benefit, in the form of a refund or a reduction in future contributions, at some point during the life of the scheme or when the scheme liabilities are settled.

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

- The current service cost: this is the present value of additional benefits payable for employees' services provided during the reporting period;
- The past service costs and gains or losses on settlement: these are changes to the obligations already established for past service costs that have arisen from an amendment to the terms of the scheme or a curtailment of the benefits payable by the scheme. These are recognised at the earlier of when the terms of the scheme are amended or the curtailment occurs or, where applicable, when the Company recognises related restructuring costs or termination benefits;
- Net interest on the net defined benefit liability/asset: this is determined by applying the discount rate applied to the defined benefit obligation for the period to the net defined benefit liability/asset, and results in a net interest expense/income;
- The administration costs of operating the pension schemes.

Remeasurements of the net defined benefit liability/ asset recognised in other comprehensive income comprises actuarial gains and losses as a result of changes in assumptions and experience adjustments in the calculation of the defined benefit obligation, and return on scheme assets excluding interest during the year. The most significant of these is the selection of the discount rate used to calculate the defined benefit obligation, details of which are set out in note 15.

Termination benefits

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

Share based payments

The fair value of the employee share options and other equity settled share based payments is calculated at the grant date and recognised as an expense over the vesting period. The vesting of share awards is dependent on service and performance conditions, as well as market conditions. The assumption of the number of shares expected to vest is revised at the end of each reporting period, with the corresponding credit or charge recognised immediately in the profit and loss account. Where an option is cancelled by an employee, the full value of the option (less any value previously recognised) is recognised at the cancellation date.

(x) Provisions

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

(xi) Dividends to shareholders

Dividends payable on the Company's ordinary shares are recognised in equity in the period in which they are declared and authorised.

(xii) Portfolio transfers

Premium portfolio transfers to other insurance entities are treated as premium cancellations with an accompanying unwind of the provision for unearned premium through the profit and loss account to recognise that the Company is no longer legally on risk for providing cover in future periods and therefore will not earn any future income in respect of the insurance contracts transferred.

Claims portfolio transfers to other insurance entities are treated as settlement of claims outstanding which recognises that the Company has provided consideration under the terms of the transfer as a consequence of which it no longer has a legal obligation to settle claims in respect of the insurance contracts transferred which are de-recognised.

(xiii) Assets and liabilities held for sale

Assets and liabilities are classified as held for sale if it is considered highly probable that the carrying amount of the assets and directly associated liabilities will be recovered principally through a sale, rather than through continuing operations. This includes the expectation that the sale will be completed within 12 months of the classification date as held for sale, subject to extension in certain circumstances, including where disposals have been committed to subject to regulatory and legal approval.

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

Where the asset or liability comprises a separate business operation (e.g. a subsidiary), the assets and the directly associated liabilities of the business are considered together as one disposal group. In the period when assets are recognised as held for sale on the balance sheet for the first time, the comparative prior period is not re-presented.

(xiv) Current and non-current distinction

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

The Company's balance sheet is not presented using current and non-current classifications. However, the following balances are generally classified as current: cash at bank and in hand, insurance and reinsurance debtors and creditors; and amounts owed to credit institutions.

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

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

4. Critical judgements and major sources of estimation uncertainty

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

(i) Valuation of claims outstanding

The Company makes judgements when valuing claims outstanding. The methodology of measuring claims outstanding is described below. The results of applying this methodology and assumptions applied are set out in note 35.

Provisions for losses and loss adjustment expenses are subject to a robust reserving process by the Company and at Group Corporate Centre, as detailed in the Risk Management note below.

There is also considerable uncertainty in regard to the eventual outcome of the claims that have occurred by the end of the reporting period but remain unsettled. This includes claims that may have occurred but have not yet been notified to the Company and those that are not yet apparent to the insured.

The provisions for losses and loss adjustment expenses are estimated using previous claims experience with similar cases, historical payment trends, the volume and nature of the insurance underwritten by the Company and current specific case reserves. Also considered are developing loss payment trends, the potential longer term significance of large events, and the levels of unpaid claims, legislative changes, judicial decisions and economic, political and regulatory conditions.

The Company uses a number of commonly accepted actuarial projection methodologies to determine the appropriate provision to recognise. These include methods based upon the following:

- The development of previously settled claims, where payments to date are extrapolated for each prior year;
- Estimates based upon a projection of claims numbers and average cost;
- Notified claims development, where notified claims to date for each year are extrapolated based upon observed development of earlier years;
- Expected loss ratios;
- Bornhuetter- Ferguson method, which combines features of the above methods;
- Bespoke methods for specialist classes of business.

In selecting the method and estimate appropriate to any one class of insurance business, the Company considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year.

Individually large and significant claims are generally assessed separately, being measured either at the face value of the loss adjusters' estimates or projected separately in order to allow for the future development of large claims.

The level of provision carried by the Company targets the inclusion of a total margin of 5% for the Company on top of the actuarial indication outlined above. The appropriateness of the 5% target is subject to regular review as part of the reserving process by the Company and at Group Corporate Centre.

(ii) Recognition and valuation of deferred tax assets

The Company makes judgements in its assessments on the likelihood of its ability to utilise deferred tax assets in the future when valuing deferred tax assets. This requires the use of models to estimate the future profitability of the Company and assumptions on how these businesses will perform. The methodology employed is described in note 28.

(iii) Valuation of pension fund assets and liabilities

The Company exercises judgement in making assumptions when valuing pension and other post-employment benefits accrued by its current and former employees. These assumptions include the estimation of the future mortality of its current and former employees, the value of the benefits that have been accrued and the appropriate discount rate used to value the obligations. These assumptions and the sensitivity of these assumptions are disclosed in note 15.

(iv) Valuation of shares in group undertakings

The Company uses estimation techniques when valuing its shares in group undertakings, which are accounted for as available for sale financial assets and are included in the accounts at fair value. The methods and assumptions used by the Company are set out below.

Fair value is calculated by applying various valuation models to the major trading companies. These valuation models apply factors that are widely used to value similar companies in the area of operation of the business. The values calculated are benchmarked against external valuations of the particular business where these are available. For non-trading subsidiaries, the net asset value of the subsidiary, calculated using the Company's accounting policies, is used. Further information on the valuation of shares in group undertakings can be found in note 21.

(i) Valuation of intangible assets

The Company exercises judgement in making assumptions when valuing the recoverable amount and estimating the useful economic life of intangible assets. Further information on these assumptions can be found in note 19.

5. Risk Management

Introduction

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

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

- Underwriting risk
- Reserving risk

Underwriting risk

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

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

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

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

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

Passing elements of our insurance risk to reinsurers is another key strategy employed in managing the Group's and the Company's exposure to insurance risk. The Group Board determines a maximum level of risk to be retained by the Group as a whole. The net retained risk is distributed across the Group in accordance with Group and local risk appetite.

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

Reserving risk

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

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

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

The Company seeks to reduce its reserving risk through the use of experienced actuaries who estimate the actuarial indication of the required reserves based on claims experience, business volume, anticipated change in the claims environment and claims cost. This information is used by local reserving committees to recommend to the Group Reserving Committee the appropriate level of reserves for each region. This will include adding a margin onto the actuarial Indication as a provision for unforeseen developments such as future claims patterns differing from historical experience, future legislative changes and the emergence of latent exposures. The Group Reserving Committee reviews these local submissions and recommends the final level of reserves to be held by the Company. The Group Reserving Committee is chaired by the Group Chief Financial Officer and includes the Group Chief Executive, Group Underwriting Director, Group Chief Actuary and Group Chief Risk Officer. A similar committee has been established in each of the Group's primary operating segments. The Group Reserving Committee monitors the decisions and judgements made by the business units as to the level of reserves to be held.

In forming its collective judgement the Committee considers the following information:

- The actuarial indication of ultimate losses together with an assessment of risks and possible favourable or adverse developments that may not have been fully reflected in calculating these indications. At the end of 2019, these risks and developments include: the possibility of future legislative change having retrospective effect on open claims; changes in claims settlement procedures potentially leading to future claims payment patterns differing from historical experience; the possibility of new types of claim, such as disease claims, emerging from historical business; general uncertainty in the claims environment; the emergence of latent exposures; the outcome of litigation on claims received; failure to recover reinsurance and unanticipated changes in claims inflation;
- The views of internal peer reviewers of the reserves and of other parties including actuaries, legal counsel, risk directors, underwriters and claims managers;
- The outcome from independent assurance reviews performed by the Group actuarial function to assess the reasonableness of actuarial indication estimates;
- How previous actuarial indications have developed.

The Company is also exposed to other risks not directly arising from insurance contracts as set out below:

Financial risk

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

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

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

Credit risk

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

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

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

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

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

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

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

The Group Reinsurance Credit Committee oversees the management of credit risk arising from the reinsurer failing to settle its liability to the Company. Group standards are set to manage this risk such as reinsurers that have a financial strength rating of less than 'A-' with Standard & Poor's, or a comparable rating, are rarely used and excluded from the Group's list of approved reinsurers. The exceptions are fronting arrangements with captives, where some form of collateral is generally obtained, and some global network partners. At 31 December 2019 the extent of collateral held by the Company against reinsurers' share of insurance contract liabilities was £19m (2018: £560m), which in the event of a default would be called and recognised on the balance sheet. The decrease is following the legal transfer of the UK Legacy business on 1 July 2019.

The Company's use of reinsurance is sufficiently diversified that it is not concentrated on a single reinsurer, or any single reinsurance contract. The Company regularly monitors its aggregate exposures by reinsurer group against predetermined reinsurer Group limits, in accordance with the methodology agreed by the BRC. The Company's largest reinsurance exposures to active reinsurance groups are Berkshire Hathaway Inc., Lloyd's of London and Talanx. At 31 December 2019 the reinsurance asset recoverable from these groups does not exceed 7.8% (2018: 7.3%) of the Company's total financial assets. Stress tests are performed by reinsurer counterparty and the limits are set such that in a catastrophic event, the exposure to a single reinsurer is estimated not to exceed 6.6% (2018: 6.5%) of the Group's total financial assets.

The credit profile of the Company's assets exposed to credit risk is shown below. The credit rating bands are provided by independent rating agencies. The tables below set out the Company's aggregated credit risk exposure for its financial and insurance assets.

	Credit rating relating to financial assets that are neither past due nor impaired						Total financial assets that are neither past due nor impaired	Less: Amounts classified as held for sale	Total Financial Assets that are neither past due nor impaired excluding held for sale
	AAA	**AA**	**A**	**BBB**	**<BBB**	**Not rated**			
As at 31 December 2019	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities and other fixed income securities	644	1,356	951	495	83	-	3,529	-	3,529
Other loans	3	-	29	140	23	-	195	-	195
***Of which would qualify for SPPI under IFRS 9*[1]**	647	1,334	913	594	47	-	3,535	-	3,535
Reinsurers' share of technical provisions	-	452	1,326	45	46	2	1,871	-	1,871
Insurance and reinsurance debtors[2]	-	4	944	25	34	621	1,628	-	1,628
Derivative assets	-	10	28	60	-	-	98	-	98
Cash at bank and in hand	-	20	103	-	-	-	123	-	123

Notes:

1. The debt securities meeting solely for payment of principle and interest (SPPI) criteria under IFRS 9 which are below investment grade are stated under IAS 39 at fair value and where loans and receivables are measured using amortised cost their carrying amounts are considered to be as approximate fair values.
2. The insurance and reinsurance debtors classified as not rated comprise personal policyholders and small corporate customers that do not have individual credit ratings. The overall risk to the Company is deemed to be low as the cover could be cancelled if payments were not received on a timely basis.

	Credit rating relating to financial assets that are neither past due nor impaired						Total financial assets that are neither past due nor impaired	Less: Amounts classified as held for sale	Total Financial Assets that are neither past due nor impaired excluding held for sale
	AAA	AA	A	BBB	<BBB	Not rated			
As at 31 December 2018	£m	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities and other fixed income securities	774	1,263	1,208	497	87	-	3,829	-	3,829
Other loans	20	-	30	106	26	-	182	-	182
Of which would qualify for SPPI under IFRS 9[1]	774	1,248	1,134	458	30	-	3,644	-	3,644
Reinsurers' share of technical provisions	-	520	1,313	653	28	8	2,522	(582)	1,940
Insurance and reinsurance debtors[2]	24	2	944	52	55	683	1,760	-	1,760
Derivative assets	-	1	14	48	-	-	63	-	63
Cash at bank and in hand	-	7	88	-	4	-	99	-	99

Notes:

1. The debt securities meeting SPPI criteria under IFRS 9 which are below investment grade are stated under IAS 39 at fair value and where loans and receivables are measured using amortised cost their carrying amounts are considered to be as approximate fair values.
2. The insurance and reinsurance debtors classified as not rated comprise personal policyholders and small corporate customers that do not have individual credit ratings. The overall risk to the Company is deemed to be low as the cover could be cancelled if payments were not received on a timely basis.

With the exception of government debt securities, the largest aggregate credit exposure does not exceed 3% (2018: 2%) of the Company's total financial assets.

The following tables provide information regarding the ageing of financial assets as at 31 December 2019 and 2018, excluding those assets that have been classified as held for sale.

As at 31 December 2019	Neither past due nor impaired £m	Financial assets that are past due but not impaired: 0-3 months £m	3-6 months £m	6-12 months £m	Greater than 12 months £m	Balance Sheet carrying value £m	Impairment losses charged to Profit and Loss account £m
Debt securities and other fixed income securities	3,529	-	-	-	-	3,529	-
Other loans	195	-	-	-	-	195	-
Reinsurer's share of technical provisions	1,871	-	-	-	-	1,871	-
Insurance and reinsurance debtors	1,628	15	9	3	10	1,665	-
Derivative assets	98	-	-	-	-	98	-
Cash at bank and in hand	123	-	-	-	-	123	-

As at 31 December 2018	Neither past due nor impaired £m	Financial assets that are past due but not impaired: 0-3 months £m	3-6 months £m	6-12 months £m	Greater than 12 months £m	Balance Sheet carrying value £m	Impairment losses charged to Profit and loss account £m
Debt securities and other fixed income securities	3,829	-	-	-	-	3,829	-
Other loans	182	-	-	-	-	182	-
Reinsurer's share of technical provisions	1,940	-	-	-	-	1,940	(1)
Insurance and reinsurance debtors	1,760	26	10	8	17	1,821	-
Derivative assets	63	-	-	-	-	63	-
Cash at bank and in hand	99	-	-	-	-	99	-

Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations from equity and property prices, interest rates and foreign currency exchange rates. Market risk arises in the Company's operations due to the possibility that fluctuations in the value of liabilities are not offset by fluctuations in the value of investments held. It also arises in relation to the investment in shares in group undertakings with international businesses through foreign currency risk. Market risk is subject to the BRC risk management framework, which is subject to review and approval by the Board.

Market risk can be broken down into three key components:

(i) Equity and property risk

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

At 31 December 2019 the Company held investments classified as equity securities of £373m (2018: £263m). These include interests in structured entities (as disclosed in note 24) and other investments where the price risk arises from interest rate risk rather than from equity market price risk.

In addition the Company holds investments in properties which are subject to property price risk. A decrease of 15% in property prices would result in the recognition of losses of £45m (2018: £46m) in the profit and loss account and £3m (2018: £3m) in other comprehensive income.

This analysis assumes that there is no correlation between interest rate and property market rate risks. It also assumes that all other assets and liabilities remain unchanged and that no management action is taken. This analysis does not represent management's view of future market change, but reflects management's view of key sensitivities.

This analysis is presented gross of the corresponding tax credits/(charges).

(ii) Interest rate risk

Interest rate risk arises primarily from the Company's investments in long-term debt and fixed income securities and their movement relative to the value placed on insurance liabilities. This impacts the fair value and amount of variable returns on existing assets as well as the cost of acquiring new fixed maturity investments.

Given the composition of the Company's investments as at 31 December 2019, the table below illustrates the impact to the profit and loss account and other comprehensive income of a hypothetical 100bps change in interest rates on fixed income securities that are subject to interest rate risk.

	Increase in profit and loss account		Decrease in other comprehensive income	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Increase in interest rate markets:				
Impact on fixed income securities of increase in interest rates of 100bps	**-**	-	**(135)**	(135)

The Company principally manages interest rate risk by holding investment assets (predominantly fixed income) that generate cash flows which broadly match the duration of expected claim settlements and other associated costs.

The sensitivity of the fixed interest securities of the Company has been modelled by reference to a reasonable approximation of the average interest rate sensitivity of the investments held within each of the portfolios. The effect of movement in interest rates is reflected as a one time rise of 100bps on 1 January 2020 and 1 January 2019 on the following year's profit and loss account and other comprehensive income. The impact of an increase in interest rates on the fair value of fixed income securities that would be initially recognised in OCI will reduce over time as the maturity date approaches.

(iii) Currency risk

The Company incurs exposure to currency risk in two ways:

- Operational currency risk – by holding investments and other assets and by underwriting liabilities in currencies other than the currency of the primary environment in which the business units operate, the Company is exposed to fluctuations in foreign exchange rates that can impact both its profitability and the reported value of such assets and liabilities;

- Structural currency risk – by investing in overseas group undertakings the Company is exposed to the risk that fluctuations in foreign exchange rates impact the net investment in these companies.

Operational currency risk is principally managed within the Company's individual operations by broadly matching assets and liabilities by currency and liquidity. Operational currency risk is not significant.

Structural currency risk is managed through currency forward and foreign exchange option contracts within the limits that have been set. In managing structural currency risk, the needs of the Group's operations to maintain net assets in local currencies to satisfy local regulatory solvency and internal risk based capital requirements are taken into account.

The table below illustrates the impact of a hypothetical 10% change in Pounds Sterling against Danish Krone, Euro, Canadian Dollar or United States Dollar on shareholders' funds as at 31 December:

	Strengthening against Danish Krone	Weakening against Danish Krone	Strengthening against Euro	Weakening against Euro	Strengthening against Canadian Dollar	Weakening against Canadian Dollar	Strengthening against United States Dollar	Weakening against United States Dollar
	£m	£m	£m	£m	£m	£m	£m	£m
2019	**(25)**	**31**	**29**	**(36)**	**(2)**	**2**	**(6)**	**7**
2018	(23)	28	26	(32)	3	(4)	(18)	22

Liquidity risk

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

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

The following table summarises the contractual repricing or maturity dates, whichever is earlier. Claims outstanding within technical provisions are also presented and are analysed by remaining duration until settlement.

As at 2019	Less than 1 Year £m	1 - 2 Years £m	2 - 3 Years £m	3 - 4 Years £m	4 - 5 Years £m	5 + Years £m	Total £m	Balance Sheet carrying value £m
Subordinated liabilities	-	-	-	-	-	-	-	-
Technical provisions - claims outstanding	1,527	887	566	327	240	780	4,327	4,327
Creditors arising out of direct insurance operations	44	1	-	-	-	-	45	45
Creditors arising out of reinsurance operations	474	192	72	-	-	-	738	738
Amounts owed to credit institutions	65	-	-	-	-	-	65	65
Amounts owed to group undertakings	4,987	-	-	-	-	-	4,987	4,987
Derivative trading liabilities	6	14	-	-	2	70	92	92
Lease liabilities	17	16	15	12	11	29	100	90
Total	7,117	1,099	667	339	253	879	10,354	10,344
Interest on subordinated liabilities	-	-	-	-	-	-	-	-

As at 2018	Less than 1 Year £m	1 - 2 Years £m	2 - 3 Years £m	3 - 4 Years £m	4 - 5 Years £m	5 + Years £m	Total £m	Balance Sheet carrying value £m
Subordinated liabilities	-	-	-	-	-	32	32	32
Technical provisions - claims outstanding	1,998	645	384	279	210	1,067	4,583	4,583
Creditors arising out of direct insurance operations	62	1	-	-	-	-	63	63
Creditors arising out of reinsurance operations	522	193	48	-	-	-	763	763
Amounts owed to credit institutions	51	-	-	-	-	-	51	51
Amounts owed to group undertakings	7,543	-	-	-	-	-	7,543	7,543
Derivative trading liabilities	55	-	14	-	-	44	113	113
Lease liabilities	-	-	-	-	-	-	-	-
Total	10,231	839	446	279	210	1,143	13,148	13,148
Interest on subordinated liabilities	3	3	3	3	3	42	57	-

The maturity analysis above is presented on a discounted basis for consistency with the balance sheet and supporting notes with the exception of lease liabilities.

Pension risk

The Company is exposed to risks through its obligation to fund a number of schemes. These risks include market risk (assets not performing as well as expected), inflation risk and longevity risk over the lives of the members. The Company and trustees of the schemes work together to reduce these risks through agreement of investment policy including the use of interest rate, inflation rate and mortality swaps. Further information on the Company's management of pension risk is included within note 15.

Capital management

It is a key regulatory requirement that the Company maintains sufficient capital to support its exposure to risk. Accordingly, the Group's and the Company's capital management strategy is closely linked to its monitoring and management of risk. The Group's capital objectives consist of striking the right balance between the need to support claims liabilities and ensure the confidence of policyholders, exposure to other risks, support competitive pricing strategies, meet regulatory capital requirements, and providing adequate returns for its shareholders.

The Company's overall capital position is primarily comprised of shareholders' equity and subordinated loan capital and aims to maximise shareholder value, while maintaining financial strength and maintaining adequate regulatory capital. In addition the Group and the Company also aims to hold sufficient capital so as to maintain its single 'A' credit rating.

The Company holds an appropriate level of capital to satisfy all applicable regulations. Compliance with regulatory requirements is embedded within the BRC mandate, for the protection of the Company's policyholders and the continuation of the Company's ability to underwrite.

Regulatory solvency position during 2019

The Group's Solvency II Internal Model was approved by the PRA in December 2015 and forms the basis of the primary Solvency II SCR measure. RSA operates a programme of continuous development in relation to the internal model and a Group-level regulatory approval was received in 2019 for the latest set of enhancements.

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

At 31 December 2019, the Company's estimated SCR and corresponding Eligible Own Funds were as follows:

	Unaudited 2019 £bn	**Unaudited** 2018 £bn
Eligible Own Funds	**3.3**	3.4
SCR	**1.7**	1.8
Coverage (unrounded)	**189%**	188%

The Solvency and Financial Condition Report of the Group, which covers information on the solvency and financial condition of the Company, as required by Solvency II for the year ended 31 December 2019 will be publicly available in April 2020.

Shareholders' funds

The Company uses a variety of metrics to monitor its capital position including Shareholders' funds, which are £8,199m as at 31 December 2019 (2018: £8,312m).

Own Risk and Solvency Assessment (ORSA)

The Solvency II directive introduced a requirement for the Company to conduct an ORSA. RSA received approval in April 2019 from the PRA to produce a single ORSA report covering the UK entities, including the Company. The approval is now in place until 2023 and it replaces the original approval received in 2016.

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

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

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

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

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

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

The ORSA is approved by the BRC.

6. Segmental information by business class and geographical area

a) By business class

2019	Accident & Health £m	Motor £m	Fire & property £m	Marine Aviation & Transport £m	Third Party Liability £m	Assistance £m	Other £m	Re-insurance £m	Total £m
Gross premiums written	40	823	1,007	99	256	37	245	1,264	3,771
Gross premiums earned	48	809	1,062	164	271	42	248	1,185	3,829
Gross claims incurred	(35)	(783)	(547)	(88)	(231)	(20)	(156)	(841)	(2,701)
Operating expenses[1]	(14)	(133)	(439)	(57)	(85)	(7)	(93)	(226)	(1,054)
Gross technical result	(1)	(107)	76	19	(45)	15	(1)	118	74
Reinsurance result	(2)	6	(115)	(51)	23	-	-	36	(103)
Net technical result	(3)	(101)	(39)	(32)	(22)	15	(1)	154	(29)

2018	Accident & Health £m	Motor £m	Fire & property £m	Marine Aviation & Transport £m	Third Party Liability £m	Assistance £m	Other £m	Re-insurance £m	Total £m
Gross premiums written	40	769	1,225	310	312	43	267	788	3,754
Gross premiums earned	48	869	1,241	320	311	39	265	770	3,863
Gross claims incurred	(33)	(649)	(727)	(337)	(170)	(19)	(173)	(496)	(2,604)
Operating expenses[1]	(14)	(150)	(445)	(85)	(84)	(7)	(94)	(176)	(1,055)
Gross technical result	1	70	69	(102)	57	13	(2)	98	204
Reinsurance result	*(4)*	*(103)*	*(123)*	30	*(30)*	-	3	*(20)*	*(247)*
Net technical result	(3)	(33)	(54)	(72)	27	13	1	78	(43)

[1]For the purpose of the segmental information disclosed in this note, operating expenses is shown net of other operating income.

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

b) By geographical segment

Gross premiums written for direct business by origin:	**2019 £m**	2018 £m
UK	**2,587**	2,643
Other EEA	**(136)**	301
Other	**56**	22
	2,507	2,966

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

Other EEA gross premiums have been cancelled during 2019 as a result of portfolio transfers. Further information can be found in note 41.

Total commissions for direct insurance business accounted for by the Company during the year, excluding payments to employees, amounted to £465m (2018: £548m).

7. Held for sale disposal groups and disposals

a) Held for sale disposal groups

On 7 February 2017, the Group announced that contracts had been signed to dispose of UK legacy insurance liabilities to Enstar Group Limited, the majority of which were held in the Company. The transaction initially took the form of a reinsurance agreement, effective at 31 December 2016, which substantially effected economic transfer. The legal transfer of the business was completed on 1 July 2019.

The Company completed the disposal of Noble Marine (Insurance Brokers) Limited and Noble Marine (Underwriting Agencies) Limited (together the 'Noble Marine business') in February 2019.

	2019 Total	2018 Legacy	2018 Noble	2018 Total
Assets classified as held for sale	**£m**	£m	£m	£m
Shares in group undertakings	-	-	3	3
Reinsurers' share of technical provisions	-	582	-	582
Amounts owed by group undertakings	-	3	-	3
Other debtors and other assets	-	25	-	25
Total assets of disposal groups	-	610	3	613
Liabilities directly associated with assets classified as held for sale				
Creditors arising out of reinsurance operations	-	28	-	28
Technical provisions	-	582	-	582
Liabilities of disposal groups	-	610	-	610
Net assets of disposal groups	-	-	3	3

b) Disposals of business

In 2019, the Company incurred a £19m loss relating to the disposal of the UK Legacy business, consisting of a £15m additional contribution to Enstar Group Limited and £4m costs of disposal.

In 2018, the Noble Marine business was classified as held for sale and a net gain on disposal of £2m was recognised in the profit and loss account and a revaluation reserve movement of £2m was recognised in the statement of other comprehensive income.

Also during 2018, the Company disposed of its holdings of Oak Underwriting plc, Royal & Sun Alliance (Ireland) Limited and Acrecrest Limited, net gains on the disposals of these holdings of £1m, £1m and £7m respectively were recognised in the profit and loss account. Further information can be found in note 21.

8. Exchange rates

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

	2019 Cumulative Average	**2019 End of Period**	2018 Cumulative Average	2018 End of Period
United States Dollar	**1.28**	**1.32**	1.33	1.27
Euro	**1.14**	**1.18**	1.13	1.11
Canadian Dollar	**1.70**	**1.72**	1.73	1.74
Danish Krone	**8.52**	**8.82**	8.42	8.31
Swedish Krona	**12.08**	**12.40**	11.60	11.29

Other comprehensive income contains net losses of £1m (2018: £nil) on the retranslation of foreign currency items. The profit and loss account contains net losses of £20m (2018: net gains of £16m) on the retranslation of foreign currency items.

9. Investment income, expenses and charges

	Investment income		Net realised gains/(losses)		Net unrealised gains/(losses)		Total investment return	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Investment property	**18**	19	**-**	9	**(10)**	7	**8**	35
Equity securities								
Available for sale	**7**	9	**3**	2	**-**	-	**10**	11
Debt securities								
Available for sale	**90**	101	**-**	3	**-**	-	**90**	104
Other investments								
Other loans	**54**	50	**-**	-	**-**	1	**54**	51
Deposits, cash at bank and in hand	**2**	2	**-**	-	**-**	-	**2**	2
Derivatives	**(2)**	(2)	**-**	-	**(9)**	(16)	**(11)**	(18)
Total net investment return	**169**	179	**3**	14	**(19)**	(8)	**153**	185
Shares in group undertakings	**2,955**	262	**-**	-	**-**	-	**2,955**	262
	3,124	441	**3**	14	**(19)**	(8)	**3,108**	447

	2019	2018
Investment expenses, charges and interest		
Interest on loans from group undertakings	**(91)**	(88)
Other interest charges	**(9)**	(7)
Investment management expenses	**(7)**	(8)
	(107)	(103)
Impairment of group undertakings	**(2,408)**	(49)
Net investment return	**593**	295

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

Direct operating expenses (including repairs and maintenance) arising from investment properties were not material in 2019 or 2018.

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

	Net unrealised gains/(losses)		Net realised gains transferred to profit and loss account		Net movement recognised in other comprehensive income	
	2019	2018	**2019**	2018	**2019**	2018
	£m	£m	**£m**	£m	**£m**	£m
Equity securities	**(4)**	3	**(3)**	(2)	**(7)**	1
Debt securities	**69**	(74)	**-**	(3)	**69**	(77)
Subsidiary undertakings	**(263)**	263	**-**	(2)	**(263)**	261
Total	**(198)**	192	**(3)**	(7)	**(201)**	185

10. Auditor's remuneration

Fees payable to KPMG LLP for the audit of the Company's accounts for the year ended 31 December 2019 were £1,300,550 (31 December 2018: £1,431,500). Fees payable to KPMG LLP for the provision of non-audit services* for the year ended 31 December 2019 were £285,000 (31 December 2018: £285,000). Audit fees of £251,450 (2018: £202,430) are also paid by Royal & Sun Alliance Insurance plc on behalf of certain subsidiary undertakings.

* Non-audit services fee includes £250,000 (2018: £250,000) in relation to assurance work in respect of RSA Insurance Group plc Solvency II reporting.

11. Directors' emoluments

The aggregate emoluments of the directors, including amounts received from subsidiaries, were as follows:	2019 £000	2018 £000
Salaries and bonuses	**4,102**	2,469
Allowances, benefits and other awards	**1,179**	499
	5,281	2,968

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

The emoluments of the highest paid director were:	2019 £000	2018 £000
Salary, bonus, allowances, benefits and other awards	**1,449**	932

The amounts paid to a pension scheme in respect of the highest paid directors' qualifying services during 2019 were £3,479 (2018: £nil).

During 2019, no retirement benefits accrued under defined benefit schemes for directors (2018: none). During 2019, contributions of £11,542 (2018: £6,875) were made to Group defined contribution schemes during the year in respect of two directors (2018: one director).

During 2019, no directors exercised share options (2018: one director) and four directors (2018: three directors) had shares awards vesting under long term incentive schemes in respect of ordinary shares of the Company's ultimate parent company.

12. Employees and Staff costs

	2019 £m	2018 £m
Wages and salaries	**219**	226
Social security costs	**27**	30
Other pension costs	**23**	38
Share based payments (note 16)	**7**	9
Total staff costs	**276**	303

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

The average monthly number of employees (including executive directors) of the Company during the year was as follows:

	2019 Number	2018 Number
UK & Ireland	**5,297**	5,217
Other EEA	**-**	176
Other	**12**	12
Total average number of employees during the year	**5,309**	5,405

UK & Ireland includes staff employed in Group Corporate Centre.

Further information on pension obligations of the Company can be found in note 15. Further information on employee share schemes can be found in note 16.

13. Leases

The Company leases land and buildings and other tangible assets such as vehicles, IT equipment, servers and mainframes to operate its business. These leases were previously classified as operating leases under IAS 17. The remaining lease terms for the main office premises range from 3 to 19 years.

The Company also lease office equipment, such as laptops and printers, for which certain leases are short term (1 year or less) and/or low value items. The Company has elected to apply recognition exemptions as permitted by IFRS 16 for these leases (see note 2 for accounting policy).

Lease liabilities of £90m are included within other creditors in the balance sheet. The maturity analysis of lease liabilities can be found in note 5.

Amounts recognised in profit or loss

Leases under IFRS 16	**2019 £m**
Interest on lease liabilities	**3**
Administrative expenses relating to short-term leases	**2**
Administrative expenses relating to leases of low-value assets	**1**

Operating leases under IAS 17	2018 £m
Lease expense	16

14. Other technical income

	2019 £m	2018 £m
Administration fees income	**3**	4
Instalment policy fee income	**19**	23
Introductory commissions	**1**	1
Service income	**7**	6
Other fees	**41**	42
Total other technical income	**71**	76

Information on the income types within the table above is disclosed within the other technical income accounting policy in note 3.

15. Post-employment benefits and obligations

Defined contribution pension schemes

Costs of £31m (2018: £32m) were recognised in respect of defined contribution schemes by the Company.

Defined benefit pension schemes and other post-employment benefits

The amounts recognised in the financial statements are as follows:

	2019 £m	2018 £m
Present value of funded obligations	**(8,135)**	(7,460)
Present value of unfunded obligations	**(7)**	(7)
Fair value of plan assets	**8,537**	7,827
Other net surplus remeasurements	**(141)**	(129)
Net surplus in schemes	**254**	231
Defined benefit pension schemes	**254**	231
Schemes in surplus	**261**	238
Schemes in deficit	**(7)**	(7)

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

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

If actual experience differs from the assumptions used, the expected obligation could increase or decrease in future years. Due to the complexity of the valuation and its long-term nature, the defined benefit obligation is highly sensitive to changes in the assumptions. Assumptions are reviewed at each reporting date. As such, the IAS 19 valuation of the liability is highly sensitive to changes in bond rates and will also be impacted by changes in equity markets.

The assets of these schemes are mainly held in separate trustee administered funds. The defined benefit schemes were effectively closed to new entrants in 2002 and subsequently closed to future accruals with effect from 31 March 2017. The schemes in surplus have been reduced for the 35% tax cost of an authorised return of surplus, classified as 'Other net surplus remeasurements'. Our opinion is that the authorised refund tax charge is not an income tax within the meaning of IAS12 and so the surplus is recognised net of this tax charge rather than the tax charge being included within deferred taxation.

The profile of the members of the two main defined benefit schemes at 30 September 2019 (the latest date at which full information is available) is as follows:

	Number
Deferred members - members no longer accruing and not yet receiving benefits	23,639
Pensioners - members and dependants receiving benefits	18,596
Total members at 30 September 2019	42,235

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

After retirement, pensions in payment are increased each year based on the increases in the Government indices for inflation. A cap of 2.5% applies to benefits accrued post 31 December 2005 (a cap of 5% applied to benefits in excess of Guaranteed Minimum Pension prior to this date).

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

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

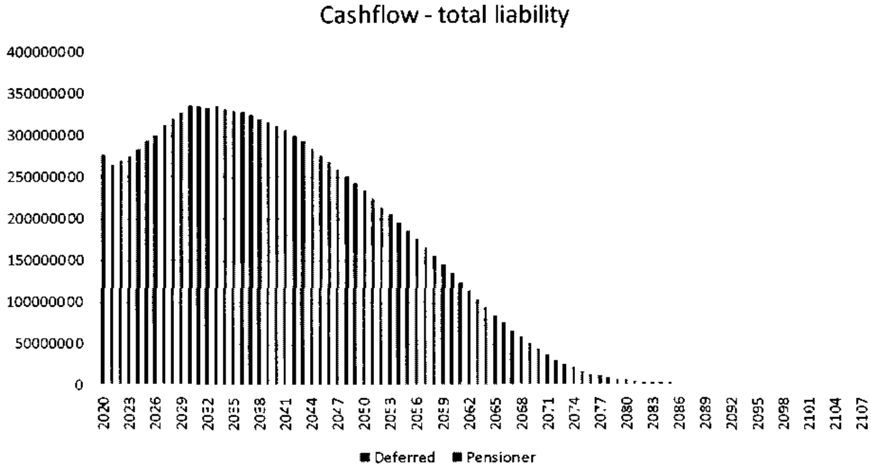
During 2009 the Company entered into an arrangement that provides coverage against longevity risk for 55% of the retirement obligations relating to pensions in payment of the two largest schemes at that time (c.35% coverage based on current pensioner population). The arrangement provides for reimbursement of the covered pension obligations in return for the contractual return receivable on a portfolio of assets (made up of quoted Government debt and swaps) held by the pension funds at the inception of the arrangement and which have continued to be held by the schemes. The swaps held are accounted for as a longevity swap, measured at fair value under IFRS (and in accordance with FRS 101) by discounting all expected future cash flows using a discount rate consistent with the term of the relevant cash flow. The discount rate used is subject to a degree of judgement, due to the unique characteristics of the swap, and the rate is selected to most closely reflect the economic matching nature of the arrangement within a range of acceptable values obtained from external sources. The total value of the arrangement, including Government debt measured at prices quoted in an active market, at 31 December 2019 is £1,560m (2018: £1,523m). Management do not believe that there is a significant risk of a material change to the balance in the balance sheet net of the associated pension liabilities subject to the arrangement within the next financial year.

Each scheme is subject to triennial valuations, which are used to determine the future funding of the schemes by the Company including funding to repair any funding deficit. The funding valuations, which determine the level of cash contributions payable into the schemes and which must be agreed between the Trustees and the Company, are typically based on a prudent assessment of future experience with the discount rate reflecting a prudent expectation of returns based on actual investment strategy. This differs from IAS 19, which requires that future benefit cash flows are projected on the basis of best-estimate assumptions and discounted in line with high-quality corporate bond yields. The Trustees' funding assumptions are updated only every three years, following completion of the triennial funding valuations. The effective date of the most recent valuations of the main funds is 31 March 2018.

At the most recent funding valuations, the main funds had an aggregate funding deficit of £468m, equivalent to a funding level of 95%. The Company and the Trustees have agreed funding plans to eliminate the funding deficits by 2026. Details of the deficit contributions paid in 2019 and that are due to be paid in 2020 under these plans are disclosed below. The funding plans will be reviewed again following the next triennial valuations which will have an effective date of 31 March 2021.

For the two main defined benefit schemes, the level of contributions in 2019 was £96m (2018: £121m) of which £86m (2018: £110m) were additional contributions to reduce funding deficits. Expected contributions to the two schemes for the year ending 31 December 2020 are approximately £83m including £75m of additional contributions to reduce the deficit.

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



The weighted average duration of the defined benefit obligation of the two main schemes at the end of the reporting period is 17 years (2018: 16.5 years).

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

Movement during the year:	2019			
	Present value of obligation	**Fair value of plan assets**	**Other net surplus remeasurements**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 January	**(7,467)**	**7,827**	**(129)**	**231**
Past service costs	**(1)**	**-**	**-**	**(1)**
Interest (expense)/income	**(205)**	**219**	**-**	**14**
Administration costs	**-**	**(5)**	**-**	**(5)**
Total (expense)/income recognised in profit and loss account	**(206)**	**214**	**-**	**8**
Return on scheme assets less amounts included in net interest cost	**-**	**730**	**-**	**730**
Effect of changes in financial assumptions	**(840)**	**-**	**-**	**(840)**
Effect of changes in demographic assumptions	**31**	**-**	**-**	**31**
Experience gains and losses	**17**	**-**	**-**	**17**
Investment expenses	**-**	**(8)**	**-**	**(8)**
Other net surplus remeasurements	**-**	**-**	**(12)**	**(12)**
Remeasurement recognised in other comprehensive income	**(792)**	**722**	**(12)**	**(82)**
Employer contribution	**-**	**97**	**-**	**97**
Benefit payments	**323**	**(323)**	**-**	**-**
At 31 December	**(8,142)**	**8,537**	**(141)**	**254**
Deferred tax				**1**
Net surplus, net of deferred tax				**255**

	2018			
	Present value of obligation	Fair value of plan assets	Other net surplus remeasurements	Total
	£m	£m	£m	£m
At 1 January	(8,320)	8,331	(62)	(51)
Past service costs	(1)	-	-	(1)
Interest (expense)/income	(200)	202	-	2
Administration costs	-	(6)	-	(6)
Total (expense)/income recognised in profit and loss account	(201)	196	-	(5)
Return on scheme assets less amounts included in net interest cost	-	(389)	-	(389)
Effect of changes in financial assumptions	497	-	-	497
Effect of changes in demographic assumptions	111	-	-	111
Experience gains and losses	20	-	-	20
Investment expenses	-	(6)	-	(6)
Other net surplus remeasurements	-	-	(67)	(67)
Remeasurement recognised in other comprehensive income	628	(395)	(67)	166
Employer contribution	-	121	-	121
Benefit payments	426	(426)	-	-
At 31 December	(7,467)	7,827	(129)	231
Deferred tax				1
Net surplus, net of deferred tax				232

The value of scheme assets are as follows:	**2019**			2018		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
	£m	**£m**	**£m**	£m	£m	£m
Equities	**518**	**183**	**701**	410	138	548
Government debt	**5,454**	**465**	**5,919**	4,957	395	5,352
Non-government debt	**1,648**	**1,056**	**2,704**	1,438	986	2,424
Derivatives	**-**	**827**	**827**	-	719	719
Property	**-**	**645**	**645**	-	644	644
Cash	**82**	**-**	**82**	193	-	193
Other	**-**	**450**	**450**	-	453	453
Investments	**7,702**	**3,626**	**11,328**	6,998	3,335	10,333
Value of asset and longevity swaps	**-**	**(2,791)**	**(2,791)**	-	(2,506)	(2,506)
Total assets in the schemes	**7,702**	**835**	**8,537**	6,998	829	7,827

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

Where assets are classified as unquoted the valuations are:

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

The principal actuarial assumptions used are:

	2019	2018
	%	%
Assumptions used in calculation of retirement benefit obligation		
Discount rate	**2.05**	2.83
Annual rate of inflation (RPI)	**2.96**	3.18
Annual rate of inflation (CPI)	**1.96**	2.08
Annual rate in increase in pensions[1]	**2.82**	2.97
Assumptions used in calculation of pension net interest costs for the year:		
Discount rate	**2.83**	2.47

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

Mortality rate

The mortality assumptions are set following investigations of the main schemes' recent experience carried out by independent actuaries as part of the most recent funding valuations. The core mortality rates assumed for the main schemes follow industry-standard tables with percentage adjustments to reflect the schemes' recent experience compared with that expected under these tables.

Reductions in future mortality rates are allowed for by using the CMI 2018 tables (2018: CMI 2017 tables) with a long term improvement of 1.25% (2018: 1.25%). The weighted average assumptions imply that a current pensioner aged 60 has an expected future lifetime of 27.0 (2018: 27.2) years for males and 28.5 (2018: 28.7) years for females and a future pensioner aged 60 in 15 years' time has a future expected lifetime from age 60 of 28.0 (2018: 28.2) years for males and 29.7 (2018: 29.9) years for females.

Sensitivity analysis

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

	Changes in assumption	2019	2018
Discount rate	Increase by 0.25%	**(334)**	(299)
	Decrease by 0.25%	**357**	319
RPI / CPI[1]	Increase by 0.25%	**211**	187
	Decrease by 0.25%	**(205)**	(183)
Core mortality rates[2]	Decrease by 12%	**328**	278
	Increase by 12%	**(371)**	(281)
Long-term future improvements to mortality rates	Increase by 0.25%	**73**	61
	Decrease by 0.25%	**(72)**	(61)

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

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

16. Share based payments

The total employment cost recorded in the profit and loss account for all plans is £7m in 2019 (2018: £9m).

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

	2019	2018
	£m	£m
Performance share plan (PSP)	**6**	8
Save as you earn (SAYE)	**1**	1
Total	**7**	9

Analysis of new awards costs:

	2019		2018	
	Charge for year	Total value	Charge for year	Total value
	£m	£m	£m	£m
PSP	**3**	**9**	3	7
SAYE	**-**	**1**	-	1
Total	**3**	**10**	3	8

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

Performance Share Plan

This plan is the Group's current Long-Term Incentive Plan. Awards of performance shares to executive directors and other selected executives and senior managers are subject to performance conditions. These consist of the Group's underlying return on tangible equity; relative total shareholder return; and business scorecard targets over a three year performance period. Typically awards vest on the third anniversary of the date of grant to the extent that the performance conditions have been met, with a two-year retention period in the case of Executive Directors' Performance Shares.

The Remuneration Committee may also make conditional awards of restricted shares to other executives and senior managers, which are not subject to performance conditions.

Additionally, the Remuneration Committee may defer a portion of an individual's gross bonus into an award over shares referred to for the purpose of the plan as deferred bonus shares, which are also not subject to performance conditions.

If an employee resigns from the Company, then performance shares and restricted shares lapse at the date of leaving the Company. Deferred Bonus Shares awards are generally retained by the employee to whom the award was granted if they leave the Company, unless the employee is dismissed for cause. Awards retained will vest on the normal vesting date.

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

Further information can be found in the Directors' Remuneration Report within the Corporate Governance section of the 2019 Annual Report & Accounts of the Group.

17. Taxation

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

	2019 £m	2018 £m
Current tax		
UK corporation tax	(7)	5
Overseas taxation	3	5
Adjustments in respect of prior periods	(1)	(2)
Total current tax	(5)	8
Deferred tax		
Temporary differences - origination and reversal	6	(4)
Total deferred tax (see note 28)	6	(4)
Total tax charge for the year	1	4

The UK corporation tax for the current year is based on a rate of 19.00% (2018: 19.00%).

Reconciliation of the total tax charge

The tax charge for the year is less than 19.00% (2018: less than 19.00%) due to the items set out in the reconciliation below:

	2019 £m	2018 £m
Profit on ordinary activities before tax	525	270
Tax at 19.00% (2018: 19.00%)	100	51
Factors affecting charge:		
Expenses not deductible for tax purposes[1]	459	9
Income/gains not taxable[2]	(566)	(53)
Fiscal adjustments	(4)	(4)
Increase/(release) of tax provided in respect of previous periods	(1)	(2)
Group relief received without payment	4	2
Unrelieved foreign tax credits	3	5
Deferred tax assets not recognised	6	(4)
Total tax charge for the year	1	4

[1]2019 expenses not deductible for tax purposes mainly comprise impairment of subsidiaries of £2,408m (2018: £49m). Tax impact £455m (2018: £9m).

[2]2019 income/gains not taxable mainly comprise dividends from subsidiaries of £2,955m (2018: £262m). Tax impact £561m (2018: £50m).

18. Dividends

	2019	2018
	£m	£m
Interim dividends of 7.20p (2018: 4.86p) per ordinary share were paid during the year	350	236

The directors do not recommend payment of a final dividend in respect of the year ended 31 December 2019 (2018: £nil)

19. Intangible assets

	Goodwill on acquisition	Externally acquired software	Internally generated software	Other	Total
Cost	£m	£m	£m	£m	£m
At 1 January 2019	9	72	349	24	454
Additions	-	-	85	-	85
Disposals	(9)	-	-	-	(9)
At 31 December 2019	-	72	434	24	530
Accumulated Amortisation					
At 1 January 2019	-	72	185	23	280
Disposals	-	-	-	-	-
Charge for the year	-	-	23	1	24
At 31 December 2019	-	72	208	24	304
Accumulated Impairment					
At 1 January 2019	9	-	-	-	9
Disposals	(9)	-	-	-	(9)
Charge for the year	-	-	-	-	-
At 31 December 2019	-	-	-	-	-
Net Book Value					
At 31 December 2019	-	-	226	-	226

	Goodwill on acquisition	Externally acquired software	Internally generated software	Other	Total
Cost	£m	£m	£m	£m	£m
At 1 January 2018	9	72	323	24	428
Additions	-	-	56	-	56
Disposals	-	-	(30)	-	(30)
At 31 December 2018	9	72	349	24	454
Accumulated Amortisation					
At 1 January 2018	-	68	175	23	266
Disposals	-	-	(19)	-	(19)
Charge for the year	-	4	29	-	33
At 31 December 2018	-	72	185	23	280
Accumulated Impairment					
At 1 January 2018	-	-	11	-	11
Disposals	-	-	(11)	-	(11)
Charge for the year	9	-	-	-	9
At 31 December 2018	9	-	-	-	9
Net Book Value					
At 31 December 2018	-	-	164	1	165

The carrying value of intangible assets not yet available to use at 31 December 2019 are £121m (2018: £84m). This primarily relates to the implementation of strategic software assets, reported within internally generated software.

Amortisation

Amortisation expense of £24m (2018: £33m) has been charged to administrative expenses within the profit and loss account.

The Company continues to invest in strategic software assets such as policy administration and claims management systems. These are fundamental to the ongoing insurance operations and will remain in use for a period in excess of seven years. Therefore in 2019 the useful economic life of strategic software assets was extended from seven to ten years. This did not have a material impact in the period.

Impairments

During 2019 the impairment charge for goodwill was £nil (2018: £9m which was recognised in other charges within the profit and loss account). The impairment charge for software and other intangible assets was £nil (2018: £nil).

When testing intangible assets for impairment (including those not available for use), the carrying value of the Cash Generating Unit (CGU) which includes the intangible assets is compared to the recoverable amount as determined by a value in use calculation. These calculations use cash flow projections based on operating plans approved by management covering a three year period and using the best estimates of future premiums, operating expenses and taxes using historical trends, general market conditions, industry trends and forecasts and other available information. Cash flows beyond this period are extrapolated using the estimated growth rates which management deem appropriate for the CGU. Future cash flow projection years are not extrapolated beyond the asset's useful economic life. The cash flow forecasts are adjusted by appropriate discount rates.

The discount rate, which reflects specific risks relating to the CGU at the date of evaluation, and the growth rate used for impairment testing are shown below:

	2019	2018
Pre-tax discount rate	**8.5%**	9.0%
Growth rate	**0.5%**	1.0%

20. Land and buildings

Land and buildings is split between land and buildings owned and right of use assets as follows:

	2019	2018
	£m	£m
Land and buildings owned	**319**	328
Right of use assets	**59**	-
Total land and buildings	**378**	328

Land and buildings owned

	2019	2018
	£m	£m
Land and buildings		
Freehold land and buildings	**305**	313
Long leasehold	**14**	15
Total land and buildings	**319**	328
Of which Company occupied	**19**	19

The Company's property portfolio (including the Company occupied properties) is almost exclusively located in the UK. An increase of 100bps in the discount rate used to value the UK property portfolio would result in a decrease of £51m (2018: £54m) in the fair value of the portfolio.

	2019	2018
	£m	£m
Movement in the carrying value of land and buildings owned is detailed below:		
Land and buildings at 1 January	**328**	341
Purchases	**10**	21
Sales	**(9)**	(50)
Fair value (losses)/gains taken to profit and loss account	**(10)**	16
Fair value gains taken to other comprehensive income	**1**	2
Depreciation taken to the profit and loss account	**(1)**	(2)
Land and buildings at 31 December	**319**	328

The historical cost of property at 31 December 2019 is £298m (2018: £299m).

	2019	2018
	£m	£m
Property Reserve at 1 January	**14**	12
Fair value gains	**1**	2
Property Reserve at 31 December	**15**	14

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

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

Fair value measurement

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

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

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

Investment properties are valued using discounted cashflow models which take into account the net present value of cashflows to be generated from the properties. The cashflow streams reflect the current rent (the gross rent) payable to lease expiry, at which point it is assumed that each unit will be re-let at its estimated rental value. Allowances have been made for voids and rent free periods where applicable. The appropriate rent to be capitalised is selected on the basis of the location of the building, its quality, tenant credit quality and lease terms amongst other factors. The discount rate is determined by independent valuers who take into account a number of factors including transactions that have taken place recently of similar properties as well as other factors mentioned above such as the location of the building, its quality, tenant credit quality and lease terms amongst other factors.

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

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

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

The Company leases out its investment property and has classified these leases as operating leases because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

During 2019, the Company recognised £18m of rental income within its investment income (2018: £19m).

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

	2019 £m
Less than one year	17
One to two years	16
Two to three years	15
Three to four years	14
Four to five years	11
More than five years	51
Total	**124**

	2018 £m
Less than one year	16
Between one and five years	57
More than five years	42
Total	115

Right of use assets

Right of use assets relate to leased properties.

	2019 £m
Amounts recognised on transition on 1 January 2019	60
Depreciation charge for the year	(10)
Additions to right of use assets	12
Other[1]	(3)
Balance at 31 December 2019	**59**

[1]Other includes the impact of modifications, impairments and foreign exchange.

21. Shares in group undertakings

The Company's subsidiaries at 31 December 2019 are set out in note 46. The companies are principally all engaged in the transaction of insurance or related business. The countries shown are those of incorporation and principal operation. Subsidiaries in the balance sheet comprise:

	2019 £m	2018 £m
Fair value at 1 January	13,001	12,798
Additions / Acquisitions	64	9
Disposals	(3)	(20)
Revaluation	(263)	263
Impairments	(2,408)	(49)
Fair value at 31 December	10,391	13,001
Less: Assets classified as held for sale	-	(3)
Total fair value of shares in group undertakings at 31 December	10,391	12,998

The historic cost of investments in subsidiaries is £13,423m (2018: £13,395m).

Acquisitions in 2019 of £64m comprised a contribution-in-kind of £52m and a capital injection of £12m in RSA Luxembourg S.A..

The Company completed the disposal of Noble Marine (Insurance Brokers) Limited and Noble Marine (Underwriting Agencies) Limited during 2019, the total carrying value of the holdings was £3m. These holdings were classified as held for sale as at 31 December 2018.

Impairments of £2,408m in 2019 mainly related to the Company's holdings in RSA Finance (£1,898m), Sun Alliance and London Insurance Limited (£472m), Royal & Sun Alliance Insurance (Global) Limited (£31m), RSA Insurance Ireland DAC (£4m) and Westgate Properties Limited (£3m).

Acquisitions in 2018 of £9m comprised capital injections in RSA Luxembourg S.A.. The Company disposed of its holdings of Oak Underwriting plc, Royal & Sun Alliance (Ireland) Limited and Acrecrest Limited during 2018, the carrying value of the holdings were £11m, £3m and £14m respectively. Impairments of £49m in 2018 mainly related to the Company's holdings in RSA Insurance Ireland DAC (£34m) and Royal & Sun Alliance Reinsurance Limited (£12m).

Profit on disposal of subsidiaries comprises the following:

	2019 £m	2018 £m
Proceeds	3	31
Less: Carrying Value	(3)	(31)
Add: Unrealised gains released from revaluation reserve	-	11
Profit on disposal of subsidiaries	-	11

Sensitivities

The impact on the fair value of shares in group undertakings for a range of sensitivities is shown below:

				Decrease in fair value through OCI	
				2019	2018
Subsidiary type	**Assumption type**	**Assumption used**	**Alternative assumption**	£m	£m
Major trading	Cost of capital	8.50%	Increase by 0.5%	(104)	(154)
Major trading	Net asset value	100%	Decrease by 100bps	(33)	(32)
Non-major trading	Net asset value	100%	Decrease by 100bps	(48)	(75)

22. Financial Assets

The following table analyses the Company's financial assets by classification:

	2019 £m	2018 £m
Shares and other variable yield securities and units in unit trusts	373	263
Debt securities and other fixed income securities	3,529	3,829
Financial assets measured at fair value	3,902	4,092
Other loans	195	182
Total financial assets	4,097	4,274

Collateral

At 31 December 2019, the Company had pledged £450m (2018: £493m) of financial assets as collateral for liabilities or contingent liabilities, consisting of government securities of £426m (2018: £418m) and cash at bank and in hand of £24m (2018: £75m). The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities and derivative transactions.

At 31 December 2019, the Company had accepted £323m (2018: £277m) in collateral, consisting of government securities of £302m (2018: £262m) and cash at bank and in hand of £21m (2018: £15m). The Company is permitted to sell or re-pledge collateral held in the event of default by the owner, the fair value of which has been noted above at £323m. The terms and conditions of the collateral held are market standard. The assets held as collateral are readily convertible into cash.

IFRS 9 'Financial Instruments'

The Company qualifies for temporary exemption from applying IFRS 9 'Financial Instruments' on the grounds that it has not previously applied any version of IFRS 9 and its activities are predominantly connected with insurance.

The fair value at 31 December 2019 and change during the year of debt securities that are held to collect cash flows on specified dates that are solely for payment of principle and interest (SPPI) and are not held for trading as defined under IFRS 9, nor are managed or evaluated on a fair value basis, is set out below, together with the same information for all other financial assets:

As at 31 December 2019

	SPPI financial assets £m	Other financial assets £m	Total £m
Shares and other variable yield securities and units in unit trusts	-	373	373
Debt securities and other fixed income securities	3,340	189	3,529
Other loans	195	-	195
Derivative financial assets	-	98	98
Fair value at 31 December 2019	3,535	660	4,195

As at 31 December 2018

	SPPI financial assets £m	Other financial assets £m	Total £m
Shares and other variable yield securities and units in unit trusts	-	263	263
Debt securities and other fixed income securities	3,462	367	3,829
Other loans	182	-	182
Derivative financial assets	-	63	63
Fair value at 31 December 2018	3,644	693	4,337

The fair value gains/(losses) of SPPI financial assets and other financial assets during the year are £66m and £(10)m respectively.

When IFRS 9 is adopted by the Company (currently expected to be 2022) an expected credit loss provision will be recognised replacing the incurred credit loss provision under IAS 39, the impact of which will be determined by the financial instruments held at that time.

Information on credit ratings relating to SPPI debt securities can be found in note 5.

Derivatives

The following table presents the fair value and notional amount of derivatives by term to maturity and nature of risk.

As at 31 December 2019

	Notional amount				**Fair Value**	
	Less than 1 year	**1-5 Years**	**More than 5 Years**	**Total**	**Asset**	**Liability**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Currency risk	**1,691**	**1**	**-**	**1,692**	**40**	**6**
Inflation risk	**-**	**60**	**120**	**180**	**58**	**62**
Cross currency interest swaps	**-**	**49**	**108**	**157**	**-**	**24**
					98	**92**

As at 31 December 2018

	Notional amount				Fair Value	
	Less than 1 year	1-5 Years	More than 5 Years	Total	Asset	Liability
	£m	£m	£m	£m	£m	£m
Currency risk	1,871	3	-	1,874	27	18
Inflation risk	-	60	120	180	36	38
Cross currency interest swaps	156	48	119	323	-	57
					63	113

The Company is party to a series of swap contracts which collectively provide limited cover against a sharp increase in long term inflation. In total the swap contracts provide inflation cover over a nominal value of £180m (2018: £180m) and are split over different contract terms.

At 31 December 2019 the Company holds currency forward contracts and foreign exchange options to reduce structural foreign exchange risk.

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

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

	Amounts subject to enforceable netting arrangements							
	Effect of offsetting in statement of financial position			Related items not offset				
As at 31 December 2019	**Gross amounts**	**Amounts offset**	**Net amounts reported**	**Financial instruments**	**Financial collateral**	**Net amount**	**Amounts not subject to netting arrangements**	**Net amount reported in balance sheet**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Derivative financial assets	**95**	**-**	**95**	**(71)**	**(21)**	**3**	**3**	**98**
Total assets	**95**	**-**	**95**	**(71)**	**(21)**	**3**	**3**	**98**
Derivative financial liabilities	**89**	**-**	**89**	**(71)**	**(18)**	**-**	**3**	**92**
Total liabilities	**89**	**-**	**89**	**(71)**	**(18)**	**-**	**3**	**92**

	Amounts subject to enforceable netting arrangements							
	Effect of offsetting in statement of financial position			Related items not offset				
As at 31 December 2018	Gross amounts	Amounts offset	Net amounts reported	Financial instruments	Financial collateral	Net amount	Amounts not subject to netting arrangements	Net amount reported in balance sheet
	£m	£m	£m	£m	£m	£m	£m	£m
Derivative financial assets	56	-	56	(39)	(14)	3	7	63
Total assets	56	-	56	(39)	(14)	3	7	63
Derivative financial liabilities	109	-	109	(39)	(70)	-	4	113
Total liabilities	109	-	109	(39)	(70)	-	4	113

At 31 December 2019 the Company had taken out borrowings from credit institutions under repurchase agreements of £45m (2018: £51m) (note 37). The Company continues to recognise debt securities in the balance sheet as the Company remains exposed to the risks and rewards of ownership.

23. Fair Value measurement

Fair value is used to value a number of assets within the balance sheet and represents their market value at the reporting date.

Cash at bank and in hand, loans and receivables

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

Derivative financial instruments

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

Fair value hierarchy

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

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

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

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

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The table does not include financial assets and liabilities not measured at fair value if the carrying value is a reasonable approximation of fair value.

	Fair Value Hierarchy			
As at 31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Available for sale financial assets:				
Shares and other variable yield securities and units in unit trusts	**251**	**-**	**122**	**373**
Debt securities and other fixed income securities	**1,050**	**2,235**	**244**	**3,529**
	1,301	**2,235**	**366**	**3,902**
Derivative assets at fair value through the profit and loss account	**-**	**98**	**-**	**98**
Total assets measured at fair value	**1,301**	**2,333**	**366**	**4,000**
Derivative liabilities at fair value through the profit and loss account	**-**	**92**	**-**	**92**
Total derivatives measured at fair value	**-**	**92**	**-**	**92**

	Fair Value Hierarchy			
As at 31 December 2018	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Available for sale financial assets:				
Shares and other variable yield securities and units in unit trusts	79	-	184	263
Debt securities and other fixed income securities	1,027	2,415	387	3,829
	1,106	2,415	571	4,092
Derivative assets at fair value through the profit and loss account	-	63	-	63
Total assets measured at fair value	1,106	2,478	571	4,155
Derivative liabilities at fair value through the profit and loss account	-	113	-	113
Total derivatives measured at fair value	-	113	-	113

There were no transfers into or out of Levels 1 or 2 during the period.

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

	Available for Sale Shares and other variable yield securities and units in unit trusts	Debt securities and other fixed income securities	Total
	£m	£m	£m
Balance at 1 January 2018	201	304	505
Total gains or losses recognised in:			
Profit and loss account	2	-	2
Other comprehensive income	2	10	12
Purchases	30	91	121
Disposals	(51)	(18)	(69)
Balance at 31 December 2018	**184**	**387**	**571**
Total gains or losses recognised in:			
Profit and loss account	**3**	**2**	**5**
Other comprehensive income	**(7)**	**(11)**	**(18)**
Purchases	**10**	**22**	**32**
Disposals	**(68)**	**(156)**	**(224)**
Balance at 31 December 2019	**122**	**244**	**366**

The Company's investments in financial assets classified at level 3 in the hierarchy are investments in various private fund structures investing in debt instruments where the valuation includes estimates of the credit spreads on the underlying holdings. The estimates of the credit spread are based upon market observable credit spreads for what are considered to be assets with similar credit risk. The aggregate value of these holdings included in the table above at 31 December 2019 is £366m (2018: £571m). An increase in the estimate of the credit spread of the underlying holdings of 100bps would result in a reduction in the fair value of these investments of £10m (2018: £14m).

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

24. Interests in structured entities

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

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

However, the Company invests in entities created by and managed by external specialist investment managers where investments are pooled within an investment vehicle to provide a diversified exposure to particular classes of underlying investments. The use of these products allows the Company to broaden the diversification of its investment portfolio in a cost-efficient manner.

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

In addition, the Company has commitments for future undrawn subscriptions limited to the amounts set out in the subscription agreements. The Company has no obligations to provide any other additional funding or financial support to these entities. The Company has determined that its maximum exposure to structured entities is the sum of the carrying value and the undrawn commitments. These exposures at 31 December 2019 and 2018 are summarised in the tables below:

At 31 December 2019

Class of investments	Nature of the underlying investments of the vehicle	Carrying value	Undrawn commitments	Exposure
		£m	£m	£m
Mortgage backed securities	Mainly consists of commercial mortgage backed securities	58	-	58
Collateralised debt obligations	Structured debt security backed by bonds	212	50	262
Cash money market funds	Short term cash deposits	251	-	251
Other	Mainly consist of property funds	165	25	190
		686	75	761

The line items in the balance sheet in which the items above are included are as follows:

	£m
Investments - financial assets - equity securities	**372**
Investments - financial assets - debt securities	**314**
	686

At 31 December 2018

Class of investments	Nature of the underlying investments of the vehicle	Carrying value[1]	Undrawn commitments[2]	Exposure
		£m	£m	£m
Mortgage backed securities	Mainly consists of commercial mortgage backed securities	76	-	76
Collateralised debt obligations	Structured debt security backed by bonds	223	42	265
Cash money market funds	Short term cash deposits	79	-	79
Other	Mainly consist of property funds	242	33	275
		620	75	695

The line items in the balance sheet in which the items above are included are as follows:

	£m
Investments - financial assets - equity securities	260
Investments - financial assets - debt securities	360
	620

[1] Following a review of commercial and domestic mortgage backed securities, comparatives from 2018 have been re-presented on the basis that they meet the criteria of the definition for structured entities. The impact of the re-presentation has been to increase mortgage backed securities by £60m and other by £61m.
[2] The comparatives for undrawn commitments have been re-presented following a review that resulted in £42m being re-classified from other to collateralised debt obligations.

25. Reinsurers' share of provision for unearned premiums

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

	2019	2018
	£m	£m
Reinsurers' share of provisions for unearned premiums at 1 January	**694**	691
Premiums ceded to reinsurers	**804**	843
Reinsurers' share of portfolio transfers	**(52)**	-
Outward reinsurance premiums	**752**	843
Insurer's share of premiums earned	**(765)**	(841)
Change in provision for unearned premiums, reinsurers' share	**(13)**	2
Exchange adjustment	**(2)**	1
Reinsurers' share of provision for unearned premiums at 31 December	**679**	694

26. Reinsurers' share of provision for outstanding claims

The following changes have occurred in the reinsurers' share of provision for outstanding claims during the year:

	2019	2018
	£m	£m
Reinsurers' share of provisions for losses and loss adjustment expenses at 1 January	**1,828**	1,705
Total reinsurance recoveries received	**(506)**	(494)
Reinsurers' share of portfolio transfers	**(172)**	-
Reinsurers' share of claims paid	**(678)**	(494)
Reinsurers' share of total claims incurred	**591**	573
Change in the provision for claims, reinsurers' share	**(87)**	79
Disposal of UK Legacy	**(551)**	-
Unwind of discount	**13**	25
Exchange adjustment	**(11)**	19
Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	**1,192**	1,828
Less: Assets classified as held for sale	**-**	(582)
Total Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	**1,192**	1,246

27. Current Tax

The current tax position of the Company as at 31 December is as follows:

	Asset		Liability	
	2019	2018	2019	2018
	£m	£m	£m	£m
To be settled within 12 months	**16**	21	**-**	2
To be settled after 12 months	**-**	3	**1**	-
Net current tax position at 31 December	**16**	24	**1**	2

28. Deferred Tax

Deferred tax for the current year is based on a rate of 17% (2018: 17%)

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

	2019	2018
	£m	£m
Net unrealised gains on investments	**(26)**	(16)
Tax losses and unused tax credits	**61**	60
Accrued costs deductible when settled	**65**	65
Retirement benefit obligations	**1**	1
Provisions and other temporary differences	**52**	54
Net deferred tax asset at 31 December	**153**	164

Provisions and other temporary differences arise predominately in respect of capital expenditure £53m (2018: £55m).

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

	2019	2018
	£m	£m
Net deferred tax position at 1 January	**164**	190
Amounts (charged)/credited – Profit and loss account	**(6)**	4
Amounts charged - Other comprehensive income	**(5)**	(30)
Deferred tax asset at 31 December	**153**	164

At the end of the reporting period, the Company had the following unrecognised tax assets and liabilities:

	2019		2018	
	Gross amount	**Tax effect**	Gross amount	Tax effect
	£m	**£m**	£m	£m
Trading tax losses	**930**	**158**	839	143
Capital tax losses	**1,236**	**210**	1,116	190
Deductible temporary differences	**157**	**27**	178	30
Unrecognised tax assets at 31 December	**2,323**	**395**	2,133	363

At the end of the reporting period, the Company has unused tax losses of £2,523m (2018: £2,421m). The Company's unused tax losses are made up of 'capital' losses of £1,236m (2018: £1,116m) and other 'income' losses of £1,287m (2018: £1,305m). A deferred tax asset of £61m (2018: £60m) has been recognised in respect of 'income' losses at 31 December 2019. No deferred tax asset has been recognised in respect of tax losses of £2,167m (2018: £2,071m) due to the unpredictability of future profit streams. It is unlikely that a deferred tax asset will ever be recognised in respect of the £1,236m (2018: £1,116m) capital losses due to UK exemptions. None of the income tax losses are time-barred (2018: none). Other tax losses (including capital tax losses and unused credits) may be carried forward indefinitely.

Net deferred tax assets of £153m (2018: £164m), that relate to tax jurisdictions in which the Company has suffered a loss in either the current or preceding period, have been recognised on the basis that future taxable profits will be available against which these can be utilised. The deferred tax asset has reduced by £11m due to a reduction in the forecast profits, with the net impact mainly due to lower investment income forecasts.

Deferred tax assets have been recognised on the basis that management consider it probable that future taxable profits will be available against which these deferred tax assets can be utilised. Key assumptions in the forecast are subject to sensitivity testing which, together with additional modelling and analysis, support management's judgement that the carrying value of deferred tax assets continues to be supportable.

The evidence for the future taxable profits is a seven-year forecast based on the three year operational plans prepared by the relevant businesses and a further four years of extrapolation, which are subject to internal review and challenge, including by the Board. The four years of extrapolation assumes premium growth of 4% per annum and includes combined operating ratio improvements for specific lines of business where this is expected based on longer range projections. The value of the deferred tax asset is sensitive to assumptions in respect of forecast profits. The impact of downward movements in key assumptions on the value of the deferred tax asset is summarised below:

	2019	2018
	£m	£m
1% increase in combined operating ratio across all 7 years	(15)	(17)
1 year reduction in the forecast modelling period	(23)	(23)
50 basis points decrease in bond yields	(7)	(6)
1% decrease in annual premium growth	(1)	(1)

The relationship between the deferred tax asset and these sensitivities is not always linear. Therefore, the cumulative impact on the deferred tax asset of combined sensitivities or longer extrapolations based on the above numbers will be indicative only.

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

	Current Tax		**Deferred Tax**		**Total**	
	2019	2018	**2019**	2018	**2019**	2018
	£m	£m	**£m**	£m	**£m**	£m
Unrealised (losses)/gains on other financial instruments classified as available for sale	**3**	4	**(2)**	(3)	**1**	1
Remeasurement of net defined benefit pension liability	**-**	14	**(3)**	(27)	**(3)**	(13)
Total credit/(charge) to other comprehensive income	**3**	18	**(5)**	(30)	**(2)**	(12)

29. Tangible assets

Tangible assets is split between tangible assets owned and right of use assets as follows:

	2019	2018
	£m	£m
Tangible assets owned	**25**	29
Right of use assets	**10**	-
Total tangible assets	**35**	29

Tangible assets owned

	Fixtures and fittings, Equipment and Other	Total
Cost	**£m**	**£m**
At 1 January 2019	**75**	**75**
Additions	**1**	**1**
Disposals	**(1)**	**(1)**
At 31 December 2019	**75**	**75**
Depreciation		
At 1 January 2019	**46**	**46**
Depreciation on disposals	**(1)**	**(1)**
Charge for the year	**5**	**5**
At 31 December 2019	**50**	**50**
Net carrying amount		
At 31 December 2019	**25**	**25**

	Fixtures, and fittings, *Equipment* and Other	Total
Cost	£m	£m
At 1 January 2018	75	75
Additions	3	3
Disposals	(3)	(3)
At 31 December 2018	75	75
Depreciation		
At 1 January 2018	42	42
Depreciation on disposals	(2)	(2)
Charge for the year	6	6
At 31 December 2018	46	46
Net carrying amount		
At 31 December 2018	29	29

Right of use assets

Right of use assets relate to other equipment.

	2019
	£m
Balance at 1 January 2019	**13**
Depreciation charge for the year	**(3)**
Additions to right of use assets	**-**
Balance at 31 December 2019	**10**

30. Deferred Acquisition Costs

	2019 £m	2018 £m
Balance at 1 January	**439**	438
Acquisition costs during the year	**482**	488
Amortisation charge during the year	**(470)**	(487)
Changes in deferred acquisition costs	**12**	1
Portfolio transfers	**(19)**	-
Exchange adjustment	**(3)**	-
Balance at 31 December	**429**	439

31. Share Capital

	2019 £m	2018 £m
Allotted, issued and fully paid		
4,859,811,537 ordinary A shares at 25p each (2018: 4,859,811,537 ordinary A shares at 25p each)	**1,215**	1,215
1 ordinary B share at US$1 each (2018: 1 ordinary B share at US$1 each)	**-**	-

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

32. Subordinated loan notes

	2019 £m	2018 £m
Subordinated liabilities	**-**	32

Subordinated liabilities

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

On 8 July 2016 the Company repaid £200m of this subordinated loan. The Company repaid a further £245m on 31 March 2017 and £15m on 12 July 2017. On 20 May 2019 the Company fully repaid the outstanding £32m nominal value of this subordinated loan.

At 31 December 2019, the fair value of subordinated liabilities is £nil as the loan has been fully repaid during the year. At 31 December 2018 the fair value of the subordinated liabilities was £33m, if this loan was held at fair value in the financial statements it would have been included in Level 2 of the fair value hierarchy as it was valued based inputs other than quoted prices.

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

33. Total Other Comprehensive Income

Year ended 31 December 2019	Revaluation reserve £m	Foreign currency translation reserve £m	Profit and loss account £m	Total shareholders' funds £m
Foreign exchange losses, net of tax	**-**	**(1)**	**-**	**(1)**
Fair value losses, net of tax	**(200)**	**-**	**-**	**(200)**
Pension – remeasurement of net defined benefit liability, net of tax	**-**	**-**	**(85)**	**(85)**
Movement in property revaluation, net of tax	**1**	**-**	**-**	**1**
Total other comprehensive expense for the year	***(199)***	***(1)***	***(85)***	***(285)***

Year ended 31 December 2018	Revaluation reserves £m	Foreign currency translation reserve £m	Profit and loss account £m	Total shareholders' funds £m
Foreign exchange gains, net of tax	-	-	-	-
Fair value gains, net of tax	184	-	-	184
Pension - remeasurement of net defined benefit liability, net of tax	-	-	154	154
Movement in property revaluation, net of tax	2	-	-	2
Total other comprehensive income for the year	186	-	154	340

34. Provision for unearned premiums

	2019 £m	2018 £m
Provisions for unearned premiums at 1 January	**2,199**	2,300
Premiums written	**3,907**	3,754
Portfolio transfers	**(136)**	-
Gross premiums written	**3,771**	3,754
Premiums earned	**(3,829)**	(3,863)
Changes in provision for unearned premiums	**(58)**	(109)
Exchange adjustment	**(17)**	8
Provision for unearned premiums at 31 December	**2,124**	2,199

35. Claims Outstanding

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

	2019 £m	2018 £m
Provisions for losses and loss adjustment expenses at 1 January	**5,165**	5,141
Total claims payments made in the year net of salvage and other recoveries	**(2,500)**	(2,658)
Gross portfolio transfers	**(445)**	-
Claims paid	**(2,945)**	(2,658)
Gross claims incurred and loss adjustment expenses	**2,701**	2,604
Change in the provision for claims	**(244)**	(54)
Disposal of UK Legacy	**(551)**	-
Unwind of discount	**19**	31
Exchange adjustment	**(62)**	46
Provisions for losses and loss adjustment expenses at 31 December	**4,327**	5,165
Less: Liabilities classified as held for sale	**-**	(582)
	4,327	4,583

Claims outstanding include claims on certain classes of business which have been discounted. The total value of outstanding claims provisions less related reinsurance recoveries before discounting amounted to £3,370m (2018: £3,556m). The total value of gross outstanding claims provisions before discounting amounted to £4,775m (2018: £5,826m).

Assumptions

Claims on certain classes of business have been discounted as follows:

	Discount rate		**Average period to settlement in years**	
	2019	2018	**2019**	2018
Category	%	%		
Asbestos and environmental	**4.00**	4.00	**12**	12
Periodic payment orders	**4.00**	4.00	**19**	20

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

As at 31 December 2019, the value of the discount on net outstanding claims reserves is £16m (2018: £18m), excluding annuities and periodic payment orders. All other factors remaining constant, a decrease of 1% in the discount rates would reduce the value of the discount by approximately £5m.

As at 31 December 2019, the value of the discount on UK annuities is £226m (2018: £217m). A decrease of 1% in the real discount rate would reduce the value of the discount by approximately £30m. The sensitivity calculation has taken into consideration the undiscounted reserves for each class of business and the respective average settlement period.

Sensitivities

Sensitivities in the table below assume the impact on the profit before tax result considering an increase in the loss ratio of 5% and an increase in net operating expenses of 10%:

Impact on profit before tax result	2019 £m	2018 £m
Net loss ratio[1] 5%	(153)	(151)
Expenses 10%	(105)	(111)

[1]percentage of earned premiums, net of reinsurance paid out in claims and claims handling expenses.

Claims development tables

The tables below present changes in the historical provisions for losses and loss adjustment expenses that were established in 2009 and the provisions for losses and loss adjustment expenses arising in each subsequent accident year. The tables are presented at current year average exchange rates on an undiscounted basis and have been adjusted for operations that have been disposed of.

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

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

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

Claims development table gross of reinsurance

	2009 and prior £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
Estimate of cumulative claims												
At end of accident year	3,505	1,134	1,000	1,154	1,109	1,120	1,340	1,274	1,560	1,427	1,645	-
One year later	3,447	1,230	1,035	1,122	1,185	1,509	1,314	1,288	1,457	1,428	-	-
Two years later	3,400	1,210	1,021	1,146	1,162	1,470	1,254	1,250	1,471	-	-	-
Three years later	3,362	1,224	1,012	1,133	1,128	1,447	1,191	1,260	-	-	-	-
Four years later	3,348	1,221	990	1,112	1,129	1,397	1,208	-	-	-	-	-
Five years later	3,334	1,203	981	1,123	1,106	1,391	-	-	-	-	-	-
Six years later	3,242	1,176	986	1,110	1,107	-	-	-	-	-	-	-
Seven years later	3,388	1,176	972	1,108	-	-	-	-	-	-	-	-
Eight years later	3,330	1,154	977	-	-	-	-		-	-	-	-
Nine years later	3,319	1,164	-	-	-	-	-	-	-	-	-	-
Ten years later	3,324	-	-	-	-	-	-	-	-	-	-	-
2019 movement	**(5)**	**(10)**	**(5)**	**2**	**(1)**	**6**	**(17)**	**(10)**	**(14)**	**(1)**	**-**	**(55)**
Claims paid												
One year later	1,035	617	421	571	543	568	613	540	665	634	-	-
Two years later	522	170	205	205	178	203	224	197	277	-	-	-
Three years later	598	142	129	102	92	136	108	117	-	-	-	-
Four years later	379	116	98	74	78	144	82	-	-	-	-	-
Five years later	292	53	41	65	54	103	-	-	-	-	-	-
Six years later	96	26	25	22	31	-	-	-	-	-	-	-
Seven years later	63	25	12	17	-	-	-	-	-	-	-	-
Eight years later	146	(12)	6	-	-	-	-	-	-	-	-	-
Nine years later	14	8	-	-	-	-	-	-	-	-	-	-
Ten years later	30	-	-	-	-	-	-	-	-	-	-	-
Cumulative claims paid	**3,175**	**1,145**	**937**	**1,056**	**976**	**1,154**	**1,027**	**854**	**942**	**634**	**-**	**-**
Reconciliation to the balance sheet												
Current year provision before discounting	149	19	40	52	131	237	181	406	529	794	1,645	**4,183**
Exchange adjustment to closing rates	-	-	-	-	-	-	-	-	-	-	-	(45)
Discounting	-	-	-	-	-	-	-	-	-	-	-	(18)
Annuities	-	-	-	-	-	-	-	-	-	-	-	207
Present Value recognised in the balance sheet	-	-	-	-	-	-	-	-	-	-	-	**4,327**

Claims development table net of reinsurance

	2009 and prior £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
Estimate of cumulative claims												
At end of accident year	2,790	1,081	861	1,027	1,105	953	1,059	926	1,207	1,059	1,030	-
One year later	2,765	1,156	859	1,008	1,196	1,288	982	932	1,198	1,060	-	-
Two years later	2,712	1,136	836	1,029	1,174	1,287	967	913	1,198	-	-	-
Three years later	2,635	1,137	813	1,005	1,143	1,256	915	912	-	-	-	-
Four years later	2,615	1,135	803	988	1,123	1,228	914	-	-	-	-	-
Five years later	2,599	1,119	800	992	1,116	1,228	-	-	-	-	-	-
Six years later	2,547	1,106	795	985	1,116	-	-	-	-	-	-	-
Seven years later	2,824	1,106	790	985	-	-	-	-	-	-	-	-
Eight years later	2,786	1,103	790	-	-	-		-	-	-	-	-
Nine years later	2,792	1,103	-	-	-	-	-	-	-	-	-	-
Ten years later	2,792	-	-	-	-	-	-	-	-	-	-	-
2019 movement	-	-	-	-	-	-	**1**	**1**	-	**(1)**	-	**1**
Claims paid												
One year later	919	589	317	510	604	485	530	409	559	466	-	-
Two years later	438	153	153	178	164	180	109	147	204	-	-	-
Three years later	350	137	117	91	92	124	89	80	-	-	-	-
Four years later	324	119	89	80	70	129	76	-	-	-	-	-
Five years later	245	43	44	57	52	93	-	-	-	-	-	-
Six years later	72	27	16	22	29	-	-	-	-	-	-	-
Seven years later	59	23	15	12	-	-	-	-	-	-	-	-
Eight years later	145	(4)	6	-	-	-	-	-	-	-	-	-
Nine years later	12	7	-	-	-	-	-	-	-	-	-	-
Ten years later	13	-	-	-	-	-	-	-	-	-	-	-
Cumulative claims paid	**2,577**	**1,094**	**757**	**950**	**1,011**	**1,011**	**804**	**636**	**763**	**466**	-	-
Reconciliation to the balance sheet												
Current year provision before discounting	215	9	33	35	105	217	110	276	435	594	1,030	**3,059**
Exchange adjustment to closing rates	-	-	-	-	-	-	-	-	-	-	-	**(36)**
Discounting	-	-	-	-	-	-	-	-	-	-	-	**(16)**
Annuities	-	-	-	-	-	-	-	-	-	-	-	**128**
Present Value recognised in the balance sheet	-	-	-	-	-	-	-	-	-	-	-	**3,135**

36. Provisions for other risks

	2019	2018
	£m	£m
Provision for pensions and similar obligations	7	7
Other provisions	35	37
Total provisions at 31 December	42	44

Of the above £17m (2018: £15m) is due to be settled outside of 12 months.

Other provisions includes £13m (2018: £12m) held relating to dilapidations and refurbishments, the costs relating to which will be borne across the period over which the leases expire, which is up to 20 years. Also included are reorganisation provisions of £10m (2018: £7m).

The balance consists of a number of provisions none of which are individually significant.

See note 15 for further information regarding the pension and post-employment benefit obligations.

Movements in other provisions

	2019	2018
	£m	£m
Provisions at 1 January	37	63
Charged to profit and loss account	31	8
Utilised	(30)	(32)
Released	(3)	(2)
Provisions at 31 December	35	37

37. Borrowings

	2019	2018
	£m	£m
Amounts owed to credit institutions	65	51

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

38. Other debtors

Other debtors includes £261m (2018: £238m) in respect of defined benefit pension schemes in surplus and £16m (2018: £24m) in respect of corporation tax recoverable.

39. Other creditors

Other creditors includes £1m (2018: £2m) in respect of corporation tax payable.

40. Finance leases as a lessor

Prior to 2019, the Company has sub-let office floor space for which the head leases have been presented as part of the land and buildings right of use assets upon IFRS 16 transition. The sub-leases have been classified as finance leases because the sub-lease is for the whole remaining term of the head lease. The net investments in the sub-leases have been reported within other debtors.

During 2019, the Company recognised interest income on lease receivables of £1m.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

	Land and buildings
	2019
	£m
Less than one year	2
One to two years	2
Two to three years	2
Three to four years	2
Four to five years	2
More than five years	2
Total undiscounted lease receivable	12
Unearned finance income	(1)
Net investment in the lease	11

41. Portfolio transfers

On 1 January 2019, the Company portfolio transferred its European insurance business to its subsidiary RSA Luxembourg S.A. (RSAL) under a Part VII legal arrangement. As a result of this transfer, RSAL became the insurer for risks previously underwritten through the Company's European branch network.

Consequently, £136m of gross premiums written were cancelled representing the value of the unearned premiums at the date of transfer and associated £(52)m outward reinsurance premiums and £(19)m of deferred acquisition costs were reimbursed by RSAL. The gross claims outstanding reserve of £445m and the corresponding reinsurers' share of £(172)m in respect of the transferred European business were de-recognised and treated as settled at the date of the transfer. The overall impact on the profit and loss account was £nil.

Further information can be found in the portfolio transfers accounting policy in note 2.

42. Capital commitments

The estimated amount of capital commitments contracted but not provided for in these financial statements is £9m (2018: £15m).

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

	2019	2018
	£m	£m
Property and equipment	1	2
Intangible assets	8	13
Total	9	15

Funding commitments to structured entities

The future commitments to structured entities are disclosed in note 24.

43. Contingent Liabilities

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

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

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

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

44. Parent companies

The Company's immediate parent company is Royal Insurance Holdings Ltd, a company incorporated in England and Wales. Royal Insurance Holdings Ltd's registered office address is St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL.

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

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

45. Post Balance Sheet events

There are no post balance sheet events.

46. Subsidiaries

The Company's subsidiaries at 31 December 2019 were as follows:

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding
Bahrain			
Royal & Sun Alliance Insurance (Middle East) BSC (c)	Impact House, Building, office no. 21, 2nd floor, Building no. 662, Road no. 2811, Block no. 428, Al Seef, Manama, Kingdom of Bahrain	Ordinary	50.00
Brazil			
Royal & Sun Alliance Insurance plc - Escritório de Representação no Brasil Ltda. [1]	Avenida Major Sylvio de Magalhães Padilha, 5200, America Business Park, Ed. Dallas, Conj. 31, Sala 02, Jardim Morumbi, 05693-000, City of São Paulo, State of São Paulo, Brazil	Ordinary	100.00
Canada			
10122033 Canada Inc.	90 Allstate Parkway Suite 500, Markham ON L3R 6H3, Canada	Common	100.00
10122033 Canada Inc. [3]	90 Allstate Parkway Suite 500, Markham ON L3R 6H3, Canada	Class A Preferred	100.00
10622923 Canada Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	100.00
10622923 Canada Limited [3]	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Preferred	100.00
2029974 Ontario Inc. [6]	90 Allstate Parkway Suite 500, Markham ON L3R 6H3, Canada	Class A Common	100.00
2029974 Ontario Inc. [6]	90 Allstate Parkway Suite 500, Markham ON L3R 6H3, Canada	Class B Common	100.00
2029974 Ontario Inc. [3]	90 Allstate Parkway Suite 500, Markham ON L3R 6H3, Canada	Class C Special	100.00
2029974 Ontario Inc. [3]	90 Allstate Parkway Suite 500, Markham ON L3R 6H3, Canada	Class D Special	100.00
2029974 Ontario Inc. [3]	90 Allstate Parkway Suite 500, Markham ON L3R 6H3, Canada	Class E Special	100.00
2029974 Ontario Inc. [3]	90 Allstate Parkway Suite 500, Markham ON L3R 6H3, Canada	Class N Special	100.00
2029974 Ontario Inc. [3]	90 Allstate Parkway Suite 500, Markham ON L3R 6H3, Canada	Class S Special	100.00
2029974 Ontario Inc. [6]	90 Allstate Parkway Suite 500, Markham ON L3R 6H3, Canada	Class V Special	100.00
3342484 Canada Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	100.00
8301140 Canada Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	100.00
8301140 Canada Limited [3]	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Preferred	100.00
Ascentus Insurance Ltd.	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	100.00
Canadian Northern Shield Insurance Company	555 West Hastings Street, Suite 1900, Vancouver BC V6B 4N6, Canada	Common	100.00
Coast Underwriters Limited [3]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class 1 Preferred Unlimited	100.00
Coast Underwriters Limited [3]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class 2 Preferred Unlimited	100.00
Coast Underwriters Limited	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class A	85.42
Coast Underwriters Limited [3]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class B1	100.00
Coast Underwriters Limited [3]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class B2	100.00
Coast Underwriters Limited [3]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class B3	100.00
D.L. Deeks Insurance Services Inc.	90 Allstate Parkway Suite 500, Markham ON L3R 6H3, Canada	Ordinary	100.00
Deeks Investments Inc. [3]	90 Allstate Parkway Suite 500, Markham ON L3R 6H3, Canada	Class A Preference	100.00
Deeks Investments Inc.	90 Allstate Parkway Suite 500, Markham ON L3R 6H3, Canada	Class B Preference	100.00
Deeks Investments Inc.	90 Allstate Parkway Suite 500, Markham ON L3R 6H3, Canada	Class C Preference	100.00
Deeks Investments Inc. [3]	90 Allstate Parkway Suite 500, Markham ON L3R 6H3, Canada	Common	100.00
Johnson Inc.	Fort William Building, 10 Factory Lane, St. John's NL A1C 6H5, Canada	Series A Common	100.00
Johnson Inc.	Fort William Building, 10 Factory Lane, St. John's NL A1C 6H5, Canada	Series B Common	100.00
MRM Solutions Limited	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class A Common	100.00

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding
MRM Solutions Limited [3]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class B Common	100.00
Quebec Assurance Company	2475 Laurier Blvd., Quebec City, Québec, G1T 1C4, Canada	Common Shares	100.00
Roins Financial Services Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	100.00
Roins Financial Services Limited [3]	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Preference	100.00
Roins Holding Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	100.00
Royal & Sun Alliance Insurance Company of Canada [3]	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Class A Preferred	100.00
Royal & Sun Alliance Insurance Company of Canada	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	99.996
RSA Travel Insurance Inc.	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	100.00
Shaw Sabey & Associates Ltd [2]	1800 - 401 West Georgia Street, Vancouver BC V6B 5A1, Canada	Common Unlimited	25.00
The Johnson Corporation	Fort William Building, 10 Factory Lane, St. John's NL A1C 6H5, Canada	Common	100.00
Unifund Assurance Company	Fort William Building, 10 Factory Lane, St. John's NL A1C 6H5, Canada	Common	100.00
Unifund Assurance Company [3]	Fort William Building, 10 Factory Lane, St. John's NL A1C 6H5, Canada	Preferred	100.00
Unifund Claims Inc.	Fort William Building, 10 Factory Lane, St. John's NL A1C 6H5, Canada	Common	100.00
Western Assurance Company	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	100.00
Denmark			
Codan A/S	Codanhus, Gammel Kongevej 60, DK-1790 Kobenhavn V, Denmark	Ordinary	100.00
Codan Forsikring A/S	Codanhus, Gammel Kongevej 60, DK-1790 Kobenhavn V, Denmark	Ordinary	100.00
Forsikringsselskabet Privatsikring A/S	Codanhus, Gammel Kongevej 60, DK-1790 Kobenhavn V, Denmark	Ordinary	100.00
Guernsey			
Insurance Corporation of the Channel Islands Limited [1]	Dixcart House, Sir William Place, St. Peter Port, Guernsey, GY1 4EY	Ordinary	100.00
Insurance Corporation Service Company Limited	Dixcart House, Sir William Place, St. Peter Port, Guernsey, GY1 4EY	Ordinary	100.00
India			
Royal & Sun Alliance IT Solutions (India) Private Limited [1]	Rider House, Plot No.136, Sector 44, Gurgaon , Haryana, 122002, India	Ordinary	100.00
RSA Actuarial Services (India) Private Limited [1]	First Floor, Building 10 C, Cyber City Complex, DLF Phase II, Gurgaon , Haryana, 122002, India	Ordinary	100.00
Ireland			
123 Money Limited [3]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B1 Ordinary	100.00
123 Money Limited [3]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B2 Ordinary	100.00
123 Money Limited [3]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B3 Ordinary	100.00
123 Money Limited [3]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B4 Ordinary	100.00
123 Money Limited [3]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B5 Ordinary	100.00
123 Money Limited [3]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	C Ordinary	100.00
123 Money Limited	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Ordinary	100.00
123 Money Limited	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	€1 redeemable shares	100.00
Benchmark Underwriting Limited	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Ordinary	100.00
EGI Holdings Limited [1]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Ordinary	100.00
RSA Insurance Ireland DAC [1]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Ordinary	100.00

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding
RSA Overseas Holdings (No 1) Unlimited Company	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Common	100.00
RSA Overseas Holdings (No. 2) Unlimited Company	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Common	100.00
RSA Reinsurance Ireland Limited [1]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	Ordinary	100.00
RSA Broker Motor Insurance Limited (Previously Sertus Underwriting Limited)	RSA House, Dundrum Town Centre, Sandyford Road, Dundrum , Dublin 16, Ireland	Ordinary	100.00
Isle of Man			
Royal Insurance Service Company (Isle of Man) Limited	Jubilee Buildings, 1 Victoria Street, Douglas, IM99 1BF, Isle of Man	Ordinary	100.00
RSA Isle of Man No.1 Limited [1]	33-37 Athol Street, Douglas, Isle of Man, IM1 1LB, Isle of Man	Ordinary	100.00
Tower Insurance Company Limited	Jubilee Buildings, 1 Victoria Street, Douglas, IM99 1BF, Isle of Man	Ordinary	100.00
Luxembourg			
RSA Luxembourg S.A. [1]	19, rue de Bitbourg, L-1273 Luxembourg	Ordinary	100.00
Netherlands			
GDII – Global Direct Insurance Investment V.O.F	Wilhelminakeade 97-99, 3072 AP Rotterdam, Netherlands	Partnership interest	
IDIP Direct Insurance B.V.	20 Fenchurch Street, London, England, EC3M 3AU, United Kingdom	Ordinary	100.00
Intouch Insurance Group B.V. [1]	20 Fenchurch Street, London, England, EC3M 3AU, United Kingdom	Ordinary	100.00
Royal Insurance Global B.V. [1]	Wilhelminakeade 97-99, 3072 AP Rotterdam, Netherlands	Ordinary	100.00
RSA Overseas (Netherlands) B.V.	20 Fenchurch Street, London, England, EC3M 3AU, United Kingdom	Ordinary	100.00
RSA Overseas Holdings B.V.	20 Fenchurch Street, London, England, EC3M 3AU, United Kingdom	Ordinary	100.00
Oman			
Al Ahlia Insurance Company SAOG [5]	PO Box 889, 100, Oman	Ordinary	52.50
Russian Federation			
GDII - Rus L.L.C.	Sadovay Square, 3 Office 667, 121099, Moscow, Russia	Ordinary	100.00
Saudi Arabia			
Al Alamiya for Cooperative Insurance Company [5]	Office No.203, 2nd Floor, Home Centre Building, Tahlia Street, Suleymaniyah, Riyadh, Kingdom of Saudi Arabia, Saudi Arabia	Ordinary	50.07
Sweden			
CAB Group AB [2]	Stortorget 11, S-702 11 Örebro, Sweden	Ordinary	27.27
Holmia Livforsakring AB	c/o Trygg-Hansa Försäkring Filial, 10626, Stockholm, Sweden	Ordinary	100.00
United Kingdom			
Alliance Assurance Company Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
British Aviation Insurance Company Limited [1]	Fitzwilliam House, 10 St Mary Axe, London, EC3A 8EQ, United Kingdom	Ordinary	57.10
Centrium Management Company Limited [1 2]	5th Floor, United Kingdom House, 180 Oxford Street, London, England, W1D 1NN, United Kingdom	Ordinary	31.45
Eurotempest Limited [1 2]	c/o UCL Business Plc, The Network Building 97, Tottenham Court Road, London, England, W1T 4TP, United Kingdom	Ordinary	33.33
Hempton Court Manco Limited [1 2 4]	7 Seymour Street, London, W1H 7JW	Ordinary	66.66
National Vulcan Engineering Insurance Group Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
Non-Destructive Testers Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
Polaris U.K. Limited [1 2]	New London House, 6 London Street, London, England, EC3R 7LP, United Kingdom	Ordinary	25.38
Punchbowl Park Management Limited [1 2 4]	10 Buckingham Gate, London, England, SW1E 6LA, United Kingdom	Ordinary	65.09
R&SA Global Network Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	64.00

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding
Royal & Sun Alliance Insurance (Global) Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
Royal & Sun Alliance Property Services Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
Royal & Sun Alliance Reinsurance Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
Royal Insurance (U.K.) Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
Royal International Insurance Holdings Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	£1.00 Ordinary	100.00
Royal International Insurance Holdings Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	US$1.00 Ordinary	100.00
Roysun Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
RSA Finance [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
RSA Law Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary A	90.00
RSA Northern Ireland Insurance Limited	Law Society House, 90-106 Victoria Street, Belfast, Northern Ireland, BT1 3GN	Ordinary	100.00
Sun Alliance and London Insurance Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
Sun Alliance Insurance Overseas Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
Sun Insurance Office Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
The Globe Insurance Company Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
The London Assurance	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
The Marine Insurance Company Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
The Sea Insurance Company Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
Westgate Properties Limited [1]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Ordinary	100.00
United States of America			
Royal & Sun Alliance Insurance Agency Inc.	Wall Street Plaza, 88 Pine Street, New York, NY 10005, United States	Common	100.00

1. Directly owned
2. Indicates that the holding represents an Investment or is an Associate directly or indirectly of the company
3. Indicates ownership of non-voting shares
4. There is no subsidiary where the parent holds less than 50% of the voting rights. There are no entities where the Company holds more than 50% of the voting rights which are not subsidiaries other than Punchbowl Park Management Limited and Hempton Court Manco Limited.
5. In relation to Al Ahlia Insurance Company SAOG (listed on the Muscat Securities Market, Oman Stock Exchange) and Al Alamiya for Cooperative Insurance Company (listed on the Tadawul, Saudi Stock Exchange), the percentage held relates to the actual percentage of the share capital held and not the effective percentage held (which is 26.25% and 25.04% respectively).
6. Johnson Inc. holds all of the voting shares in 2029974 Ontario Inc. through the following share classes: Class A Common (0.0016% voting), Class B Common (0.0033% voting), Class V Special (99.9950% voting).

As at 31 December 2019 the company had Branches in Argentina, Belgium, China, DIFC (Dubai), France, Germany, Greece, Ireland, Netherlands, Norway, and Spain.