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Royal & Sun Alliance Insurance Limited

Annual report and accounts

for the year ended 31 December 2022

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Company information

Directors[1]

Mark Hodges (Chair)
Ken Anderson (appointed 1 April 2022)
Alastair Barbour
Sally Bridgeland
Claude Dussault
Robert Leary
Louis Marcotte (appointed 30 June 2022)
Susan McInnes (appointed 1 April 2022)
Ken Norgrove (appointed 10 January 2022)
Andy Parsons

Secretary

Roysun Limited

Registered Office

St Marks Court
Chart Way
Horsham
West Sussex
RH12 1XL

Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

[1]Changes to the board during the year are detailed on page 10.

The directors present their annual report on the affairs of Royal & Sun Alliance Insurance Limited (the 'Company') and the audited financial statements for the year ended 31 December 2022.

The Company is a member of the Intact Financial Corporation Group of Companies ('IFC' or 'Intact'), headed by Intact Financial Corporation ('IFC'). At a local level the Company is a member of the RSA Insurance Group Limited (the 'RSA Group' or 'RSA') headed by RSA Insurance Group Limited (RSAIG). Due to RSAIG's issued securities it provides more detailed reporting on the RSA Group. The Company is a subsidiary of Royal Insurance Holdings Limited. The RSA 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 RSA Group's UK business. The directors of the Company have concluded that the RSA 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. The subsidiary undertakings are listed in note 44 of the Accounts.

Business review

The Company reports a profit on ordinary activities before tax of £193m (2021: £2,701m) for the year, due principally to £133m dividend income from subsidiary undertakings net of impairments (2021: £2,715m), £110m (2021 £118m) of investment income, net of investment expenses, realised and unrealised gains on investments £nil (2021: £68m gain), and foreign exchange losses of £3m (2021: £10m gains), offset by a loss on the technical account of £47m (2021:£210m loss). In Personal lines, the results include losses related to prolonged sub-zero temperatures in December, which resulted in burst pipes in thousands of homes across the UK. In addition, there were a number of non-catastrophe large losses, and inflationary pressures continue to weigh on both Motor and Home.

Gross premiums written were £3,763m (2021: £3,847m). The funds attributable to equity holders of the Company were £2,609m as at 31 December 2022 (31 December 2021: £3,469m).

During the first half of 2022, an RSA Group-wide project was undertaken to rationalise the intra-group loan position. As part of the project, the Company received £4,000m of dividends from subsidiary entities which were offset against intra-group payables.

Separate to the above, the Company received a £279m dividend in specie from its subsidiary entity RSA Finance, consisting of preference shares in another subsidiary entity, Royal International Insurance Holdings Limited.

As a consequence of these distributions, the valuation of the Company's investment in its subsidiary entities was impaired and a reduction in value totalling £4,100m was recorded.

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.

Non-Financial KPIs

Customer: From a customer perspective, we have aligned our UK customer advocacy ambitions to IFC's strategic objectives to have three out of four customers as advocates and four out of five brokers who value our specialised expertise. We have developed a flightpath to the number over five years, as we improve the service we provide to our customers and brokers. We measure the amount of business that is renewed with us each year. Personal lines renewal was 80% on a premium retention rate basis. For Commercial and Specialty lines, policy retention was 86%.

Climate: Our ambition is to achieve Net zero by 2050 and halve operations by 2030. We are working on building plans towards this with IFC across all our geographies. Further information can be found in the Environmental, Social and Governance (ESG) section in the Director's Report on pages **15** to **17** of the RSAIG Annual Report.

Employees: We aim to be a best employer and have made good progress on our Diversity, Equity and Inclusion agenda. We are proud to have achieved our Women in Finance target of 34% representation in the Management Group by 2023 a year early and we have recalibrated our future targets. We are aiming to achieve 40% female representation in Management by 2025 and gender parity by 2030.

Our principal risks below also form the non-financial information.

Strategic review

Our operations

The Company's operations remained resilient during the year. Where and when government guidelines permitted, we began a voluntary return to office working supported by hybrid arrangements (a mix of home and office working) and, following a successful trial period, this was adopted as our business as usual. Significant resource has been deployed to ensure our people have received the appropriate support regarding physical and mental well-being during remote working. Operationally, we have continued to make improvements to our IT architecture and successfully migrated to a new cloud based mainframe to support our UK systems and processes.

Our strategy

Our ambition is to build on the Company's strengths to deliver a consistently outperforming underwriting result. We will achieve this by leveraging our strong UK domestic Commercial lines and Specialty businesses, growing our direct channels in Personal lines, and continuing to improve our productivity. We are therefore continuing to focus on simplifying our business and distribution channels, investing in our technical and digital capabilities, and building a customer-driven culture that values high performance and develops talent. In Personal lines, work is continuing to finalise the footprint, with scale being required to drive towards outperformance. This is more challenging in Motor than for other Personal lines of business.

We will build the customer proposition through alignment with IFC's specialty businesses in North America and the London Market, while continuing to focus on the underwriting excellence which has enabled the performance improvement of recent years.

Our customers

We strive to provide tailored products to meet the evolving needs of our customers by analysing trends and keeping pace with digital developments.

A core pillar of our strategy is focused on customer experience and delivering good outcomes – this involves improving products and propositions, omni-channel customer journeys, service levels, and claims experience. Our customer policy sets out standards for the business to help ensure that we treat all customers fairly, that we check products and services continue to offer fair value and meet their needs, and that we monitor customer outcomes to understand performance and take action, where needed. Further information on how we support and engage with our customers is contained in the Section 172 statement on pages **7 to 9**.

We define customer retention as a measure of the amount of business that is renewed with us each year. Strong customer satisfaction translates to high retention levels and improved underwriting results. Our customer-driven value means we focus on our customers' needs and make sure we are there for them in both the good times and the bad. We target improving retention over time.

Future outlook

We evolve our products and services to ensure that we continue to meet customers' changing needs.

We continue to improve the performance and resilience of the business. An ongoing focus is to further simplify what we do and drive and further invest in areas of strength.

Markets remain competitive but the Company has the right foundation to target sustainable growth in certain product lines and customer types. The continuation of our programme of business simplification aligned to customer driven values will assist this growth further.

Events after the reporting period

Subsequent to the year-end, on 27 February 2027, the Trustees of the two major defined benefit pension schemes in the UK, the Royal Insurance Group Pension Scheme and the Sal Pension Scheme ("the Schemes"), entered into an agreement with Pension Insurance Corporation plc ("PIC") to purchase bulk annuity insurance policies that operate as investment assets. Such arrangements are commonly referred to as a "buy-in". The Schemes made up around 99% of total defined benefit assets and obligations on the balance sheet at 31 December 2022. The buy-in removes all remaining material pension exposure from the balance sheet, while maintaining the security of benefits to the Scheme members. The buy-in premium has initially been funded through the transfer of the majority of the Schemes' assets to PIC, as well as an upfront contribution from the Company of approximately £480m. The Schemes have retained ownership of various assets, including some less liquid investments, which will be liquidated over the next 12-18 months in order to settle the remainder of the buy-in premium, and cash, some of which will be required to meet ongoing expenses. In addition, the annual pension deficit funding contribution of £75m was paid in January 2023.

The upfront contribution of the Company was part funded through a capital injection of approximately £480m by the Company's ultimate parent, IFC, passed down from the Company's immediate parent, Royal Insurance Holdings Limited, in the form of an issue of 25p ordinary shares.

The Schemes already had coverage against longevity risk for around 30% of the existing pensioner population through an insurance policy entered into in 2009 with Rothesay Life. Together with the newly purchased PIC annuity assurance policies, the Schemes will now have protection against longevity risk and market risk for the material obligations of all deferred and pensioner members. As a result, the pension surplus on the balance sheet at 31 December 2022 of £200m net of tax is expected to be largely removed as the fair value of these insurance policies, held as assets of the Schemes, will be set equal to the value of the defined benefit obligations covered under IAS 19. An initial net loss of approximately £700m, based on recent market conditions, is expected to be recognised through OCI. The fair value of the insurance policies will then fluctuate going forward based on changes in the value of the defined benefit obligations covered. The transaction will temporarily increase the income tax expense as the deductibility of the upfront contribution will be spread out over three years. This results in deferred tax assets being reclassified to Other Comprehensive Income from income tax expense, with a neutral net impact on shareholder's equity.

Managing risk to deliver for our customers and achieve our goals

The Company's aim is to deliver consistently for our customers while delivering outperformance.

The Company's operating plan provides a platform for ensuring the business remains aligned with its strategic goals, including strong delivery for our customers and sustainable performance with a robust capital base. The Risk Function takes an active role in challenging the business on its development of our plans and delivery against our objectives and those of our customers.

Approach to managing risk and our appetite in 2022

Our risk management and controls frameworks were created to ensure that we identify, assess and respond to risks across the Company before they adversely impact on our customers or the business. This information, together with the strength of the Company's capital position, allows the Board to set a risk strategy and appetite that articulates the level of risk the Board is prepared to take in delivering its strategic objectives.

Risks are managed within risk appetite, using a risk maturity view. For material financial risks, this was achieved throughout the year and three-year plans assume this will continue. From time to time, certain risks stray outside target and action is taken to manage them back to acceptable positions. This year saw continued progress in some key risk areas, including customer, underwriting discipline, IT and cyber.

Risk culture – culture of accountability and openness

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 Board and senior management team has been instrumental in setting the right 'tone from the top', and we gain insights from quarterly culture health reviews and periodic workforce surveys.

A key part of our culture is ensuring our customers are at the heart of all we do. We give considerable attention to ensuring our customers are treated fairly and our colleagues are passionate about achieving good customer outcomes.

Principal risks and uncertainties

The Company's principal risks and uncertainties are integrated within and managed together with the principal risks of the RSAIG. The principal risks and uncertainties of the RSA Group, which include those of the Company, are set out in the Risk management note (note 5) of the Company's Accounts and the Strategic report of the 2022 Annual Report & Accounts of RSAIG.

Employment policy

Our people are central to achieving our core purpose, and our culture of support for personal well-being, diversity and equal opportunity to excel is important to us. Alongside our People and Diversity, Equity & Inclusion Strategies, group-wide Employment Practices and Speaking-up & Whistleblowing Policies drive our approach on people matters and are reviewed annually under the governance of our Risk Management Framework. RSA actively promotes inclusivity, including ensuring there is no less favourable treatment on the grounds of sex, sexual orientation, gender re-assignment, marital or civil partnership status, race (including colour, nationality, ethnic or national origin), disability, religion or belief, age, and pregnancy and maternity, and that reasonable adjustments are provided for people with disabilities who are applying to or already working with us.

During the year, the Board received and supported a number of updates on people priorities including: activities to further embed our Purpose and Values in day-to-day practice, strengthened succession and development planning, trials of hybrid working patterns, trends from our speaking-up channel, and progress against inclusion ambitions; for example, our UK Gender Pay Gap and Women in Finance representation targets. The Board also received insights from employee feedback gained through frequent leadership meetings, employee surveys and focus groups, and formal and informal dialogue with employee representation groups, including a European Works Council. The Board hosted a lunch with individuals in our talent succession plans to directly exchange views. In addition, some Board members are paired with an employee from an ethnic minority background to directly champion a forthcoming Enable Me initiative designed by our REACH Employee Resource Group for multicultural inclusion.

Anti-bribery and Corruption

We do not tolerate bribery and corruption anywhere in our business. Our Anti-Bribery and Corruption policy and Conflicts of Interest Gifts and Hospitality Policy apply across the Company. Directors, people leaders and others with supervisory responsibility must ensure that employees, contractors, business partners and suppliers are aware of these policies and comply with them.

The policies establish detailed guidance on facilitation payments, gifts and hospitality and relationships with third parties, as well as the systems and controls to ensure effective implementation. All employees, contractors, business partners and suppliers are expected to comply with applicable laws of the UK and countries in which we conduct business, as well as with our Broker Remuneration Policy and Third-Party Contracts Policy, which set out requirements for payments to brokers and procurement activity.

All colleagues complete a mandatory e-learning training module covering anti-bribery and corruption. The training is an annual assignment to all staff and is translated into a number of different languages for our colleagues in different parts of the world. Employees are encouraged to identify and escalate concerns to management or through our confidential third-party whistleblowing hotline in line with our Speaking-up & Whistleblowing Policy. Operating countries complete risk assessments that are reviewed and updated annually, supported by a central team to enable continuous improvement to controls. The Audit Committee periodically reviews Internal Audit findings in relation to our Anti-Bribery and Corruption Policy.

Human rights

The RSA Group is a signatory of the UN Global Compact, and the Company is committed to aligning its operations with the ten universal principles that together cover our approach to environment, human rights, labour and anti-corruption.

Our Human Rights Policy is designed to operationalise the Universal Declaration of Human Rights, the International Labour Organizations Declaration on Fundamental Principles and Rights at Work, and the UN Guiding Principles on Business and Human Rights. It sets the standard we expect for our employment practices, the actions of our supply chain, and principles we apply to our investment and underwriting portfolios.

All relevant policies are reviewed on an annual basis, including our Modern Slavery and Human Trafficking Statement, which was published in April 2022 and is linked to a number of policies that provide confidence we are helping to raise awareness of modern slavery with our people and suppliers.

This includes policy standards outlining how we recruit, manage and support our people in a working environment that promotes diversity, respect, integrity, safety and wellbeing; our Third Party Contracts & Outsourcing policy which exists to ensure that appropriate assessments of risks associated with services are undertaken to meet our human rights commitments; and our Speaking-up & Whistleblowing Policy, which encourages our people to raise concerns, without fear of retaliation, about how we do business or operate as an employer.

Our due diligence programme monitors the approach of our supply chain to human rights, and engages with suppliers to improve transparency where necessary. Supplier Relationship Managers are able to complete our e-learning module, which addresses the potential risks of modern slavery and human trafficking in the supply chain, raises awareness of this issue with our people and the circumstances under which they should seek specialist advice.

Our aim is to raise awareness of issues, ensure that procedures are in place to prevent breaches, and conduct appropriate due diligence. We are subscribers to the Financial Services Qualification System (FSQS) operated by Hellios – a community of over 50 financial institutions collaborating to agree a single standard for managing supplier compliance, including ESG policy areas such as modern slavery and environmental impact.

Section 172(1) Companies Act 2006 statement

The Board has balanced the views and interests of our stakeholders, alongside the need to promote the long-term success of the Company.

The Board has acted in a way that it considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. This section sets out how the Board, in doing so, has had regard to the matters set out in Section 172 of the Companies Act 2006.

A balanced and collaborative approach to stakeholder engagement

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

Throughout 2022, the Directors and senior management engaged with key stakeholder groups across the business, including IFC as the business further integrated with the wider Group. The Board is committed to maintaining a range of direct and indirect engagement with its stakeholders and has approved the stakeholder engagement plan for 2023.

As part of its decision-making throughout the year, the Board has considered and balanced the views and interests gained through its stakeholder engagement, as well as the need to promote the long-term success of the Company.

Customers

Why the Board engages
Good business starts with our customers and we strive to keep them at the heart of what we do. The Board works hard to increase its understanding of risks to our customers' so that we continue to provide tailored products and services that meet their diverse and evolving needs. Customer satisfaction and customer retention are critical to the long-term sustainable prospects of the Company.

How the Board engages
The Board receives regular updates from senior management on customer and conduct matters, including key indicators that monitor customer outcomes and insights on customer-driven decision-making. These updates keep the Board informed on customer priorities and key risks to the consistent delivery of good customer outcomes, and future areas of focus. During the year, the Board appointed a Non-Executive Director as a "Customer Champion" to support the Chair and the CEO in ensuring that our customer ambitions and the FCA's Consumer Duty requirements are regularly discussed and considered by the Board.

The Board was kept well informed on how management was responding to Business Interruption Claims following the Covid-19 pandemic and taking steps to support customers during the cost of living crisis.

During the year, the Board received deep-dive updates on customer and market insight and how the business is responding to customer expectations around customer service and digital offerings. The Board has closely monitored RSA's implementation of the FCA's rules on Pricing Practices and Product Governance and preparations for the new Consumer Duty rules, which will further heighten industry focus on customer outcomes. These business reviews have been a forum for the Board and management to discuss long-term strategic goals on customer matters.

Long-term implications
Customer satisfaction and retention are critical to the long-term sustainable prospects of RSA. The Board has engaged with and responded to the needs of customers with this in mind. During the second half of 2022, Board members have reviewed and approved management's plan to implement the FCA's Consumer Duty rules as part of the strategic focus of the Company.

Workforce

Why the Board engages
The Board recognises that a values-driven, open culture and an engaged workforce are central to achieving our strategic goals. As such, the Board is committed to setting the tone from the top and engaging in a meaningful way with our people.

How the Board engages
The Board has supported management's communication approach to ensure the workforce is informed of and engaged in business strategy and performance. This has included regular intranet articles and 'vlogs', email and online messaging, and team meetings. Employees are encouraged to engage in our financial performance through various means.

Alongside our People and Diversity, Equity & Inclusion Strategies, group-wide Employment Practices and Speaking-up & Whistleblowing Policies drive our approach on people matters and are reviewed annually under the governance of our Risk Management Framework. During the year, the Board received and supported a number of updates on people priorities including: activities to further embed our Purpose and Values in day-to-day practice, strengthened succession and development planning, trials of hybrid working patterns, trends from our speaking-up channel, and progress against inclusion ambitions; for example, our UK Gender Pay Gap and Women in Finance representation targets.

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The Board also received insights from employee feedback gained through frequent leadership meetings, employee surveys and focus groups, and formal and informal dialogue with employee representation groups, including a European Works Council. The Board hosted a lunch with individuals in our talent succession plans to directly exchange views. In addition, some Board members are paired with an employee from an ethnic minority background to directly champion a forthcoming Enable Me initiative designed by our REACH Employee Resource Group for multicultural inclusion.

Long-term implications

The Board understands that enabling our people and creating an open and transparent culture is key to our long-term success. The Board reflected on the workforce's views on ways of working and engaged in key decisions to adopt hybrid patterns that support both personal wellbeing and excellent service for our customers. The Board also responded to workforce concerns about cost-of-living pressures through pay enhancements for colleagues at greatest risk of impact.

Regulators and rating agencies

Why the Board engages

RSA is regulated by the PRA and the FCA and committed to working with its regulators in an open, cooperative and transparent manner. We seek to ensure a strong regulatory compliance culture throughout RSA in order to pre-empt and, where necessary, resolve regulatory issues and to avoid or minimise business impact and the risk of customer harm. The Board continues to have constructive engagement with our regulators, ensuring that they gain a comprehensive view of the Company's financial soundness, strategic and operational priorities, governance and culture, and that we understand the issues of interest to them.

The Board regularly engages with RSA's regulators across all the regions that it operates. The PRA and the FCA attended Board meetings in 2022 to discuss regulatory priorities.

How the Board responds

We believe that open and regular dialogue promotes transparency between the Company and its 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 influence RSA's priorities and focus for the year and are set out in the regulatory compliance plan, which is considered and approved by the Governance, Conduct & Remuneration (GCR) Committee.

Long-term implications

The Board is committed to engagement with the Company's regulators in order to ensure that we maintain positive relationships and take account of their views and interests.

Environmental, Social and Governance issues

Why the Board engages

The Board is committed to high standards in ESG matters. This is manifested by our contribution to communities and how we work to mitigate the impact of our business on the environment, in particular how we work with business partners, suppliers and customers in relation to our shared response to the challenges posed by climate change.

How the Board responds

The Board has oversight of RSA's policies on climate change and is engaged on how the business is supporting the transition to a low carbon economy. Further information on the Board's oversight and engagement on ESG matters and its oversight of non-financial KPIs is set out in the ESG Report and Environmental Risk Management Report on pages **13 to 15** of the RSAIG Annual Report.

Long-term implications

The Board recognises that stakeholders have an interest in understanding how our business is responding to issues that concern wider society. The Board has been particularly engaged in understanding both the near and long-term risks associated with climate change and in preparing our business to respond to the associated physical, regulatory, social and economic impacts.

Shareholder

The Company's ultimate owner is IFC, a public company listed on the Toronto Stock Exchange. During 2022, RSA adopted the purpose and values of IFC and is aligned with IFC's strategic objectives to deliver outperformance and value for its shareholders.

The Company's Board has an equal balance of independent and non-independent Directors. There are three shareholder-nominated Directors on the Board; this supports the Board's understanding and integration with IFC.

Suppliers

Our suppliers are critical to our business and the long-term success of RSA. We have structured supplier management practices in place across all regions and are investing in further tools and processes to manage risk in the supply chain and ensure that our supplier relationships are managed in a cooperative and proportionate manner. Further detail on how we engaged with our suppliers during the year is included in page **14** of the RSAIG annual Report.

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Pension schemes

The Board continues to view the pension trustees as a key stakeholder group. In 2022, the UK pension trustees were provided with quarterly updates on RSA performance and offered meetings with RSA and IFC senior executives. RSA also continued to engage with and support the development of investment strategy in the pension schemes (noting that this is ultimately controlled by the trustees).

By order of the Board

Lorna Youssouf

L Youssouf
For and on behalf of Roysun Limited
Secretary

Approved by the Board of Directors on 2 March 2023

Directors

The names of the current directors are listed on page **2**. From 1 January 2022 to date the following changes have taken place:

Director	Appointed	Resigned
Ken Norgrove	10 January 2022	
Ken Anderson	1 April 2022	
Susan McInnes	1 April 2022	
Louis Marcotte	30 June 2022	
Charlotte Jones		1 April 2022
Clare Bousfield		31 March 2022
Charles Brindamour		30 June 2022

Directors' responsibilities

The directors' responsibilities statement appears on page 13 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 £137m were paid during the year (2021: £6,976m). The directors do not recommend payment of a final dividend (2021: £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 **3 to 9** and is incorporated into this report by reference.

Political donations

The Company did not make any political donations during the financial year (2021: £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.

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

Post balance sheet events are set out in note 43 of the Accounts.

Going concern

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Board has reviewed the Company's ongoing commitments for the next twelve months and beyond. The Board's assessment included review of the Company's strategic plans and latest forecasts, capital position and liquidity including on demand capital funding arrangements with IFC. Current economic uncertainty has been considered, including the war in Ukraine, rising inflation, post Covid-19 impacts and transition to a post Brexit environment. These assessments include stress and scenario testing and consider significant areas of risk and uncertainty for the Company in the current challenging economic environment. Scenarios considered include a market risk shock involving several component stresses, plus deterioration of the underwriting result and a subsequent catastrophe loss. In making their assessment, the Board have reviewed the latest position on business interruption losses and availability of reinsurance to recover incurred claims and there have been no significant change in the estimated ultimate position based on these updates. The Board have considered the impact of events after the balance sheet date with none identified which could impact the Company's ability to continue as a going concern. Based on this review no material uncertainties have been identified in relation to the ability of the Company to remain a going concern for at least the next twelve months, from both the date and the approval of the financial statements.

Corporate governance

For the year ended 31 December 2022, 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 values of RSA and IFC are strongly aligned.

Values and culture

In line with our purpose, the Company's values are (i) integrity, (ii) respect, (iii) customer-driven, (iv) excellence, (v) generosity. Our values are designed to guide our decision making and everything that we do. They underpin how we seek to deliver for our customers and other stakeholders. We are 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 employee surveys and cultural health assessments.

Principle 2 – Board composition

The directors of the Company are named on page **2**, and their biographies can be found on the Group's website www.rsainsurance.co.uk. The Board is composed of the Chair, two executive directors and seven non-executive directors (three of which are shareholder nominated directors). The non-executive directors provide independent challenge to the executives. There is a clear division of responsibility between the Chair and the Chief Executive.

The Company's board is composed of the same directors as the RSAIG board. The Board is responsible for reviewing the structure, size and composition of the Board and committees and is responsible for ensuring appropriate succession plans are in place for the Board and reviews executive succession planning.

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 20% 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 of the Group. The Non-Executive Directors, led by the chair, seek to challenge executive management on their execution of the Company's operating plan and strategy. The non-executive directors ensure there is objective judgement in all Board decisions. The Chair encourages a culture of openness and debate.

Effectiveness

The Board conducts an annual review of its effectiveness, including engagement of an external provider to carry out a review every three years. An externally- facilitated review was completed in the second half of 2022. The results of the review were shared with the Board, its Committees and with regular attendees, and action plans to address the areas highlighted in the review were agreed.

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.

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 Audit Committee, the Risk Committee and the GRC for relevant matters. The Board shares these committees with the RSAIG. Further information on the work of the committees can be found in the Annual Report and Accounts of RSAIG.

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 aligned with its ultimate owners IFC.

Risk

The Company's principal risks and uncertainties are integrated within and managed together with the principal risks of the RSA 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 **38 to 45** of the Accounts and the Strategic report of the 2022 Annual Report and Accounts of RSAIG.

Responsibilities

The Risk Committee supports the Board to ensure that the key risks to the Company are identified, understood and effectively managed within risk appetite. The Risk Committee advises the Board on risk management matters, including solvency needs and the risk management arrangements for the Company. It monitors the Company's solvency by reviewing the outputs of the ORSA process, the Internal Model and conclusions of model validation, making recommendations to the Board on capital adequacy.

The primary purpose of the Corporate Audit Services' (CAS) (Internal Audit) is to 'keep RSA safe and improving'. Specifically, it helps the Board and executive management to protect the assets, reputation and sustainability of the RSA Group and the Company. CAS 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.

The CAS is an independent and objective function reporting to the Board through the Audit Committee.

CAS'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 GCR 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 Chair 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.

Principle 6 – stakeholder relationships and engagement

Information on the Company's stakeholder relationships and engagement can be found in the section 172(1) statement on pages **7 to 9** of the Company's Strategic report.

Signed by order of the Board

Lorna Youssouf

L Youssouf

For and on behalf of Roysun Limited

Secretary

Approved by the Board of Directors on 2 March 2023

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 United Kingdom (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.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic report and a Directors' report that complies with that law and those regulations.

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

1 Our opinion is unmodified

We have audited the financial statements of Royal & Sun Alliance Insurance Limited ("the Company") for the year ended 31 December 2022 which comprise the Balance Sheet, Profit and Loss Account, Statement of Comprehensive Income and Statement of Changes in Equity, 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 2022 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*; and
- 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 Audit Committee.

We were first appointed as auditor by the shareholders on 13 May 2013. The period of total uninterrupted engagement is for the ten financial years ended 31 December 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

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

Key audit matters are those matters that, in our professional judgement, 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 (unchanged from 2021), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of claims outstanding
Claims outstanding 2022: £5,245 million gross, £3,715 million net 2021:£4,850 million gross, £3,438 million net;, relating to provision for losses and loss adjustment expenses

Risk vs 2021 ◄►

Refer to page 32 (accounting policy) and page 72-75 (financial disclosures)

The risk	Our response
Subjective valuation: Claims outstanding represent the single largest liability for the Company. Valuation of incurred but not reported claims (IBNR) is highly subjective, requiring a number of assumptions to be made with high estimation uncertainty. Certain lines of business have greater inherent uncertainty, such as those where claims emerge slowly over time, or where there is greater potential exposure to large losses due to the effect of uncertain or unknown incurred events. Additional uncertainty remains as a result of the Covid-19 pandemic and the resulting claims and reinsurance recoveries. For business interruption cases (BI) the result of the FCA Test Case ruling, and other legal decisions and pending appeals on such judgements, whilst not significant in isolation do alongside the uncertain long term distortion to	With the assistance of our own actuarial specialists, our procedures included: — **Independent re-performance:** We performed independent re-projections of reserve balances using our own models for certain classes of business. The determination of which classes to re-project was based on risk assessment and consideration of the evidence available from other alternative data analysis procedures; — **Our sector experience**: We applied our industry experience and market benchmarks to support our consideration and challenge of the Company's reserving methodology, key judgements and assumptions for the most significant and subjective classes of business; — **Challenge of key assumptions**: Our audit approach responded to the increased uncertainty in the current economic environment, making explicit allowance for inflation in our independent

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claims experience continues to evolve. Further uncertainty arises in classes more sensitive to the assumptions made around future inflation rates. A margin is added to the actuarial best estimate of claims outstanding to make allowance for specific risks and uncertainties that are not specifically allowed for in establishing the actuarial best estimate. The appropriate margin to recognise is a subjective judgment and estimate taken by the directors, based on the perceived uncertainty and potential for volatility in the underlying claims. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of claims outstanding in relation to IBNR, 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 34) disclose the sensitivity estimated by the Company.	re-projections. We performed incremental tests to separate the impacts on frequency and severity, including inflation and other factors such as changes in driving patterns since Covid-19. — **Assessing principles**: We inspected the legal advice received by management in relation to Covid-19 business interruption (BI) claims and considered the appropriateness of judgements against this advice. We agreed a sample of reinsurance recoveries received in the year to appropriate evidence. — **Tests of details:** We 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 focused on portfolios deemed higher risk, whether that be due to size, complexity or uncertainty. This covered the accuracy of the relevant policy data elements relied upon within actuarial methods in their testing of the valuation of insurance liabilities. Further, we have sample tested other data elements relevant to the valuation of insurance liabilities such as premium inputs and relevant reinsurance contracts, and recalculated the resulting reinsurance recoveries. From a completeness perspective, we reconciled the policy level claims listing subject to sampling, to the actuarial triangles used for our independent reprojections, with the output then reconciled to the financial statements. — **Margin evaluation:** We evaluated the appropriateness of the margin to be applied to the actuarial best estimate. In order to do this we assessed management approach to setting the margin. In particular we considered the allowance for uncertainties inherent in the data and assumptions in developing the actuarial best estimate through inquiry with management and with respect to our understanding of any changes in the Company's risks. We also applied our broader sector experience of approaches to setting the margin and the level of margin held by the Company's peers. — **Assessing transparency:** We considered the adequacy of the Company's disclosures in respect of the sensitivity of the claims outstanding and key assumptions applied to key areas of judgement and estimation uncertainty. — **Control design and implementation**: We assessed the design and implementation of controls in relation to the above valuation. We did not seek to place reliance on the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Our results** We found the valuation of claims outstanding to be acceptable (2021 result: acceptable).

Valuation of deferred tax assets
(2022: £186million of the total deferred tax assets of £260million; 2021: £146million)

Risk vs 2021 ◄►

Refer to page 33 (accounting policy) and pages 68-69 (financial disclosures).

The risk	Our response
Forecast-based assessment: The recoverability of the recognised deferred tax asset is dependent on the future profitability the Company. There is inherent uncertainty involved in developing the Company's operational plan upon which forecast future taxable profits are based and further judgement in assessing to what extent the deferred tax assets can be recovered against those forecast taxable profits. These forecasts determine the extent to which deferred tax assets are, or are not, recognised in the financial statements. 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:** We assessed the accuracy of the Company's approved operating plan in relation to the forecasting process in the past. We considered whether projected margins are achievable with reference to recent business performance, operating plans, and allowing for adjustments including the contingency applied in determining the value of the deferred tax asset. — **Our experience:** We assessed the Company's approach to the assessment of recoverability and challenged the approach with reference to our understanding of the business, forecast periods used by peers, and the requirements of the relevant accounting standards. — **Sensitivity analysis:** We carried out independent sensitivity analyses of taxable profits to assumptions such as expected weather losses, the development of claims reserves and claims inflation and projected future growth rates. — **Our 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 similar items can be utilised by the Company. — **Assessing transparency:** We assessed the adequacy of the Company's disclosures in respect of the assumptions applied in the calculation and the adequacy of the Company's disclosures in respect of the sensitivity of the valuation of the deferred tax asset to key assumptions. — **Control design and implementation**: We assessed the design and implementation of controls in relation to the above valuation. We did not seek to place reliance on the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Our results** As a result of our work, we found the level of deferred tax assets recognised to be acceptable (2021 result: acceptable).

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Valuation of post-employment benefits and obligations (2022: £5,395 million; 2021: £8,576 million) Risk vs 2021 ◄► *Refer to page 33-34 (accounting policy) and pages 50-54 (financial disclosures).*	
The risk	**Our response**
Subjective valuation: The value of the defined benefit pension schemes obligations is significant and, being long-dated liabilities, the valuations are particularly sensitive to small changes in assumptions such as the discount rate, RPI inflation rate and mortality rate, which are highly sensitive to market and geographic circumstances. 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 14) disclose the sensitivity estimated by the Company.	With the assistance of our own pension actuarial specialists, our procedures included: — **Benchmarking assumptions and our experience**: We compared the key assumptions such as discount rate, RPI inflation rate and mortality rate against our independent models, using external data and information relating to the pension schemes' liability and demographic profile. — **Assessing valuer's credentials**: We evaluated the Company's external valuer's competence, objectivity, capability and scope of work. — **Assessing principles**: We assessed the Company's methodology against the requirements of IAS 19. — **Assessing transparency**: We considered the adequacy of the Company's disclosures in respect of the sensitivity of the defined pension obligation to these assumptions and of the post balance sheet event disclosed in note 43. — **Control design and implementation**: We assessed the design and implementation of controls in relation to the above valuation. We did not seek to place reliance on the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Our results** We found the valuation of the post-employment benefits and obligations to be acceptable (2021 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 £27m (2021: £27m), determined with reference to a benchmark of net earned premiums (of which it represents 0.9% (2021: 1.0%)).

We continue to consider net earned premiums to be the most appropriate benchmark and a fair reflection of revenue from the Company's operations because it is a revenue metric per the accounting standard, is less distorted by seasonal fluctuations and takes into account the reinsurance programme in place.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality for the Company was set at 75% (2021: 65%) of materiality for the financial statements as a whole, which equates to £20m (2021: £17m). We applied this percentage in our determination of performance materiality based on the improved control environment.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.3m (2021: £1.0m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The scope of this audit work was predominately substantive as we placed limited reliance upon the Company's internal control over financial reporting.

The audit procedures over the completeness and accuracy of the investment balances were performed by EY's Intact Financial Corporation audit team in Canada. We communicated our audit risk assessment, participated in the scoping of planned audit procedures, agreed the information to be reported back and auditor oversight procedures were performed, including review of the audit documentation.
All other audit procedures were performed by the audit team. In the prior year we instructed component audit teams to perform specified audit procedures over the intra-group reinsurance arrangements. In the current year this was performed by our audit team.

4 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").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its 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 risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- adverse insurance reserves development and operational performance
- a deterioration in claims experience, potentially caused by market wide catastrophe event(s) or economic factors such as inflation;
- a deterioration in the valuation of the Company's investments arising from a significant change in the economic environment and any resulting impact on liquidity and capital strength; and
- the impact of the post balance sheet event as disclosed in note 43.

We considered whether these risks could plausibly affect the Company's regulatory capital or liquidity in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of severe but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included:
- Evaluation of the consistency, arithmetical accuracy and reasonableness of the data and assumptions used in management's Going Concern assessment paper.
- Consideration of whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities.

Our conclusions based on this work:
- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

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 above conclusions are not a guarantee that the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:
- Enquiring of directors, the Audit Committee, internal audit and management and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit Committee and Risk Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using professionals with forensic knowledge to assist us in identifying fraud risks and designing appropriate procedures based on discussions of the circumstances of the Company.

- Performing analytical procedures to identify any unusual or unexpected fluctuations and relationships in the account balances.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements. In view of the overall quantum of pipeline premium as a proportion of total premiums, and the minimal judgement and estimation involved in the recognition of the remaining premium income, we rebutted the presumed risk of fraud in revenue recognition.

We also identified fraud risks related to the valuation of claims outstanding and the valuation of deferred tax assets, in response to the level of estimation and judgement in these balances and possible pressures to meet profit targets. Further detail in respect of the valuation of claims outstanding and deferred tax asset is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:
- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to seldom-used accounts and those posted by individuals who do not typically post journals.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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, pension 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 the Company's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, conduct regulation 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. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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. Our procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

6 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.

7 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, 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.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 13, 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 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 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.

9 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.

Thomas Tyler

Thomas Tyler (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
02 March 2023

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Profit and Loss Account

For the year ended 31 December 2022

Technical account - General business	Note	2022 £m	2021 £m
Gross written premiums	6	**3,763**	3,847
Outward reinsurance premiums		**(913)**	(866)
Premiums written, net of reinsurance		**2,850**	2,981
Change in the gross provision for unearned premiums	33	**(46)**	(32)
Change in provision for unearned premiums, reinsurers' share	24	**74**	(42)
Earned premiums, net of reinsurance		**2,878**	2,907
Other technical income, net of reinsurance	13	**64**	63
Claims paid			
Gross amount		**(2,267)**	(2,231)
Reinsurer's share		**548**	492
		(1,719)	(1,739)
Change in the provision for claims			
Gross amount	34	**(286)**	(444)
Reinsurer's share	25	**99**	159
		(187)	(285)
Claims incurred, net of reinsurance		**(1,906)**	(2,024)
Acquisition costs		**(818)**	(852)
Change in deferred acquisition costs	30	**7**	6
Administrative expenses		**(295)**	(326)
Reinsurance commissions and profit participation		**23**	16
Net operating expenses		**(1,083)**	(1,156)
Balance on the technical account for general business	6	**(47)**	(210)

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Profit and Loss Account (continued)

For the year ended 31 December 2022

Non-technical account	Note	2022 £m	2021 £m
Balance on the technical account for general business		**(47)**	(210)
Dividends from group undertakings	8	**4,391**	6,914
Investment income	8	**132**	161
Realised (losses)/gains on investments	8	**(6)**	6
Unrealised gains on investments	8	**6**	62
Investment expenses, charges and interest	8	**(22)**	(43)
Impairment of group undertakings	8	**(4,258)**	(4,199)
Foreign exchange (losses)/gains		**(3)**	10
Operating profit		**193**	2,701
Profit on ordinary activities before tax		**193**	2,701
Income tax credit	16	**5**	10
Profit for the financial year		**198**	2,711

The attached notes on pages 27 to 80 form an integral part of these financial statements.

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Statement of Comprehensive Income

For the year ended 31 December 2022

	Note	2022 £m	2021 £m
Profit for the financial year		**198**	2,711
Items that may be reclassified to profit or loss when specific conditions are met:			
Exchange gains net of tax on translation of foreign operations	32	**2**	1
Fair value losses on other financial instruments classified as available for sale financial assets net of tax	8, 20, 32	**(562)**	(2,112)
		(560)	(2,111)
Items that will not be reclassified to profit or loss:			
Pension – remeasurement of net defined benefit asset/liability net of tax	14, 32	**(358)**	(69)
Movement in property revaluation surplus net of tax	19	**(3)**	-
		(361)	(69)
Total other comprehensive expense for the year	32	**(921)**	(2,180)
Total comprehensive (expense)/income for the year		**(723)**	531

The attached notes on pages 27 to 80 form an integral part of these financial statements.

Royal & Sun Alliance Insurance Limited

Statement of Changes in Equity

For the year ended 31 December 2022

	Called up share capital	Share premium account	Revaluation reserves	Foreign currency translation reserve	Profit and loss account	Shareholders' funds equity
	£m	£m	£m	£m	£m	£m
Balance at 1 January 2021	1,215	2,954	2,637	37	2,066	8,909
Profit for the year	-	-	-	-	2,711	2,711
Other comprehensive (expense)/income (note 32)	-	-	(2,112)	1	(69)	(2,180)
Total comprehensive (expense)/income for the year	-	-	(2,112)	1	2,642	531
Share issue	1,005	-	-	-	-	1,005
Capital reduction[1]	(2,130)	(1,100)		-	3,230	-
Dividends paid (note 17)	-	-	-	-	(6,976)	(6,976)
Balance at 1 January 2022	**90**	**1,854**	**525**	**38**	**962**	**3,469**
Profit for the year	-	-	-	-	**198**	**198**
Other comprehensive (expense)/income (note 32)	-	-	**(565)**	**2**	**(358)**	**(921)**
Total comprehensive (expense)/income for the year	-	-	**(565)**	**2**	**(160)**	**(723)**
Dividends paid (note 17)	-	-	-	-	**(137)**	**(137)**
Balance at 31 December 2022	**90**	**1,854**	**(40)**	**40**	**665**	**2,609**

[1]A reduction of the Company's share capital of £2,130m and share premium of £1,100m was affected in June 2021 by special resolution supported by a solvency statement which resulted in the creation of distributable reserves of £3,230m

The attached notes on pages 27 to 80 form an integral part of these financial statements.

Royal & Sun Alliance Insurance Limited
Registered number: 00093792
Balance Sheet
As at 31 December 2022

	Note	2022 £m	2021 £m
Assets			
Intangible assets	18	**289**	250
Investments			
Land and buildings	19	**342**	400
Investments in group undertakings and participating interests			
Shares in group undertakings	20	**1,295**	5,518
Other financial investments			
Shares and other variable yield securities and units in unit trusts		**265**	575
Debt securities and other fixed income securities		**4,189**	4,058
Other loans		**433**	359
	21	**4,887**	4,992
Deposits with ceding undertakings		**38**	48
Total investments		6,562	10,958
Reinsurers' share of technical provisions			
Provision for unearned premiums	24	694	616
Claims outstanding	25	1,530	1,412
		2,224	2,028
Debtors			
Debtors arising out of direct insurance operations – policyholders		**321**	341
Debtors arising out of direct insurance operations – intermediaries		**1,227**	1,151
Debtors arising out of reinsurance operations		**197**	207
Amounts owed by group undertakings		**318**	480
Other debtors (including current taxation)	37	**321**	591
		2,384	2,770
Other assets			
Tangible assets	29	**42**	33
Deferred taxation	28	**260**	146
Cash at bank and in hand		**142**	66
		444	245
Prepayments and accrued income			
Accrued interest and rent		**43**	39
Deferred acquisition costs	30	**426**	410
Other prepayments and accrued income		**38**	39
		507	488
Total assets		**12,410**	16,739

Balance Sheet

As at 31 December 2022

Shareholders' funds and Liabilities	Note	2022 £m	2021 £m
Capital and reserves			
Called up share capital	31	**90**	90
Share premium account		**1,854**	1,854
Revaluation reserve		**(40)**	525
Foreign currency translation reserve		**40**	38
Profit and loss account		**665**	962
Shareholders' funds		**2,609**	3,469
Liabilities			
Provision for unearned premiums	33	**2,232**	2,151
Claims outstanding	34	**5,245**	4,850
		7,477	7,001
Provisions for other risks	35	**29**	41
Creditors			
Creditors arising out of direct insurance operations		**37**	37
Creditors arising out of reinsurance operations		**798**	702
Amounts owed to credit institutions	36	**20**	15
Amounts owed to Group undertakings		**1,009**	5,058
Other creditors (including taxation and social security)	38	**218**	191
		2,082	6,003
Accruals and deferred income		**213**	225
Total shareholders' funds and liabilities		**12,410**	16,739

The attached notes on pages 27 to 80 form an integral part of these financial statements.

The financial statements were approved on 2 March 2023 by the Board of Directors and are signed on its behalf by:

Ken Anderson
Chief Financial Officer

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Basis of preparation and significant accounting policies

1) Basis of preparation

The Company is a wholly owned subsidiary of Royal Insurance Holdings Limited and is incorporated and domiciled in the UK. The Company's ultimate parent company and controlling party is IFC. RSA Insurance Group Limited (RSAIG) is the immediate parent company and is registered in England and Wales. RSAIG has prepared its consolidated financial statements in accordance with UK-adopted International Accounting Standards and the requirements of Companies Act 2006.

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

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Board has reviewed the Company's ongoing commitments for the next twelve months and beyond. The Board's assessment included review of the Company's strategic plans and latest forecasts, capital position and liquidity including on demand capital funding arrangements with IFC. Current economic uncertainty has been considered, including the war in Ukraine, rising inflation, post Covid-19 impacts and transition to a post Brexit environment. These assessments include stress and scenario testing and consider significant areas of risk and uncertainty for the Company in the current challenging economic environment. Scenarios considered include a market risk shock involving several component stresses, plus deterioration of the underwriting result and a subsequent catastrophe loss. In making their assessment, the Board have reviewed the latest position on business interruption losses and availability of reinsurance to recover incurred claims and there has been no significant change in the estimated ultimate position based on these updates. The Board have considered the impact of events after the balance sheet date with none identified which could impact the Company's ability to continue as a going concern. Based on this review no material uncertainties have been identified in relation to the ability of the Company to remain a going concern for at least the next twelve months, from both the date of the balance sheet and the approval of the financial statements.

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 accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure 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 (IAS 8.30-31)
- Certain disclosures required by IFRS 16 Leases
- Disclosures in respect of the compensation of Key Management Personnel
- Disclosures in respect of transactions between two or more wholly owned subsidiaries of the group
- Disclosures required by IFRS 5 Non-current Assets Held for Sale and Discontinued Operations in respect of the cash flows of discontinued operations

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

- Certain disclosures required by IAS 36 Impairment of Assets in respect of the impairment of goodwill and indefinite life intangible assets
- 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
- 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 Limited, which prepares group financial statements. The Annual Report and Accounts containing these consolidated financial statements can be found at www.rsainsurance.co.uk.

2) Adoption of revised accounting standards

There are a small number of narrow scope amendments to standards that are applicable to the Company for the first time in 2022, none of which have had a significant impact on the financial statements.

The following narrow scope amendments have been adopted by the Company:

Extension of the temporary exemption from applying IFRS 9

IFRS 9 has been issued to replace IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39). IFRS 4 'Insurance Contracts' (IFRS 4) permits an insurance company that meets the criteria a temporary exemption from applying IFRS 9 and continue to apply IAS 39. The exemption has been extended by two years to annual periods beginning before 1 January 2023.

The Company meets the criteria and has elected to defer the application of IFRS 9 to the reporting period beginning on 1 January 2023, alongside IFRS 17.

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Interest Rate Benchmark Reform (IBOR) —Phase 2

In August 2020, the IASB issued amendments to IAS 39, IFRS 7 'Financial instruments: Disclosures' (IFRS 7), IFRS 4 and IFRS 16 'Leases' (IFRS 16). The amendments complement those issued in 2019 and focus on the effects on financial statements when an entity replaces an old interest rate benchmark with an alternative risk-free rate (ARRs) as part of the IBOR reform.

The amendments clarify that, if the contractual cash flows of a financial instrument are modified as a result of the reform, an entity updates the effective interest rate to reflect the change instead of derecognising it or adjusting its carrying amount. In addition, hedge accounting relationships shall not be discontinued if changes are required by the reform, as long as the hedge meets other hedge accounting criteria.

The Company's exposure to IBORs (Interbank Offered Rates) that have yet to transition from LIBOR and USD IBOR to Sterling Overnight Index Average (SONIA) and Secured Overnight Financing Rate (SOFR) is £34m as at 31 December 2022 and relates to illiquid investments.

Given the transition to ARRs has no significant impact on the Company, there has been no significant change in the risk management strategies as result of the IBOR reform. The amendment did not impact the financial statements.

Other standards

Other amendments to UK-adopted IAS became mandatory as of 1 January 2022. The Company has evaluated these changes, none of which have had a significant impact on the financial statements.

From 1 January 2023, the financial statements of the Company will be prepared in accordance with UK-adopted International Accounting Standards (IAS) and the requirements of the Companies Act 2006.

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.

(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 balance sheet 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 profit and loss account are translated at average exchange rates during each period
- All resulting exchange differences are recognised in other comprehensive income within the foreign currency translation reserve

When a branch or the business of the 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

Internally developed and externally acquired software

The Company capitalises internal and external 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 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 is reviewed on an annual basis.

Where no future economic benefits are expected from its use or disposal, the software asset is derecognised. Any gain or loss arising from the derecognition of the asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is recognised in profit or loss when the asset is derecognised.

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.

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Impairment of intangible assets

Intangible assets not yet available to use are subject to an impairment test on an annual basis or more frequently if there has been an indication of impairment. 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.

Intangible assets 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 18.

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

(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 property and equipment 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. Impairment losses on non-revalued assets are recognised in the profit and loss account. Impairment losses on revalued assets are recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Impairment losses may be subsequently reversed if there is a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the increased carrying amount of an asset shall not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are recognised in the profit and loss account except for reversals of impairment losses on revalued assets which are recognised in other comprehensive income similarly to the initially recorded impairment loss.

(iv) Leases

The Company as lessee

A lease liability and right-of-use asset is recognised for all lease obligations the Company has 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; and lease contracts for which the underlying asset is of low value.

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. The discount rate is the rate implicit in the lease, except where this rate cannot be readily determined, in which case the Company's incremental borrowing rate is used. 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 initial direct costs incurred to obtain the lease, restoration provisions and any lease payments made before the commencement of the lease.

The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses. It is depreciated over the shorter of the useful life or the period of the contract on a straight line basis. The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Tangible assets' policy.

The lease liability is subsequently remeasured when there are changes in lease term, in the expectation regarding whether a purchase option would be exercised or not, in any expected residual value guarantee or changes in variable lease payments that are dependent upon an index or rate (from the date that these take effect).

Remeasurements in the lease liability are reflected in the measurement of the corresponding right-of-use asset with reductions being restricted to the carrying value with any remaining remeasurement being recognised in the profit and loss account.

The Company as lessor

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 classified as an operating lease (see 'Investment property' accounting policy).

When the Company is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

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Amounts due from lessees under finance leases are recognised as receivables within other debtors at the amount of the Company's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of retum on the Company's net investment outstanding in respect of the leases. Finance lease income is calculated with reference to the gross carrying amount of the lease receivables.

(v) 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 19. 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 19. 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.

(vi) 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)
- Available for sale (AFS)
- Cash and cash equivalents
- Loans and receivables
- Financial liabilities
- Derivatives not designated as hedging instruments

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

Category	Financial instrument	Description	Subsequent measurement	Recognition of change in fair value
Designated FVTPL on initial recognition	Debt 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
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 applying the income approach using discounted cash flows	Other comprehensive income - unrealised gains/(losses) Profit & loss account – realised gains/(losses) when derecognised; Investment expenses, charges and interest when impaired
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
Derivative assets/ (liabilities) not designated as hedging instruments	Derivative assets/(liabilities) not designated as hedging instruments	Economic hedges that do not qualify for hedge accounting	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

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 or derivatives not designated as hedging instruments 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.

Financial assets are impaired according to either a debt, equity, or loans and receivables impairment model. The appropriate impairment model is determined based on the characteristics of each instrument.

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.

An equity security is considered impaired if there is objective evidence that the cost may not be recovered. In addition to qualitative impairment criteria, a significant or prolonged decline in fair value below cost is considered as indication of potential impairment. Impairment is considered to have occurred when the decline in fair value relative to cost has been more than 25% for a continuous nine-month period. Unless there is evidence to the contrary, an equity security is also considered impaired when the decline in fair value relative to cost is more than 50% at the end of the reporting period, or when it has been in an unrealised loss position for a continuous fifteen-month period. Where there is objective evidence that impairment exists, the cumulative unrealised loss previously recognised in other comprehensive income is reclassified to the profit and loss account.

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

IFRS 9 'Financial Instruments'

IFRS 9 has been issued to replace IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39). IFRS 4 permits an insurance company that meets the criteria a temporary exemption from applying IFRS 9 and to continue to apply IAS 39 for annual periods beginning before 1 January 2023. The exemption has been extended by two years to annual periods beginning before 1 January 2023.

The Company meets the criteria and has elected to defer the application of IFRS 9 to the reporting period beginning on 1 January 2023, alongside IFRS 17.

Information required by IFRS 4 when applying the temporary exemption can be found in note 5 and note 21.

(vii) 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.

Insurance debtors

Premium debtors due from policyholders or intermediaries at the end of the reporting period are presented within debtors arising out of direct insurance operations (policyholders) and debtors arising out of direct insurance operations (intermediaries) in the balance sheet. 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 insurance contract. Impairment losses for non-recoverable amounts are charged to administrative expenses in the profit and loss account and directly reduce the carrying amount of insurance debtors in the balance sheet.

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).

Gains or losses on buying retroactive reinsurance are recognised in the profit or loss account immediately at the date of purchase and are not amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the profit and loss account and balance sheet as appropriate.

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 in 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.

(viii) Other technical income

Other technical income is comprised principally of:

- Administration fee income is received from policyholders in order for certain changes to be made 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 service is provided whilst the relevant business is earned.

(ix) Current and deferred tax

Current 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 (OCI) or directly in equity. Any exceptions permitted under IAS 12 'Income Taxes' are disclosed in the notes. To the extent that deferred tax assets are recognised or derecognised in the period and it is not possible to attribute this directly to either the profit and loss account or OCI, as is the case typically for brought forward tax losses, then these amounts are attributed between the profit and loss account and OCI transactions using a reasonable pro rata split based on historical movements.

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

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

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

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

IFRIC 23 is applied to the recognition and measurement of both current and deferred tax assets and liabilities. In cases where the applicable tax regulation is subject to interpretation, the positions taken in tax returns are recognised in full in the determination of the tax charge in the financial statements, if the Company considers that it is probable that the taxation authority will accept those positions. Otherwise, provisions are established based on management's estimate and judgement of the likely amount of the liability/recovery by providing for the single best estimate of the most likely outcome or the weighted average expected value where there are multiple outcomes.

(x) Employee benefits

Post employment benefits and obligations

The Company operates both defined contribution and defined benefit 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 refers to any other pension scheme; specifically, the Company's defined benefit schemes define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

The value of the net defined benefit liability/asset recognised in the 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 14.

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/maturity 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.

The cash-settled awards are recognised as an expense over the vesting period with a corresponding financial liability reported in other creditors. This liability is remeasured at each reporting date based on the current share price, with any fluctuations in the liability also recorded as an expense until it is settled.

(xi) Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of past events that are more likely than not to result in an outflow of economic resources in order to settle the obligation, and the amount of that outflow can be reliably estimated.

The associated expense of the reorganisation provisions is recognised in the administrative expenses of the profit and loss account and comprises of reorganisation, acquisition and integration costs.

Reorganisation costs represent external and clearly identifiable internal costs that are necessarily incurred and directly attributable to the Company's restructuring programme that was completed in 2020. The aim of the restructuring programme was to both reduce operating costs and improve profitability.

Acquisition costs represent expenses incurred to effect the acquisition of RSA by IFC and include restructuring costs incurred prior to the acquisition.

Integration costs represent expenses directly attributable to the integration of the Company into IFC. They predominantly include restructuring costs incurred after the acquisition.

Employee termination costs included in the administrative expenses are only recognised when they are part of a restructuring programme or a detailed plan of redundancies that has been communicated to those affected. The employee termination costs that are uncertain in terms of their amount and timing are included within provisions (see note 35).

(xii) 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.

(xiii) 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.

(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, debtors arising out of direct insurance operations (policyholders), debtors arising out of reinsurance operations, deposits with ceding undertakings, creditors arising out of direct insurance operations, amounts owed to group undertakings, accruals and deferred income, accrued interest and rent and amounts owed to credit institutions.

The following balances are generally classified as non-current: intangible assets, tangible assets, investments; shares in group undertakings, land and buildings and deferred taxation.

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

4) Significant accounting estimates and judgements

In preparing these financial statements, management has made judgements and calculated estimates in accordance with the Company's accounting policies. Estimates are based on management's best knowledge of current circumstances and expectation of future events and actions, which may subsequently differ from those used in determining the accounting estimates.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The most significant estimates are described below. Additional information on estimation techniques and assumptions is presented in the relevant note in order to provide context to the figures presented.

(i) Valuation of claims outstanding

The Company makes judgements when determining the assumptions used in the estimation of the eventual outcome of the claim events that have occurred but remain unsettled at the end of the reporting period. The methodology of measuring claims outstanding is described below. The results of applying this methodology and assumptions applied are set out in note 34.

The assumptions used in the estimation of the ultimate outcome of the claim events that have occurred but remain unsettled at the end of the reporting period. Key assumptions include prior experience and trends to the extent they are a reliable guide to future outcomes, changes in various key areas such as pricing, underwriting, claims, reinsurance, inflation and the wider economic environment, which could affect claims experience, and Covid-19 estimates which remain a heightened area of uncertainty with respect to the valuation of the insurance contract liabilities. Covid-19 business interruption (BI) gross claims cost uncertainty remains high but reduces over time as initial estimates are replaced with maturing claims and case information, updates for which have been included in the claims estimates at 31 December 2022. Key points which could give rise to significant changes in the BI claims cost estimates continue to be challenged (and appealed) in high profile industry court cases such as Stonegate. These uncertainties are likely to persist for some time and, in the meantime, our booked reserves reflect our up-to-date views on the expected outcomes and are supported by our latest legal advice The ultimate Covid-19 BI claims liability could be materially different from the current estimate as claims information develops further, as legal and regulatory interpretations throughout the industry evolve and clarify the criteria for eligible claims and the level of cover available and as claims information matures given the complexity. Whilst the Company has considerable reinsurance protection against changes in gross estimate, the net estimate is dependent on the extent to which losses are recoverable under the reinsurance contracts and how this compares to the Company's expectations. Aside from direct BI losses, Covid-19 has increased the level of estimation uncertainty for many classes of business and loss types with key assumptions impacted such as frequency, severity and claims development patterns. Many of the drivers of the uncertainty in these areas are external factors and require estimation to assess the impact.

In addition, management continually monitors claims experience, emerging trends and changes in the business or in the external environment to help ensure the key assumptions and estimation techniques used to determine best estimate provisions reflect up-to-date information and remain appropriate. As a result of management's review given the current uncertain economic environment, including inflationary increases, and in alignment with IFC practice, reserves have been strengthened during 2022 and additional margin is held. Given the emergence of increased inflation trends over the past 1-2 years, our Inflation Committee and Working Groups have increased the frequency of meetings and depth of analysis, new methods have been adopted in some areas, increasing weight has been assigned to more recent trends where appropriate, and extensive sensitivity analysis has been carried out to help inform selections. An external reserve review was commissioned and completed on major segments of our reserves during 2022 to give management comfort that our internal estimates were robust and reflected external perspectives. The Adverse Development cover (ADC) reinsurance contract placed in late 2021 provides significant protection against inflation increases on 2020 and prior accident years.

Climate change trends are giving rise over time to different weather patterns and therefore general insurance claims experience. During 2022, the UK observed severe windstorms in February and record high temperatures in the summer, leading to heightened storm, subsidence and fire loss experience in the year. It is possible that climate change is a factor in this weather experience. The judgements made in respect of claims reserves and claims provisions take our observed reported experience into account and use common actuarial techniques to estimate ultimate costs. When we selected our future weather event claims experience assumption for our operational plan, we consider average experience over a recent period plus a judgemental allowance in recognition of climate change trends, along with any other relevant considerations such as exposure changes.

Refer to note 34 for additional information.

(ii) Recognition of deferred tax assets

Recognition of deferred tax assets: availability of future taxable profits against which deductible temporary differences and tax losses carried forward can be utilised. Management apply judgement in the application of contingency on the estimation of future forecast taxable profits in determining the value of deferred tax asset to be recognised. Management use a 5 year forecast period when calculating future forecast taxable profits (previously 7 years). There has been a £114m increase in the deferred tax asset at 31 December 2022. This has been predominantly driven by the recognition of a deferred tax asset of £79m in respect of unrealised losses on the available-for-sale bond portfolio and £35m relating to the increase in forecast profits. The increase in forecast profits includes the impact of the transition to IFRS17. Refer to note 28 for additional information.

(iii) Measurement of defined benefit obligations

Measurement of defined benefit obligations: the use of key actuarial assumptions, such as discount rates, inflation rates and mortality rates. The valuation of the defined benefit pension schemes is sensitive to small changes in key assumptions. The setting of assumptions involves significant judgment by Management. Updates to the inflation and mortality assumptions have been made at 31 December 2022 following advice from Management's in house pension specialists, supported by independent third party actuarial advice. These updates result in a net balance sheet gain of £30m. The asset valuation on the UK pension scheme requires assumptions to be made around the complex and bespoke arrangement that provides coverage against longevity risk. Refer to note 14 for additional information.

(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.

Fair value has been calculated by applying the income approach which uses discounted cash flow valuation models to assess the present value of expected future economic benefits for the major operating entities. Key assumptions relate to discount rate, growth rate and cash flows. Cash flows are based on the latest Board approved operational plan.

The remaining subsidiaries are held at fair value which has been determined to be net asset value. Net asset value includes intercompany balances with RSAI Limited. There is a corresponding intercompany creditor within amounts owed to Group undertakings. In the event that intercompany balances are settled, the fair value of shares in group undertakings would reduce with a corresponding reduction in amounts owed to Group undertakings.

Sensitivities have been used to assess the impact of changes in key assumptions on fair value, details of which can be found in note 20.

(v) Measurement and impairment of intangible assets

Management apply judgement in the valuation of the recoverable amount and the estimation of the useful economic life. In the year to 31 December 2022, £30m of internally generated software assets were identified as no longer generating future economic benefit and were derecognised (12 months to 31 December 2021: £70m).

Refer to note 18 for additional information.

(vi) Valuation of level 3 financial assets and investment property

Significant unobservable inputs are used by the Company in the valuation of level 3 financial assets and investment properties. The current ongoing economic uncertainty means that asset valuation techniques that rely on unobservable inputs have a greater degree of estimation uncertainty. Refer to note 22 for additional information.

Management apply judgement when deciding how to classify financial instruments for which immediate prices are available as being level 1 in the fair value hierarchy and financial assets for which observable prices are also available as level 2 on the basis of a lower level of activity in the market from which those prices are quoted. Refer to note 22 for additional information.

In addition, management apply judgement in determining if there is objective evidence of impairment. In the year to 31 December 2022, £10m of impairments have been recognised (2021: £6m) (note 8). The value of unrealised losses, net of tax, in the revaluation reserve at 31 December 2022 is £562m (31 December 2021: losses of £2,112m) (note 32).

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 investment properties 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) together with factoring in the occupational lease terms and tenant covenant strength as appropriate.

The areas where management has applied judgement are as follows:

- Classification of financial assets in the fair value hierarchy: management apply judgement when deciding to classify financial instruments for which immediate prices are available as being level 1 in the fair value hierarchy and financial assets for which observable prices are also available as level 2 on the basis of a lower level of activity in the market from which those prices are quoted. Refer to note 22 for additional information.
- Impairment of financial assets: determining if there is objective evidence of impairment requires judgement and, in the year to 31 December 2022, £10m of impairments have been recognised on a continuing operations basis (31 December 2021: £nil). Refer to note 8 for additional information. The value of unrealised losses from continuing operations in the revaluation reserve at 31 December 2022 is £461m (31 December 2021: losses of £2,112m). Refer to note 32 for additional information.
- Valuation of intangible assets: Determining if existing internally generated software would no longer generate future economic benefit and should therefore be derecognised requires judgement. In the year to 31 December 2022, £30m of internally generated software assets were identified as no longer generating future economic benefit and were derecognised (12 months to 31 December 2021: £70m). Refer to note 18 for additional information.

The Audit Committee reviews the reasonableness of significant judgements and estimates.

Risk management

5) Risk management

Insurance risk

RSAIG, 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

(i) 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, claims management issues or policy wording interpretation 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. Annual policies allow the Company to respond to changing weather patterns when managing the global catastrophe risk. 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 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. For climate risk exposures, weather peril models and geolocation tools are employed to support sophisticated risk assessments and underwriting of residential and commercial properties.

Passing elements of our insurance risk to reinsurers is another key strategy employed in managing the Group's exposure to insurance risk, including protection against losses from severe weather events. 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 strategy is dependent on being able to secure reinsurance cover on appropriate commercial and contractual terms and the nature of the programme presents risks in that recoveries are contingent on the particular pattern of losses and aggregation across the Group.

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.

(ii) Reserving risk

Reserving risk refers to the risk that the Company's estimates of future claims 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. This is especially true due to the heightened uncertainty arising as the direct and indirect impacts of the Covid-19 pandemic evolve. 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, regional actuaries who estimate the actuarial indication of the required reserves based on claims experience, business volume, anticipated change in the claims environment and claims cost. This information is used by local reserving committees to recommend to the RSAIG Reserving Committee the appropriate level of reserves. 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 or assumed trends, future legislative changes and the emergence of latent exposures beyond levels assumed. The RSAIG Reserving Committee reviews these regional level submissions and recommends the final level of reserves. The RSAIG Reserving Committee is chaired by the Chief Financial Officer and includes the Chief Executive, Underwriting Director, Claims Director, Managing Directors for key business operating segments, Chief Actuary and Chief Risk Officer. A similar committee has been established for the UK operating segments. The RSAIG Reserving Committee monitors the decisions and judgments made by the operating segment as to the level of reserves to be held. It then recommends to the Board via the Audit Committee the final decision on the level of reserves to be included within the financial statements. In forming its collective judgment, 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. These risks and developments include: the possibility of future legislative change having a retrospective effect on open claims or changes in interpretation or regulatory application of existing legislation; changes in claims settlement practice or procedures and supply chain delays potentially leading to future claims payment patterns differing from historical experience; the possibility of new types of claim arising either from changes in business mix, or, such as disease claims emerging from historical business; general uncertainty in the claims environment and emerging claims trends; the emergence of latent exposures; the outcome of litigation on claims received; failure to recover reinsurance as the Company expects and unanticipated changes in claims inflation.
- How previous actuarial indications have developed as claims experience has evolved.
- 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 both external actuarial consultants and the IFC Group Actuarial Function to assess the reasonableness of regional actuarial indication estimates.
- Emerging trends where Covid-19 has caused changes in experience along with analysis to demonstrate the impact on reserving estimates. Some areas such as business interruption have observed direct claims, whereas other lines have seen indirect changes in policyholder behaviour such as reduced motor frequency during lockdown which can change the mix of claims.
- Changes in the external claims environment in areas such as legal and medical activities, settlement & supply chain delays which impact the speed of claims development. The distortions in data caused by Covid-19 means identification of trends is more difficult than normal. Claims experience may exhibit different characteristics and runoff trends compared to historic experience, resulting in increased uncertainty relating to actuarial indications of ultimate losses.
- Covid-19 claims experience, which continues to be monitored closely and the Group is engaging with its reinsurers as payment and settlement activity grows. Whilst experience has tracked in line with expectations to this stage, many key areas of uncertainty remain such as the value of eligible claims and the extent to which reinsurance will ultimately respond compared to how the Group expects. The current assessment of Claims liabilities reflects court judgements across the jurisdictions that the business operates in, including those recently announced in the UK in October 2022. These most recent judgments are complex and create a number of uncertainties and the Company will continue to monitor the progression of the judgments, including the appeals.
- There is considerable uncertainty in the economic environment beyond 2022, and changes such as ongoing inflationary pressure could have an impact on claims costs. This is a key uncertainty that is monitored by the RSAIG Reserving Committee with sensitivity testing to monitor, assess and understand potential impacts should the risks manifest.

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).

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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 ensures that assets are closely matched in duration and currency with insurance liabilities to hedge volatility. The Company's credit risk exposure is largely concentrated in its predominantly Investment Grade fixed income investment portfolio reducing the risk of default. Also to a lesser extent credit risk exists in its premium receivables and reinsurance assets.

Credit risk is managed at both a Group level and at an operational 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 that 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 and local level. In addition, the Credit Ratings Review Committee reviews the credit ratings of material investment exposures and unrated investments.

The Group's credit risk appetite and credit risk policy are developed by the BRC and are reviewed and approved by the Board on an annual basis, to ensure limits remain within its quantitative appetite. 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 credit 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 Investment Grade 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 the Company's core fixed income investment manager as to the level of exposure to various credit 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 Reinsurance Credit Committee oversees the management of credit risk arising from the reinsurer failing to settle its liability to the Company. Group standards are set such that reinsurers that have a financial strength rating of less than 'A -' with Standard & Poor's, or a comparable rating, are rarely used and are excluded from the Group's list of approved reinsurers. The exceptions are fronting arrangements for captives, where some form of collateral is generally obtained, and some global network partners. At 31 December 2022 the extent of collateral held by the Company against reinsurers' share of insurance contract liabilities was £44m (2021: £36m), which in the event of a default would be called and recognised on the balance sheet.

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 monitors its aggregate exposures by reinsurer group, being total exposure (as defined in the Reinsurance Risk Management Policy (RRMP)) as a percentage of IFC's shareholders' equity, the maximum percentages allowed depending on the Reinsurer's financial credit rating. The Company regularly monitors its aggregate exposures by reinsurer group against predetermined reinsurer group limits, in accordance with the RRMP. The Company's largest reinsurance exposures to active reinsurance groups are Berkshire Hathaway, Lloyd's of London and Talanx. At 31 December 2022 the reinsurance asset recoverable from these groups does not exceed 7.3% (2021: 6.3%) of the Company's total financial assets.

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The credit profile of the Company's assets exposed to credit risk is shown below. The table below sets out the Company's aggregated credit risk exposure for its financial and insurance assets.

As at 31 December 2022

	Credit rating relating to financial assets that are neither past due nor impaired						
	AAA £m	**AA £m**	**A £m**	**BBB £m**	**<BBB £m**	**Not rated £m**	**Total financial assets that are neither past due nor impaired £m**
Debt and other fixed income securities	**1,279**	**977**	**867**	**929**	**137**	**-**	**4,189**
Of which would qualify as solely for payment of principal and interest (SPPI) under IFRS 9[1]	**1,279**	**975**	**864**	**739**	**28**	**-**	**3,885**
Other loans	**-**	**-**	**83**	**275**	**75**	**-**	**433**
Reinsurers' share of technical provisions	**-**	**466**	**1,672**	**23**	**59**	**3**	**2,223**
Insurance and reinsurance debtors[2]	**4**	**21**	**1,010**	**31**	**43**	**569**	**1,678**
Derivative assets	**-**	**-**	**50**	**-**	**-**	**-**	**50**
Cash at bank and in hand	**69**	**1**	**68**	**-**	**4**	**-**	**142**

Notes:
1. The debt securities meeting solely for payment of principal 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. Credit risk of this balance is managed through close monitoring of ageing profiles and cover can be cancelled if payment isn't received in accordance with agreed credit terms.

As at 31 December 2021

	Credit rating relating to financial assets that are neither past due nor impaired						
	AAA £m	AA £m	A £m	BBB £m	<BBB £m	Not rated £m	Total financial assets that are neither past due nor impaired £m
Debt and other fixed income securities	824	1,151	1,055	886	142	-	**4,058**
Of which would qualify as solely for payment of principal and interest (SPPI) under IFRS 9[1]	824	1,135	1,043	744	-	-	**3,746**
Other loans	-	-	74	243	42	-	**359**
Reinsurers' share of technical provisions	-	465	1,496	25	37	5	**2,028**
Insurance and reinsurance debtors[2]	-	29	924	42	42	634	**1,671**
Derivative assets	-	-	47	-	-	-	**47**
Cash at bank and in hand	-	-	62	-	4	-	**66**

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. Credit risk of this balance is managed through close monitoring of ageing profiles and cover can be cancelled if payment isn't received in accordance with agreed credit terms

With the exception of government debt securities, the largest single aggregate credit exposure does not exceed 3% (2021: 2%) of the Company's total financial assets.

Ageing of financial assets that are past due but not impaired

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired:

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As at 31 December 2022

	Note	Neither past due nor impaired £m	Financial assets that are past due but not impaired				Financial assets that have been impaired £m	Balance sheet carrying value £m	Impairment losses charged to the Profit and Loss account £m
			0-3 months £m	3-6 months £m	6-12 months £m	Greater than 12 months £m			
Debt and other fixed	21	4,189	-	-	-	-	-	4,189	-
Other loans	21	433	-	-	-	-	-	433	-
Reinsurers' share of technical provisions	24, 25	2,223	-	-	-	-	-	2,223	-
Insurance and reinsurance debtors[1]		1,678	25	29	4	2	7	1,745	3
Derivative assets	21	50	-	-	-	-	-	50	-
Cash at bank and in		142	-	-	-	-	-	142	-

[1] Debtors with similar credit risk characteristics are collectively assessed for impairment with provisions being made based on past experience.

As at 31 December 2021

	Note	Neither past due nor impaired £m	Financial assets that are past due but not impaired				Financial assets that have been impaired £m	Balance sheet carrying value £m	Impairment losses charged to the Profit and Loss account £m
			0-3 months £m	3-6 months £m	6-12 months £m	Greater than 12 months £m			
Debt and other fixed	21	4,058	-	-	-	-	-	4,058	-
Other loans	21	359	-	-	-	-	-	359	-
Reinsurers' share of technical provisions	24, 25	2,028	-	-	-	-	-	2,028	-
Insurance and reinsurance debtors[1]		1,671	7	3	2	1	15	1,699	11
Derivative assets	21	47	-	-	-	-	-	47	-
Cash at bank and in hand		66	-	-	-	-	-	66	-

[1] Debtors with similar credit risk characteristics are collectively assessed for impairment with provisions being made based on past experience

Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations in 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 investments in group undertakings with international businesses through foreign currency risk. Market risk is subject to the BRC's 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

At 31 December 2022 the Company held investments classified as AFS equity securities of £186m (2021: £326m). These include interests in structured (as discussed in note 23) 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 and in group occupied properties which are subject to property price risk. A decrease of 15% in property prices would result in the recognition of losses of £43m (2021: £55m) in the profit and loss account and £3m (2021: £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 impact as the tax position is affected by other factors, including current year profitability and the ability to recognise deferred tax assets.

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 both the fair value and amount of variable returns on existing assets as well as the cost of acquiring new fixed maturity investments.

Given the composition of the Company's investments as at 31 December 2022, 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 and cash that are subject to interest rate risk.

Changes in the profit and loss account and OCI:

	(Decrease)/Increase in profit and loss account		Decrease in other comprehensive income	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Increase in interest rate markets:				
Impact on fixed income securities of increase in interest rates of 100bps	**(56)**	10	**(59)**	(132)

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 2023 and 1 January 2022 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 and incurring liabilities in currencies other than the currency of the primary environment in which the operating segments 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 subsidiaries the Company is exposed to the risk that fluctuations in foreign exchange rates impact the reported profitability of foreign operations to the Company, and the value of its net investment in foreign operations.

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 at a Company level through currency forward contracts, swaps and foreign exchange options within predetermined limits set by the Company Board. In managing structural currency risk the needs of the Company's subsidiaries 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 Euro or US Dollar exchange rates on shareholders' funds as at 31 December:

	10% strengthening in Pounds Sterling against Euro	10% weakening in Pounds Sterling against Euro	10% strengthening in Pounds Sterling against United States Dollar	10% weakening in Pounds Sterling against United States Dollar
	£m	£m	£m	£m
2022	**19**	**(24)**	**(1)**	**1**
2021	20	(25)	(6)	7

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 Company maintains additional liquidity facilities for contingency purposes. These facilities included uncommitted overdraft arrangements, as well as the ability to enter repurchase agreements to cover short-term fluctuations in cash and liquidity requirements.

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 estimated duration until settlement.

As at 31 December 2022

	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Greater than five years £m	Total £m	Balance Sheet carrying value £m
Technical provisions - claims outstanding	**2,247**	**856**	**473**	**306**	**196**	**1,167**	**5,245**	**5,245**
Creditors arising out of direct insurance operations	**37**	**-**	**-**	**-**	**-**	**-**	**37**	**37**
Creditors arising out of reinsurance operations	**532**	**197**	**69**	**-**	**-**	**-**	**798**	**798**
Amounts owed to credit institutions	**20**	**-**	**-**	**-**	**-**	**-**	**20**	**20**
Amounts owed to group undertakings	**1,009**	**-**	**-**	**-**	**-**	**-**	**1,009**	**1,009**
Derivative trading liabilities	**-**	**8**	**4**	**3**	**-**	**10**	**25**	**25**
Lease liabilities	**7**	**8**	**8**	**4**	**3**	**26**	**56**	**43**
Total	**3,852**	**1,069**	**554**	**313**	**199**	**1,203**	**7,190**	**7,177**

As at 31 December 2021

	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Greater than five years £m	Total £m	Balance Sheet carrying value £m
Technical provisions - claims outstanding	2,162	907	499	289	190	803	4,850	4,850
Creditors arising out of direct insurance operations	37	-	-	-	-	-	37	37
Creditors arising out of reinsurance operations	472	176	54	-	-	-	702	702
Amounts owed to credit institutions	15	-	-	-	-	-	15	15
Amounts owed to group undertakings	5,058	-	-	-	-	-	5,058	5,058
Derivative trading liabilities	1	-	2	4	1	41	49	49
Lease liabilities	8	6	4	4	1	4	27	24
Total	7,753	1,089	559	297	192	848	10,738	10,735

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 14.

Capital management

It is a key regulatory requirement that the Company maintains sufficient capital to support its exposure to risk. Accordingly, the Company's capital management strategy is closely linked to its monitoring and management of risk. The Company'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 shareholder.

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 adequate regulatory capital. In addition the Company 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 2022

The Company operates a Prudential Regulation Authority (PRA) approved Solvency II Internal Model which forms the basis of the primary Solvency II solvency capital ratio (SCR) measure. The internal model is used to support, inform and improve the Company's decision making. It is used to inform the Company's optimum capital structure, its investment strategy, its reinsurance programme and target returns for each portfolio.

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As at 31 December 2022, the Company's unaudited estimated coverage of its Solvency II SCR is approximately 1.7 times (31 December 2021: 1.8 times).

Own risk and solvency assessment (ORSA)

The Solvency II directive introduced a requirement for undertakings to conduct an ORSA. RSA received approval in June 2021 from the PRA to produce a single ORSA report covering the UK entities because there is no material difference in risk profile between the Group and the main insurance entity, the Company.

The Group defines its ORSA as a series of interrelated activities by which it establishes:

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

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

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

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

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

The ORSA report was delivered to the Board in July 2022. This outlined the balance sheet resilience to market stresses through the consideration of reverse stress testing, based on market and pensions impacts. Further consideration of market and insurance stresses were presented at the November 2022 BRC. Analysis of the PRA Natural Catastrophe and Cyber stress tests demonstrated the resilience of the underwriting discipline and reinsurance protection. A combined market and insurance shock was used to illustrate the robust capital position and forecast capital generation. Analysis of the capital risk appetite was assessed with respect to these stresses, and demonstrated to be appropriate even through a period where the SCR is reducing.

Notes to the financial statements

6) Segmental information by business class and geographical area

a) By business class

2022	Motor £m	Fire & property £m	Marine Aviation & Transport £m	Third Party Liability £m	Assistance £m	Other £m	Re-insurance £m	Total £m
Gross written premium	**818**	**1,082**	**144**	**328**	**-**	**258**	**1,133**	**3,763**
Gross premiums earned	**732**	**1,121**	**151**	**313**	**-**	**260**	**1,140**	**3,717**
Gross claims incurred	**(774)**	**(721)**	**(71)**	**(175)**	**-**	**(156)**	**(656)**	**(2,553)**
Operating expenses[1]	**(73)**	**(441)**	**(52)**	**(104)**	**(1)**	**(87)**	**(287)**	**(1,045)**
Gross technical result	**(115)**	**(41)**	**28**	**34**	**(1)**	**17**	**197**	**119**
Reinsurance result	**(10)**	**(96)**	**(27)**	**(35)**	**-**	**1**	**1**	**(166)**
Net technical result	**(125)**	**(137)**	**1**	**(1)**	**(1)**	**18**	**198**	**(47)**

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

2021	Motor £m	Fire & property £m	Marine Aviation & Transport £m	Third Party Liability £m	Assistance £m	Other £m	Re-insurance £m	Total £m
Gross written premium	661	1,117	135	328	-	258	1,348	3,847
Gross premiums earned	741	1,097	128	299	5	260	1,285	3,815
Gross claims incurred	(646)	(811)	(107)	(235)	(5)	(149)	(722)	(2,675)
Operating expenses[1]	(110)	(481)	(51)	(101)	(1)	(89)	(276)	(1,109)
Gross technical result	(15)	(195)	(30)	(37)	(1)	22	287	31
Reinsurance result	(85)	(132)	(16)	12	-	(12)	(8)	(241)
Net technical result	(100)	(327)	(46)	(25)	(1)	10	279	(210)

[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:	**2022**	2021
UK	**2,586**	2,461
Other	**44**	38
Total	**2,630**	2,499

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

Total commissions for direct insurance business accounted for by the Company during the year, excluding payments to employees, amounted to £383m (2021: £422m).

7) Exchange rates

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

	2022		2021	
	Cumulative average	**End of period**	Cumulative average	End of period
United States Dollar	**1.23**	**1.20**	1.37	1.35
Canadian Dollar	**1.61**	**1.64**	1.72	1.71
Euro	**1.17**	**1.13**	1.16	1.19
Danish Krone	**8.72**	**8.38**	8.65	8.86

Other comprehensive income contains £2m net gains (2021: £1m gains) on the retranslation of foreign currency items. The profit and loss account contains net losses of £3m (2021: £10m net gains) on the retranslation of foreign currency items.

8) Investment income, expenses and charges

A summary of the net investment return in the profit and loss account is given below:

	Investment income		Net realised gains/(losses)		Net unrealised gains/(losses)		Impairments		Total investment return	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
Investment property	**14**	16	**14**	(1)	**(27)**	44	**-**	-	**1**	59
Available for sale equity securities	**13**	6	**(9)**	3	**-**	-	**(10)**	-	**(6)**	9
Debt securities and other fixed income securities										
Available for sale	**87**	71	**(11)**	4	**-**	-	**-**	-	**76**	75
Other investments										
Other loans	**17**	67	**-**	-	**-**	-	**-**	-	**17**	67
Deposits, cash at bank and in hand	**1**	1	**1**	-	**-**	-	**-**	-	**2**	1
Derivatives	**-**	-	**(1)**	-	**33**	18	**-**	-	**32**	18
Total net investment return	**132**	161	**(6)**	6	**6**	62	**(10)**	-	**122**	229
Shares in group undertakings	**4,391**	6,914	**-**	-	**-**	-	**-**	-	**4,391**	6,914
Total	**4,523**	7,075	**(6)**	6	**6**	62	**(10)**	-	**4,513**	7,143

Investment expenses, charges and interest	**2022 £m**	2021 £m
Interest on loans from group undertakings	**(7)**	(8)
Other interest credits/(charges)	**2**	(7)
Investment management expenses	**(7)**	(22)
Impairment of shares and other variable yield securities and units in unit trusts	**(10)**	(6)
Total Investment expenses, charges and interest	**(22)**	(43)
Impairment of group undertakings	**(4,258)**	(4,199)
Net investment return	**243**	2,901

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 2022 or 2021.

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

	Net unrealised gains/(losses)		Net realised gains/(losses) transferred to profit and loss account		Impairments transferred to income statement		Net movement recognised in other comprehensive income	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Equity securities	**(19)**	4	**(9)**	3	**10**	-	**(18)**	7
Debt securities	**(431)**	(118)	**(11)**	4	**-**	-	**(442)**	(114)
Subsidiary undertakings	**(245)**	(2,030)	**-**	-	**-**	-	**(245)**	(2,030)
Total	**(695)**	(2,144)	**(20)**	7	**10**	-	**(705)**	(2,137)

9) Auditors' remuneration

Fees payable to KPMG LLP for the audit of the Company's accounts for the year ended 31 December 2022 were **£4,224,000** (31 December 2021: £4,967,000). The prior year figure includes the additional fees charged for the audit work performed as a result of the acquisition of the RSA business by IFC on 1 June 2021. Fees payable to KPMG LLP for the provision of non-audit services* for the year ended 31 December 2022 were **£253,000** (31 December 2021: £985,000). Audit fees of **£775,000** (2021: £542,000) were also paid by Royal & Sun Alliance Insurance Limited on behalf of certain subsidiary undertakings.

* Non-audit services fee includes **£229,000** (2021: £300,000) in relation to assurance work in respect of Royal & Sun Alliance Insurance Limited Solvency II reporting.

10) Directors' emoluments

The aggregate emoluments of the Company's directors were as follows:

	2022	2021
	£000	£000
Short term benefits (salaries, bonuses, allowances and other benefits)	**4,597**	7,147
Compensation for loss of office	**2**	6
Total	**4,599**	7,153

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

During 2022, £45,128 in retirement benefits were accrued for one director under defined benefit pension scheme (2021: Nil) and no contributions were made to defined contribution pension schemes (2021: £nil)

During 2022, no directors (2021: no directors) exercised share options, no directors (2021: three directors) had share awards vesting under long term incentive schemes in respect of ordinary shares of the Company, one director (2021: no directors) and two non-executive directors (2021: one) had Performance Share Units (PSUs) and Restricted Share Units (RSUs) vesting in the Group's ultimate parent company, IFC, as part of their remuneration for service as executives of IFC, and two non-executive directors (2021: two) had Deferred Share Units (DSUs) vesting in IFC, as part of their fee for their role on the IFC Board of Directors. The DSUs are redeemed upon director retirement or termination and are settled for cash afterwards.

The emoluments of the highest paid director were:

	2022	2021
	£000	£000
Short term benefits and compensation for loss of office	**1,700**	2,646

During 2022, no retirement benefits were accrued under defined benefit pension schemes (2021: £nil) and no contributions were made to defined contribution schemes (2021: £nil) in respect of the highest paid director.

During 2022 the highest paid director had no share awards vesting under long term incentive schemes in respect of ordinary shares of the Company (2021: the highest paid director had share awards vesting under long term incentive schemes).

11) Employee expenses

Staff costs for all employees comprise:

	2022 £m	2021 £m
Wages and salaries	**222**	210
Redundancy costs	**8**	10
Social security costs	**28**	22
Other Pension costs	**26**	28
Share-based payments to directors and employees (note 15)	**11**	22
Total staff costs	**295**	292

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 is as follows:

	2022	2021
UK & Ireland	**4,847**	4,728
Other	**15**	14
Total average number of employees during the year	**4,862**	4,742

Further information on pension obligations of the Company can be found in note 14. Further information on employee share schemes can be found in note 15.

12) Leases

The Company leases land and buildings to operate its business. The remaining lease terms for the main office premises range from 1 to 12 years (2021: 1 to 13 years).

The Company also leases office equipment, such as 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 3 for accounting policy).

Lease liabilities of £43m (2021: £24m) are included within other creditors in the balance sheet. The maturity analysis of lease liabilities can be found in note 5.

	2022	2021
	£m	£m
Balance at 1 January	**24**	55
Lease payments	**(10)**	(12)
Additions to lease liabilities	**24**	2
Interest on lease liabilities	**1**	1
Remeasurements	**4**	(22)
Balance at 31 December	**43**	24

Other amounts recognised in profit or loss

	2022	2021
Leases under IFRS 16	**£m**	£m
Interest on lease liabilities	**1**	1
Expenses relating to variable lease payments	**18**	8

13) Other technical income

	2022	2021
	£m	£m
Administration fee income	**1**	1
Instalment policy fee income	**11**	13
Service income	**9**	8
Other fees	**43**	41
Total other operating income	**64**	63

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

14) Post-employment benefits and obligations

Defined contribution pension schemes

Costs of £33m (2021: £30m) 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 balance sheet are as follows:

	£m	£m
Present value of funded obligations	**(5,391)**	(8,571)
Present value of unfunded obligations	**(4)**	(5)
Fair value of plan assets	**5,705**	9,297
Other net surplus remeasurements	**(110)**	(254)
Net IAS 19 surplus in the schemes	**200**	467
Defined benefit pension schemes	**200**	467
Schemes in surplus	**204**	472
Schemes in deficit	**(4)**	(5)

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 and future pension increases.

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.

UK Schemes

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 IAS 12 and so the surplus is recognised net of this tax charge rather than the tax charge being included within deferred taxation.

The profile of the members of the two main UK schemes at 30 June 2022 (the latest date at which full information is available) is as follows:

Deferred members - members no longer accruing and not yet receiving benefits	20,950
Pensioners - members and dependants receiving benefits	19,340
Total members at 30 June 2022	**40,290**

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% applies to benefits in excess of Guaranteed Minimum Pension prior to this date).

The UK schemes are managed through trusts with independent trustees responsible for safeguarding the interests of all members. The trustees meet regularly with Company 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.

The schemes use a range of physical assets and derivative instruments to protect against adverse movements in interest rates and inflation. In the case of interest rates, these provide protection against falls in rates which increase the value of a scheme's liabilities. However, when interest rates rise, the schemes are required to post collateral against the derivatives in order to maintain the same level of interest rate protection.

The schemes' liquidity position is closely monitored with a well-developed liquidity management plan to ensure that sufficient liquidity is available to meet any such collateral calls. As at 31 December 2022, the schemes are estimated to have sufficient immediately available liquidity (i.e. collateral headroom) to meet further rises in interest rates of more than **4%**. The schemes also hold other assets that could be liquidated within a week if needed.

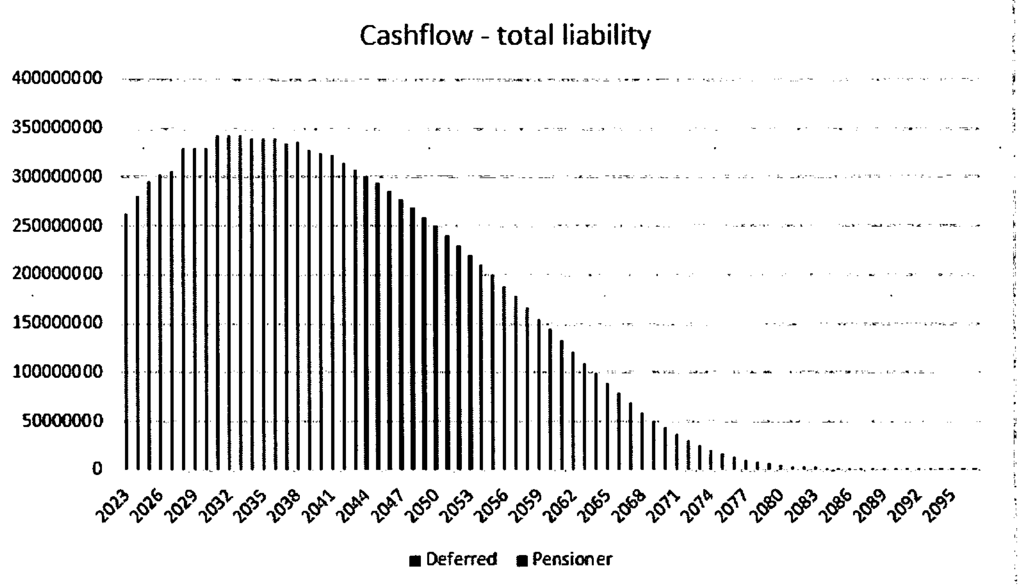
During 2009 the Company entered into an arrangement that provides coverage against longevity risk for 55% of the retirement obligations relating to pensions in payment of the two largest schemes at that time (c.30% coverage based on current pensioner population). The arrangement provides for reimbursement 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 2022 is £1,073m (2021: £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 UK funds is 31 March 2021.

At the most recent funding valuations, the main UK funds had an aggregate funding deficit of **£138m**, equivalent to a funding level of **98%**. The Company and the Trustees have agreed funding plans to eliminate the funding deficits by 2025. Details of the deficit contributions paid in 2022 and that are due to be paid in 2023 under these plans are disclosed below. The funding plans are being reviewed as part of the next triennial valuations which have an effective date of 31 March 2024.

For the two main UK defined benefit schemes, the level of contributions in 2022 was **£84m** (2021: £160m) of which **£75m** (2021: £150m) were additional contributions to reduce funding deficits. Expected contributions to the two schemes for the year ending 31 December 2023 are approximately £83m including **£75m** of additional contributions to reduce the deficit.

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



The weighted average duration of the defined benefit obligation of the two main UK schemes at the end of the reporting period is 13.5 years (2021: 17.5 years). The reduction since 2021 is a result of the significant rise in interest rates over the year which results in heavier discounting of cashflows to determine the defined benefit obligation at 31 December 2022.

All schemes

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

Movement during the year:

2022	Present value of obligations £m	Fair value of plan assets £m	Other net surplus remeasure ments £m	Net surplus/ (deficit) £m
At 1 January	(8,576)	9,297	(254)	467
Interest (expense)/income	(155)	170	-	15
Administration costs	-	(8)	-	(8)
Total (expenses)/income recognised in income statement	(155)	162	-	7
Return on scheme assets less amounts in interest income	-	(3,516)	-	(3,516)
Effect of changes in financial assumptions	3,201	-	-	3,201
Effect of changes in demographic assumptions	16	-	-	16
Experience losses	(188)	-	-	(188)
Investment expenses	-	(15)	-	(15)
Other net surplus remeasurements	-	-	144	144
Remeasurements recognised in other comprehensive income	3,029	(3,531)	144	(358)
Employer contribution		84	-	84
Benefit payments	307	(307)	-	-
At 31 December	(5,395)	5,705	(110)	200
Deferred tax				1
IAS 19 net surplus net of deferred tax				201

2021	Present value of £m	Fair value of plan £m	Other net surplus remeasurements £m	Net surplus/ (deficit) £m
At 1 January	(8,839)	9,342	(179)	324
Termination payments	(1)	-	-	(1)
Interest (expense)/income	(120)	129	-	9
Administration costs	-	(6)	-	(6)
Total (expenses)/income recognised in profit and loss account	(121)	123	-	2
Return on scheme assets less amounts in interest income	-	9	-	9
Effect of changes in financial assumptions	339	-	-	339
Effect of changes in demographic assumptions	(45)	-	-	(45)
Experience gains and losses	(237)	-	-	(237)
Investment expenses	-	(10)	-	(10)
Other net surplus remeasurements	-	-	(75)	(75)
Remeasurements recognised in other comprehensive income	57	(1)	(75)	(19)
Employer contribution	-	160	-	160
Benefit payments	327	(327)	-	-
At 31 December	(8,576)	9,297	(254)	467
Deferred tax				1
IAS 19 net surplus net of deferred tax				468

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The values of scheme assets are as follows:

	2022			2021		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equities	**3**	**3**	**6**	548	28	576
Government debt	**4,010**	**-**	**4,010**	6,566	-	6,566
Non-government debt	**991**	**785**	**1,776**	2,476	1,174	3,650
Derivatives	**-**	**(13)**	**(13)**	-	1,041	1,041
Property	**-**	**420**	**420**	-	658	658
Cash	**1,255**	**-**	**1,255**	85	-	85
Other	**-**	**295**	**295**	-	357	357
Investments	**6,259**	**1,490**	**7,749**	9,675	3,258	12,933
Value of asset and longevity swaps		**(2,044)**	**(2,044)**	-	(3,636)	(3,636)
Total assets in the schemes	**6,259**	**(554)**	**5,705**	9,675	(378)	9,297

Where assets are classified as unquoted the valuations are firstly:

- 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

During Q4 2022 firm bids were received for some of the unquoted and more illiquid assets at a discount to the valuations provided by the managers. While no final decision has been taken to sell these assets at the bid levels, these discounts have been applied in the valuations above based on a view that the bids reflect a more appropriate measurement technique for determining Fair Value under IFRS 13 at 31 December 2022. This reflects a change in accounting estimate under IAS 8 for the assets where bids have been received.

Assumptions

The weighted average principal actuarial assumptions used are:

	UK	
	2022 %	2021 %
Assumptions used in calculation of retirement benefit obligations:		
Discount rate	**4.86**	1.84
Annual rate of inflation (RPI)	**3.11**	3.35
Annual rate of inflation (CPI)	**2.46**	2.71
Annual rate of increase in pensions[1]	**2.96**	3.14
Assumptions used in calculation of pension net interest costs for the year:		
Discount rate	**1.84**	1.38

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

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 UK schemes follow industry-standard tables with percentage adjustments to reflect the schemes' recent experience compared with that expected under these tables.

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Reductions in future mortality rates are allowed for by using the CMI 2021 tables (2021: CMI 2020 tables) with a long term improvement rate of 1.25% (2021: 1.25%). For the year ended 31 December 2022, reductions in future mortality rates have been assumed to slow down temporarily as a result of Covid-19, this broadly reduces liabilities by around 0.7%. The weighted average assumptions imply that a current pensioner aged 60 has an expected future lifetime of 26.9 (2021: 27.1) years for males and 28.7 (2021: 28.9) years for females and a future pensioner aged 60 in 15 years' time has a future expected lifetime from age 60 of 27.8 (2021: 28.0) years for males and 29.7 (2021: 29.8) years for females.

Sensitivity analysis

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

	Changes in assumption	2022 £m	2021 £m
Discount rate	Increase by 0.25%	**(168)**	(356)
	Decrease by 0.25%	**178**	380
	Increase by 1.00%	**(624)**	(1,298)
	Decrease by 1.00%	**772**	1,684
RPI/CPI[1]	Increase by 0.25%	**112**	228
	Decrease by 0.25%	**(110)**	(226)
Core mortality rates[2]	Decrease by 13% (12% 2021)	**191**	355
	Increase by 13% (12% 2021)	**(172)**	(325)
Long-term future improvements to mortality rates	Increase by 0.25%	**29**	82
	Decrease by 0.25%	**(29)**	(81)

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

[2]Reducing the core mortality rates by **13%** is the equivalent of increasing the life expectancy of a male aged 60 years by **1** year at 31 December 2022.

15) Share-based payments

The total amount included within staff costs in the profit and loss account in respect of all share scheme plans in 2022 is set out below.

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

	2022	2021
	£m	£m
Performance share plan (PSP) - RSA shares	-	17
Save as you earn (SAYE) - RSA shares	-	3
Long term incentive plan (LTIP) - Intact shares	9	2
Save as you earn (SAYE) - Intact shares	2	-
Total	**11**	22

Analysis of new award costs:

	2022		2021	
	Charge for year	Total value granted	Charge for year	Total value granted
	£m	£m	£m	£m
PSP - RSA shares	-	-	3	3
SAYE - RSA shares	-	-	-	-
LTIP - Intact shares	4	15	2	8
SAYE - Intact shares	-	2	-	4
Total	**4**	**17**	5	15

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

For the year ended 31 December 2022 **149,583** number of share awards under the IFC LTIP were granted to employees. The weighted-average fair value of the share awards at the grant date was **C$163.43**, amounting to a total of **£15m**.

Save As You Earn - RSA Shares

SAYE was a Group all-employee plan until the completion of the takeover on 1 June 2021. Employees were able to elect to make monthly savings for a period of three years. In exchange, employees were granted an option to buy ordinary shares in the Group at the end of the savings period, with a pre-set option price – typically at a 20% discount. This plan gave tax advantages to participants from the UK. The SAYE scheme using RSA shares ended as a result of the completion of the takeover transaction. Participants could exercise their SAYE options early at completion of the takeover transaction to the extent of their accrued savings; or continue to save for up to 6 months following the takeover and then exercise their options.

The Company had accounted for the SAYE scheme as an equity-settled plan as awards were granted over the Group's own shares.

Long-Term Incentive Plan - IFC Shares

Since 1 June 2021, this plan has replaced the PSP. Executive directors, other selected executives and senior managers are eligible to participate in the LTIP to enable them to own shares in the ultimate parent company, IFC. Participants are awarded notional share units referred to as Performance Stock Units (PSUs) and Restricted Stock Units (RSUs). The PSU pay out is subject to the achievement of specific targets with regards to:

- IFC's estimated ROE outperformance versus an industry benchmark, based on a three-year average; or
- The three-year average combined ratio of the UK & International operations compared to a specific target.

RSUs ordinarily vest three years from the year of the grant. Vesting for RSUs is not linked to the Group's performance.

For Executive Directors and other specified roles, the Remuneration Committee defers a portion of an individual's gross bonus into an award over RSUs, which are also not subject to performance conditions.

If an employee resigns from the Group, then unvested PSUs and RSUs lapse at the date of leaving the Group. Awards retained vest on the normal vesting date.

Shares are purchased in the market to settle the awards.

The awards are initially estimated and valued at the weighted average fair value on the grant date, which corresponds to the total estimated charge at the grant date, divided by the total shares in issuance, as provided by Intact Financial Corporation.

As the Company has the obligation to settle the liabilities of LTIP awards, which grant rights to receive shares in the ultimate parent company, IFC, it is accounted for as a cash-settled plan. This means the cost of the awards is recognised as an expense over the vesting period and the liability is remeasured at each reporting period based on the number of awards that are expected to vest and the current share price, with any fluctuations in the liability also recorded as an expense until it is settled.

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Save As You Earn - Intact Shares

Since 1 June 2021, this plan has replaced the SAYE using RSA shares. The terms for SAYE remain the same as for SAYE, except that employees are granted an option to buy shares in the ultimate parent company, Intact Financial Corporation, at the end of the savings period. The Company has the obligation to settle the liabilities of SAYE awards, it is accounted for as a cash-settled plan.

16) Taxation

The tax amounts (credited)/charged in the profit and loss account are as follows:

	2022 £m	2021 £m
Current tax:		
UK corporation tax	**7**	(1)
Overseas taxation	**1**	3
Adjustments in respect of prior years	**(1)**	(3)
Total current tax	**7**	(1)
Deferred tax:		
Temporary differences - origination and reversal	**(5)**	33
Adjustments in respect of prior years	**-**	(1)
Adjustments for change in tax rates	**(7)**	(41)
Total deferred tax	**(12)**	(9)
Total tax credit to profit and loss account	**(5)**	(10)

The UK corporation tax for the current year is based on a rate of 19% (2021: 19.0%).

Reconciliation of the total tax charge

The tax credit for the year is less than 19% (2021: less than 19.0%) due to the items set out in the reconciliation below:

	2022 £m	2021 £m
Profit on ordinary activities before tax	**193**	2,701
Tax at 19.0% (2021: 19.0%)	**37**	513
Factors affecting change		
Expenses not deductible for tax purposes[1]	**810**	797
Income/gains not taxable[2]	**(837)**	(1,324)
Fiscal adjustments	**(1)**	-
Release of tax provided in respect of previous periods	**(1)**	(4)
Effect of change in tax rates/rate differences[3]	**(7)**	(41)
Group relief received without payment	**5**	(3)
Unrelieved foreign tax credits	**1**	3
Deferred tax assets not recognised	**(12)**	49
Income tax credit	**(5)**	(10)

[1]Expenses not deductible for tax purposes in 2022 mainly comprised impairment of subsidiaries of £4,258m. The related tax impact is £809m.

[2]Income/gains not taxable in 2022 mainly comprised dividends from subsidiaries of £4,391m. The related tax impact is £834m.

[3]The effect of change in tax rates relates to the impact of the change in the UK deferred tax rate which has increased from 24% in 2021 to 25% in 2022. The reason for this increase is that from April 2023, the UK corporation tax rate will be 25%. The deferred tax rate has hence been determined as 25% to reflect the tax rate at which the vast majority of these the differences will unwind.

17) Dividends paid and proposed

	2022 £m	2021 £m
Ordinary dividend[1]	**137**	6,976

[1]A dividend of £100m was paid to Royal Insurance Holdings Limited in May 2021. Following the acquisition of the Group by IFC, a dividend in specie of £6,876m was paid to Royal Insurance Holdings Limited.

18) Intangible assets

	Externally acquired software £m	Internally generated software £m	Other £m	Total £m
Cost				
At 1 January 2022	**72**	**519**	**-**	**591**
Additions	**-**	**101**	**-**	**101**
Derecognised[1]	**-**	**(34)**	**-**	**(34)**
At 31 December 2022	**72**	**586**	**-**	**658**
Accumulated amortisation				
At 1 January 2022	**72**	**269**	**-**	**341**
Amortisation charge for the year	**-**	**32**	**-**	**32**
Amortisation on derecognition[1]	**-**	**(4)**	**-**	**(4)**
At 31 December 2022	**72**	**297**	**-**	**369**
Carrying amount at 31 December 2022	**-**	**289**	**-**	**289**

[1] Ongoing strategic review of internally generated software assets and as a result has identified certain assets for which there are no future economic benefits expected. As a result of this the Group has derecognised assets with a net book value of **£30m**, with the cost recognised in Underwriting and policy acquisition costs.

	Externally acquired software £m	Internally generated software £m	Other £m	Total £m
Cost				
At 1 January 2021	72	512	10	594
Additions	-	77	-	77
Derecognised[1]	-	(70)	(10)	(80)
At 31 December 2021	72	519	-	591
Accumulated amortisation				
At 1 January 2021	72	237	10	319
Amortisation charge for the year	-	32	-	32
Amortisation on derecognition[1]	-	-	(10)	(10)
At 31 December 2021	72	269	-	341
Carrying amount at 31 December 2021	-	250	-	250

[1]The acquisition has resulted in a strategic reassessment of programme plans for certain UK internally generated software assets and as a result certain assets were identified for which there are no future economic benefits expected. As a result of this the Company derecognised assets with a net book value of £70m, with the cost recognised in Administrative expenses.

The carrying value of intangible assets not yet available for use at 31 December 2022 is £137m (2021: £93m). This primarily relates to the implementation of strategic software assets across the Company, reported within internally generated software.

Amortisation

Amortisation expense of £32m (2021: £32m) has been charged to administrative expenses within the profit and loss account.

Impairments

When testing intangible assets for impairment (including those not available for use), the carrying value of the CGU which includes the intangible assets is compared to the recoverable amount as determined by a value in use calculation. Where the value in use is less than the current carrying value of the CGU in the balance sheet, the intangible asset is impaired in order to ensure that the CGU carrying value is not greater than its future value to the Company.

The value in use calculation uses cash flow projections based on the operational plan approved by management covering a three year period. The operational plan uses the best estimates of future premiums, operating expenses and taxes using historical trends, general market conditions, industry trends and forecasts and other available information. These plans reflect the Company's assessment of the impact of the current challenging economic environment and of changing weather patterns using up-to-date catastrophe models.

Cash flows beyond the operational plan 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 pre-tax discount rate used for the intangible assets impairment testing, which reflects specific risks relating to the CGU at the date of evaluation, and the growth rate are shown below. In determining a cost of capital, data over a period of time is utilised to avoid short term market volatility. The growth rate includes improvements in trade performance, where these are forecast in the three year operational plan for the CGU.

	2022	2021
Pre-tax discount rate	**19%**	16.0%
Growth rate[1]	**6.0%**	1.9%

[1]The basis of the growth rate assumption used for the value in use calculation has been reassessed in 2022. The change in basis has had no material impact on the outcome of the testing.

19) Land and buildings

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

	2022 **£m**	2021 £m
Land and buildings owned	**307**	386
Right-of-use assets	**35**	14
Total land and buildings	**342**	400

Land and buildings owned

	2022 **£m**	2021 £m
Land and buildings		
Freehold land and buildings	**295**	371
Long leasehold	**12**	15
Total land and buildings	**307**	386
Of which Company occupied	**16**	18

The movement in the carrying value of land and buildings owned is detailed below

	2022 **£m**	2021 £m
Land and buildings 1 January	**386**	300
Purchases	**10**	50
Sales	**(73)**	(7)
Fair value gains taken to profit and loss account	**(13)**	43
Fair value gains taken to other comprehensive income	**(3)**	-
Land and buildings at 31 December	**307**	386

The historical cost of property at 31 December 2022 is **£323m** (2021: £330m).

The movement in the company occupied property reserve is shown below:

	2022 **£m**	2021 £m
Property reserve 1 January	**15**	15
Fair value losses	**(3)**	-
Property reserve at 31 December	**12**	15

Investment properties (classified as land and buildings) 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.

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.

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.

During 2022, the Company recognised £14m of rental income within its investment income (2021: £17m).

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

	2022 £m	2021 £m
Less than one year	**15**	17
One to two years	**14**	16
Two to three years	**14**	15
Three to four years	**12**	15
Four to five years	**12**	13
More than five years	**65**	73
Total	**132**	149

Right-of-use assets

Right-of-use assets relate to leased properties

	2022 £m	2021 £m
Balance 1 January	**14**	32
Depreciation charge for the year	**(6)**	(5)
Additions to right-of-use assets	**25**	1
Remeasurements	**4**	(14)
Impairments	**(2)**	-
Balance at 31 December	**35**	14

Impairment assessment

When testing for indicators of impairment, the key judgements and assumptions were considered:

Office space was distinguished between:

- Office space that is temporarily underutilised and has not been impaired on the basis that the space will be utilised again in the future when office working resumes
- Office space that will remain vacant and no longer be utilised.

The likelihood of activating future break clauses on remaining leases where office space is still utilised have been assessed and assets re-measured (together with associated lease liabilities) where it is likely that clauses will be invoked.

The recoverable amount of the right-of-use assets relating to permanently vacant office space was based on their value in use and include several key assumptions. These include:

- The ability to sublet and the timing of agreements, if considered possible
- The level of rent charged
- The discount rate which is assumed to be the Group weighted average cost of capital (WACC)
- Identification of other relevant cash flows to include such as future service charges and insurance

There were no impairments identified in 2022. The key judgements and assumptions used in measuring the recoverable amounts of the impaired right of use assets are not deemed materially sensitive.

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20) Shares in Group Undertakings

Full details of the principal subsidiaries of the Company are set out in note 44. The companies are principally all engaged in the transaction of insurance or related business. The countries shown are those of incorporation and principal operation. Fair value of the major operating entities is determined by applying the income approach. For other smaller entities, fair value is determined to be net asset value. The split of the total valuation between these two approaches is below.

	Income approach £m	Net asset value £m	Total fair value £m
Balance at 1 January 2022	**1,202**	**4,316**	**5,518**
Purchases	**-**	**280**	**280**
Fair value losses in OCI	**(222)**	**(23)**	**(245)**
Impairments	**-**	**(4,258)**	**(4,258)**
Transfers between classes	**(564)**	**564**	**-**
Balance as at 31 December 2022	**416**	**879**	**1,295**

The valuation methodology described in this note was adopted when the Company was acquired by IFC on 1 June 2021. Comparative information is therefore not available for the above table.

The investments in subsidiaries are recognised in the statement of financial position at fair value measured in accordance with the Company's accounting policies. The Company's investments in subsidiaries are classified as level 3 financial assets. Fair value has been calculated by applying the income approach which uses discounted cash flow valuation models to assess the present value of expected future economic benefits. Discounted cash flows are based on the latest 3 year Board approved operational plan, with the final year being forecasted to perpetuity, by applying a long term growth assumption. The forecast incorporates a contingency of £35m per annum, holds COR at 2023 forecast level plus 1%, and assumes ongoing investment return at current market yields. For the remaining subsidiaries, fair value is determined to be net asset value.

The historic cost of investments in subsidiaries is **£14,394m** (2021: £14,114m).

Purchases

As part of an internal intercompany loan rationalisation exercise, the Company increased its holdings in Royal International Insurance Holding Limited in 2022 by **£280m** (2021: £706m).

Impairments

As noted in the business review on page 3, during the first half of 2022, the RSA Group undertook a project to rationalise the intra-group loan position.

As a consequence of the distributions made as part of that project, the investment in various subsidiary entities was impaired and reductions in value were recorded.

Impairments of **£3,252m** related to Royal International Insurance Holding Limited, **£563m** related to RSA Finance, **£415m** related to Sun Alliance Overseas Limited and **£13m** related to EGI Holdings Limited.

Further impairments of **£15m** were subsequently recorded in 2022 which related to the Company's holding in Sun Alliance Insurance Overseas Limited and represent the difference between the fair and cost values of the holding.

In 2021 impairments of **£4,179m** related to the Company's holdings in Royal International Insurance Holding Limited and was the difference between the fair and cost values of the holding. There was also an additional impairment of **£20m** related to the holding in the Marine Insurance Company Limited.

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	
Assumption type	**2022** £m	2021 £m
1% increase in discount rate	**(49)**	(70)
1% reduction in long-term growth rate	**(24)**	(43)
1% increase in combined operating ratio across all years[1]	**(53)**	(87)
Decrease of 5% in Net asset values of non-major operating entities	**(40)**	(212)

[1] Combined operating ratio (COR) is a measure of underwriting performance and is the ratio of underwriting costs expressed in relation to earned premiums.

21) Financial assets

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

	2022	2021
	£m	£m
Shares and other variable yield securities and units in unit trusts	**265**	575
Debt securities and other fixed income securities[1]	**4,189**	4,058
Financial assets measured at fair value	**4,454**	4,633
Other loans	**433**	359
Total financial assets	**4,887**	4,992

Amounts expected to be settled after more than 12 months for these asset line items are detailed as follows

Shares and other variable yield securities and units in unit trusts	**265**	326
Debt securities and other fixed income securities	**3,671**	3,601
Loans and deposits with credit institutions	**433**	334

[1]At 31 December 2021, the Company acquired investments in debt and other fixed income securities of £351m from Royal Insurance Holdings Limited in exchange for common share equity.

Collateral

At 31 December 2022, the Company had pledged **£359m** (2021: £355m) of financial assets as collateral for liabilities or contingent liabilities, consisting of government debt securities of **£40m** (2021: £151m), non-government debt securities of **£313m** (2021: £192m) and cash at bank and in hand of **£6m** (2021: £12m). The debt securities pledged of **£353m** (2021: £343m) are included in the balance sheet as available for sale debt securities and other fixed income securities and the Company's right to recover the cash pledged of **£7m** (2021: £12m) is included in other debtors. The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities, derivative transactions and repurchase agreements.

The total collateral pledged is **£1,319m** (2021: £1,237m) including the collateral pledged pertinent to reinsurance arrangements with related parties.

At 31 December 2022, the Company had accepted **£446m** (2021: £642m) in collateral, consisting of government and non-government debt securities of **£416m** (2021: £631m), which the Company is permitted to sell or repledge in the event of default by the owner, and cash at bank and in hand of **£30m** (2021: £11m). The obligation to repay the cash is included in the balance sheet in other creditors and the corresponding cash received is recognised as an asset. The fair value of the collateral accepted is **£446m** (2021: £642m). 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 2022 and change during the year of debt securities that are held to collect cash flows on specified dates that are solely for payment of principal 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 2022

	SPPI financial assets	Other financial assets	Total
	£m	£m	£m
Shares and other variable yield securities and units in unit trusts	-	186	186
Debt securities and other fixed income securities	3,885	304	4,189
Other loans	433	-	433
Derivative financial assets	-	50	50
Fair value at 31 December 2022	4,318	540	4,858

As at 31 December 2021

	SPPI financial assets	Other financial assets	Total
	£m	£m	£m
Shares and other variable yield securities and units in unit trusts	-	326	326
Debt securities and other fixed income securities	3,746	312	4,058
Other loans	359	-	359
Derivative financial assets held for trading	-	43	43
Fair value at 31 December 2021	4,105	681	4,786

The fair value gains/losses of SPPI financial assets and other financial assets during the year are £449m losses (2021: £63m losses) and £10m gains (2021: £1m losses) respectively.

When IFRS 9 is adopted by the Company in 2023 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 and other loans 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 2022

	Notional Amount				**Fair Value**	
	Less than 1 year	**From 1 to 5 years**	**Over 5 years**	**Total**	**Asset**	**Liability**
	£m	***£m***	***£m***	***£m***	***£m***	***£m***
At fair value through the income statement						
Currency risk mitigation	**472**	**34**	**16**	**522**	**4**	**16**
Inflation risk mitigation	**-**	**-**	**120**	**120**	**46**	**9**
					50	**25**
					50	**25**

As at 31 December 2021

	Notional Amount				Fair Value	
	Less than 1 year	From 1 to 5 years	Over 5 years	Total	Asset	Liability
	£m	£m	£m	£m	£m	£m
At fair value through the income statement						
Currency risk mitigation	333	63	74	470	5	16
Inflation risk mitigation	-	-	120	120	42	34
					47	50
					47	50

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 **£120m** (2021: of £120m) and are split over different contract terms.

At 31 December 2022 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.

As at 31 December 2022

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in balance sheet			**Related items not offset**		
	Gross amounts	**Amounts offset**	**Net amounts reported**	**Financial instruments**	**Financial collateral**	**Net amount**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Derivative financial assets	**50**	**-**	**50**	**(19)**	**(31)**	**-**
Total assets	**50**	**-**	**50**	**(19)**	**(31)**	**-**
Derivative financial liabilities	**25**	**-**	**25**	**(19)**	**(6)**	**-**
Total liabilities	**25**	**-**	**25**	**(19)**	**(6)**	**-**

As at 31 December 2021

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in balance sheet			Related items not offset		
	Gross amounts	Amounts offset	Net amounts reported	Financial instruments	Financial collateral	Net amount
	£m	£m	£m	£m	£m	£m
Derivative financial assets	47	-	47	(38)	(9)	-
Total assets	47	-	47	(38)	(9)	-
Derivative financial liabilities	50	-	50	(38)	(12)	-
Total liabilities	50	-	50	(38)	(12)	-

22) 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 and cash equivalents, loans and receivables, other assets and other liabilities

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

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 valuation that are not based on observable market data (unobservable inputs).

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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. Market traded securities only reflect the possible impact of climate change to the extent that this is built into the market price at which securities are trading.

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 use input parameters that are not based on observable market data. Unobservable inputs are based on assumptions that are neither supported by prices from observable current market transactions for the same instrument nor based on available market data. In these cases, judgement is required to establish fair values. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The principal assets classified as Level 3, and the valuation techniques applied to them, are described below.

Investment property

Investment property valuations are carried out in accordance with the latest edition of the Valuation Standards published by the Royal Institution of Chartered Surveyors (RICS), and are undertaken by independent RICS registered valuers. Valuations are based on the comparative method with reference to sales of other comparable buildings and take into account the nature, location and condition of the specific property together with factoring in the occupational lease terms and tenant covenant strength as appropriate. The valuations also include an income approach using discounted future cash flows, which uses unobservable inputs, such as discount rates, rental values, rental growth rates, vacancy rates and void or rent free periods expected after the end of each lease. The valuations at 31 December 2022 reflects equivalent yield ranges between 5.0% and 10.8% (2021: 3.6% and 11.5%).

Private fund structures

Loan funds are principally valued at the proportion of the Company's holding of the Net Asset Value (NAV) reported by the investment vehicle. Several procedures are employed to assess the reasonableness of the NAV reported by the fund, including obtaining and reviewing periodic and audited financial statements and estimating fair value based on a discounted cash flow model that adds spreads for credit and illiquidity to a risk-free discount rate. Discount rates employed in the model at 31 December 2022 range from 3.0% to 11.6% (2021: 0.2% to 4.8%). If necessary the Company will adjust the fund's reported NAV to the discounted cash flow valuation where this more appropriately represents the fair value of its interest in the investment.

The following table provides an analysis of financial instruments and other items that are measured subsequent to initial recognition at fair value as well as financial liabilities not measured at fair value, grouped into levels 1 to 3. The table does not include financial assets and liabilities not measured at fair value if the carrying value is a reasonable approximation of fair value.

	Fair value hierarchy 2022			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment properties – land and buildings	-	-	289	289
Company occupied property– land and buildings	-	-	18	18
Available for sale financial assets:				
Shares and other variable yield securities and units in unit trusts	200	-	65	265
Debt securities and other fixed income securities	661	3,243	285	4,189
	861	3,243	350	4,454
Derivative assets at fair value through the profit and loss account	-	32	-	32
Derivative assets designated as hedging instruments	-	18	-	18
Total assets measured at fair value	861	3,293	657	4,811
Derivative liabilities at fair value through the profit and loss account	-	11	-	11
Derivative liabilities designated as hedging instruments	-	14	-	14
Total liabilities measured at fair value	-	25	-	25

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
	Fair value hierarchy 2021			
Investment properties – land and buildings	-	-	368	368
Company occupied property– land and buildings	-	-	18	18
Available for sale financial assets:				
Shares and other variable yield securities and units in unit trusts	494	1	80	575
Debt securities and other fixed income securities	1,028	2,780	250	4,058
	1,522	2,781	330	4,633
Derivative assets at fair value through the profit and loss account	-	43	-	43
Derivative assets designated as hedging instruments	-	4	-	4
Total assets measured at fair value	1,522	2,828	716	5,066
Derivative liabilities at fair value through the profit and loss account	-	35	-	35
Derivative liabilities at fair value through the profit and loss account	-	15	-	15
Total liabilities measured at fair value	-	50	-	50

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

	Shares and other variable yield securities and units in unit trusts £m	Debt securities and other fixed income securities £m	Lands and buildings £m	Total £m
At 1 January 2021	109	247	300	656
Total gains/(losses) recognised in:				-
Profit and loss account	(4)	2	43	41
Other comprehensive income	4	(5)	-	(1)
Purchases	7	106	50	163
Disposals	(36)	(100)	(7)	(143)
At 1 January 2022	**80**	**250**	**386**	**716**
Total gains/(losses) recognised in:				
Profit and loss account	**2**	**8**	**(13)**	**(3)**
Other comprehensive income	**5**	**(3)**	**(3)**	**(1)**
Purchases	**12**	**141**	**10**	**163**
Disposals	**(34)**	**(128)**	**(73)**	**(235)**
Exchange adjustment		**17**		**17**
Level 3 financial assets at 31 December 2022	**65**	**285**	**307**	**657**

The following table shows the level 3 available for sale financial assets carried at fair value as at the balance sheet date, the main assumptions used in the valuation of these instruments and reasonably possible decreases in fair value based on reasonably possible alternative assumptions.

		Reasonably possible alternative assumptions			
		2022		2021	
Available for sale financial assets and property	**Main assumptions**	**Current fair value £m**	**Decrease in fair value £m**	Current fair value £m	Decrease in fair value £m
Company occupied property - land and buildings[1]	Property valuation	**18**	**(1)**	18	(1)
Investment properties - land and buildings[1]	Cash flows; discount rate	**289**	**(20)**	368	(19)
Level 3 available for sale financial assets:					
Equity securities[1]	Cash flows; discount rate	**65**	**(1)**	80	(1)
Debt securities[1]	Cash flows; discount rate	**285**	**(3)**	250	(2)
Total		**657**	**(25)**	716	(23)

[1] The Company's investment in financial assets classified at level 3 in the hierarchy are primarily investments in various private fund structures investing in debt instruments where the valuation includes estimates of the credit spreads on the underlying holdings. The estimates of the credit spread are based upon market observable credit spreads for what are considered to be assets with similar credit risk. Reasonably possible alternative valuations have been determined using an increase of 50bps in the credit spread used in the valuation (2021: 25bps).

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.

23) 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 2022 and 2021 are summarised in the tables below:

Class of investments	Nature of the underlying investments of the vehicle	Carrying value 2022 £m	Undrawn commitments 2022 £m	Exposure 2022 £m	Carrying value 2021 £m	Undrawn commitments 2021 £m	Exposure 2021 £m
Mortgage backed securities	Mainly consists of domestic mortgage backed securities	3	-	3	45	-	45
Collateralised debt obligations	Structured debt security backed by bonds	234	16	250	243	4	247
Cash money market funds	Short term cash deposits	78	-	78	249	-	249
Collective investment undertakings	Mainly consists of property funds	64	-	64	78	17	95
Other	Mainly consists of property funds	9	-	9	18	-	18
		388	16	404	633	21	654

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

	2022 £m	2021 £m
Investments - financial assets - equity securities	64	78
Investments - financial assets - debt securities	246	306
Cash at bank and in hand	78	249
	388	633

24) Reinsurers' share of provision for unearned premiums

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

	2022 £m	2021 £m
Reinsurers' share of provision for unearned premiums at 1 January	616	660
Premiums ceded to reinsurers	913	866
Outward reinsurance premiums	913	866
Reinsurers' share of premium earned	(839)	(908)
Change in provision for unearned premiums, reinsurers' share	74	(42)
Exchange adjustment	4	(2)
Total reinsurers' share of provision for unearned premiums at 31 December	694	616

25) Reinsurers' share of provision for losses and loss adjustment expenses

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

	2022 £m	2021 £m
Reinsurers' share of provisions for losses and loss adjustment expenses at 1 January	1,412	1,250
Total reinsurance recoveries received	(548)	(492)
Reinsurers' share of total claims incurred	647	651
Change in the provision for claims, reinsurers' share	99	159
Unwind of discount	3	4
Exchange adjustment	16	(1)
Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	1,530	1,412

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Amounts expected to be settled after more than 12 months are detailed as follows:

Reinsurers' share of claims outstanding	**960**	982

26) Debtors from direct insurance operations - intermediaries

	2022	2021
	£m	£m
Amounts expected to be settled after more than 12 months	**337**	211

27) Current Tax

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

	Asset		**Liability**	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
To be settled within 12 months	**-**	2	**5**	1
To be settled after 12 months	**-**	-	**-**	-
Current tax position at 31 December	**-**	2	**5**	1

28) Deferred Tax

The following are the major deferred tax assets and liabilities recognised by the Company:

	2022	2021
	£m	£m
Net unrealised losses/(gains) on investments	**79**	(25)
Hedge reserve derivatives	**(6)**	-
Tax losses and unused tax credits	**6**	9
Accrued costs deductible when settled	**95**	75
Retirement benefit obligations	**1**	1
Provisions and other temporary differences[1]	**85**	86
Net deferred tax asset at 31 December	**260**	146

[1]Provisions and other temporary differences arise predominantly in respect of capital expenditure £82m (2021: £81m) and general provisions £3m (2021: £5m).

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

	2022	2021
	£m	£m
Net deferred tax asset at 1 January	**146**	152
Amounts credited/(charged) to profit and loss account	**5**	(32)
Amounts credited/(charged) to other comprehensive income	**102**	(14)
Effect of change in tax rates - profit and loss account	**7**	41
Effect of change in tax rates - other comprehensive income	**-**	(1)
Net deferred tax asset at 31 December	**260**	146

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

	2022		2021	
	Gross	**Tax effect**	Gross	Tax effect
	£m	**£m**	£m	£m
Trading tax losses	**1,657**	**414**	1,558	374
Capital tax losses	**1,236**	**309**	1,236	297
Deductible temporary differences	**100**	**25**	187	45
Unrecognised tax assets as at 31 December	**2,993**	**748**	2,981	716

At the end of the reporting period, the Company has total unused tax losses of £2,918m (2021: £2,829m). A deferred tax asset (£68m) is recognised on £25m of gross trading tax losses (2021: £35m) and no deferred tax asset has been recognised in respect of the other tax losses (shown in the table above) of £2,893m (2021: £2,794m) 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 (2021: £1,236m) capital losses due to UK exemptions. None of the income tax losses are time-barred (2021: none). Other tax losses (including capital tax losses and unused credits) may be carried forward indefinitely.

Net deferred tax assets of £260m (2021: £146m), 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.

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 £114m increase in recognised deferred tax asset as at 31 December 2022 is predominantly due to the recognition of the unrealised loss on the available-for-sale bond portfolio (£79m) and an increase in forecast taxable profits (£35m). During 2022 there has been a significant negative movement in the value of the bond portfolio due to market volatility and interest rate changes which has resulted in the recognition of a deferred tax asset of £79m (31 December 2021: deferred tax liability £25m).

The evidence for the future taxable profits is a five-year forecast (2021: seven-year forecast) based on the three-year operational plans prepared by the relevant businesses and a further two years of extrapolation, which are subject to internal review and challenge, including by the Board. The two years of extrapolation assumes UK premium growth of 4.0% per annum and no overseas premium growth where relevant to UK profit projections. The forecasts incorporate a contingency of £35m per annum as well as prudent COR assumptions, the impact of IFRS17 and the impact of forecast future transactions where appropriate. 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. 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.

	2022 £m	2021 £m
1% increase in the combined operating ratio across all 5 (2021: 7) years[1]	**(18)**	(40)
1 year reduction in the forecast modelling period	**(47)**	(47)
50 basis points decrease in bond yields	**(7)**	(18)
Nil annual premium growth[2]	**(7)**	(3)

[1] Combined operating ratio (COR) is a measure of underwriting performance and is the ratio of underwriting costs expressed in relation to earned premiums.

[2] In respect of the extrapolated years four to five (2021: four to seven) only.

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

	Current Tax		Deferred Tax		Total	
	2022 **£m**	2021 £m	**2022** **£m**	2021 £m	**2022** **£m**	2021 £m
Unrealised gains/(losses) on other financial instruments classified as available for sale	**-**	(1)	**103**	34	**103**	33
Remeasurement of net defined benefit pension surplus	**-**	1	**(1)**	(49)	**(1)**	(48)
Total credited/(charged) to other comprehensive income	**-**	-	**102**	(15)	**102**	(15)

29) Tangible assets

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

	2022 £m	2021 £m
Tangible assets owned	**42**	33
Total tangible assets	**42**	33

Tangible assets owned

	Total £m
Cost	
At 1 January 2022	**98**
Additions	**17**
At 31 December 2022	**115**
Depreciation	
At 1 January 2022	**57**
Charge for the year	**8**
At 31 December 2022	**65**
Impairment	
At 1 January 2022	**8**
At 31 December 2022	**8**
Net carrying amount	
At 31 December 2022	**42**

	Total £m
Cost	
At 1 January 2021	89
Additions	11
Disposals	(2)
At 31 December 2021	98
Depreciation	
At 1 January 2021	51
Charge for the year	6
At 31 December 2021	57
Impairment	
At 1 January 2021	4
Charge for the year	5
Impairment on disposals	(1)
At 31 December 2021	8
Net carrying amount	-
At 31 December 2021	33

Depreciation expense of £8m (2021: £6m) has been charged to administrative expenses within the profit and loss account. Impairments of £nil (2021: £5m) have been charged to administrative expenses within the profit and loss account. Further information on the impairment assessment can be found in note 19.

Right-of-use assets

Right-of-use assets relate to other equipment

30) Deferred Acquisition Costs

	2022 £m	2021 £m
Deferred acquisition costs at 1 January	**410**	407
Acquisition costs deferred during the year	**818**	852
Amortisation charged during the year	**(811)**	(846)
Exchange gains/(losses)	**9**	(3)
Deferred acquisition costs at 31 December	**426**	410

The reinsurers' share of deferred acquisition costs is included within accruals and deferred income.

31) Share capital

	2022 £m	2021 £m
Shares reserved for issue under options and contracts (authorised but not paid)		
1,000,000,000 ordinary A Shares of 25p	**250**	250
Allotted, issued and fully paid		
359,811,537 ordinary A Shares of 25p (2021: 359,811,537 ordinary A Shares of 25p each)	**90**	90
1 ordinary B share at US$1 each (2021: 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.

	Number of shares	Nominal value £m	Share premium £m
At 1 January 2021	4,859,811,537	1,215	2,954
Capital injection	4,020,000,000	1,005	-
Capital reduction	(8,520,000,000)	(2,130)	(1,100)
At 31 December 2021	359,811,537	90	1,854
At 1 January 2022	**359,811,537**	**90**	**1,854**
At 31 December 2022	**359,811,537**	**90**	**1,854**

32) Total other comprehensive income

Year ended 31 December 2022

	Revaluation reserves £m	Foreign currency translation reserve £m	Profit and loss account £m	Total shareholders' funds £m
Exchange gains net of tax	**-**	**2**	**-**	**2**
Fair value losses net of tax	**(562)**	**-**	**-**	**(562)**
Pension - remeasurement of net defined benefit asset/liability net of tax	**-**	**-**	**(358)**	**(358)**
Movement in property revaluation net of tax	**(3)**	**-**	**-**	**(3)**
Total other comprehensive income/(expense) for the year	**(565)**	**2**	**(358)**	**(921)**

Year ended 31 December 2021

	Revaluation reserves £m	Foreign currency translation reserve £m	Profit and loss account £m	Total shareholders' funds £m
Exchange gains net of tax	-	1	-	1
Fair value losses net of tax	(2,112)	-	-	(2,112)
Pension - remeasurement of net defined benefit asset/liability net of tax	-	-	(69)	(69)
Total other comprehensive income/(expense) for the year	(2,112)	1	(69)	(2,180)

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33) Provision for unearned premiums

	2022 £m	2021 £m
Provision for unearned premiums at 1 January	**2,151**	2,129
Premiums written	**3,763**	3,847
Gross written premiums	**3,763**	3,847
Premiums earned	**(3,717)**	(3,815)
Changes in provision for unearned premiums	**46**	32
Exchange adjustment	**35**	(10)
Provision for unearned premiums (gross of acquisition costs) at 31 December	**2,232**	2,151

34) Claims outstanding

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

	2022 £m	2021 £m
Provisions for losses and loss adjustment expenses at 1 January	**4,850**	4,432
Total claims payments made in the year net of salvage and other recoveries	**(2,267)**	(2,231)
Claims paid	**(2,267)**	(2,231)
Gross claims incurred and loss adjustment expenses	**2,553**	2,675
Change in the provision for claims	**286**	444
Unwind of discount	**9**	9
Exchange adjustment	**100**	(35)
Provisions for losses and loss adjustment expenses at 31 December	**5,245**	4,850

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 £3,924m (2021: £3,650m). The total value of gross outstanding claims provisions before discounting amounted to £5,615m (2021: £5,222m).

Discount assumptions

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

		Key Discount rate		Average number of years to settlement from reporting date	
	Category	2022 %	2021 %	2022 Years	2021 Years
UK	Periodic Payment Orders	**4.0**	4.0	**18**	18

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 2022, the value of the discount on net outstanding claims reserves is £14m (2021: £14m), excluding UK annuities (PPOs). All other factors remaining constant, a decrease of 0.5% in the discount rates would reduce the value of the discount by approximately £2m (2021: £2m).

Sensitivities

Sensitivities in the table below show the impact on the net claims reserves of changes to key assumptions in relation to reserving risk and underwriting and claims risk.

Impact on net claims reserves	2022 £m	2021 £m
Current year attritional loss ratios frequency or severity assumptions +5%	**85-95**	95-105
Inflation being 1% higher than expected for the next 2 years (excluding annuities)	**45-55**	45-55
Settled PPOs discount rate being 0.5% pt lower than expected	**10-15**	10-15

As at 31 December 2022, the net reinsurance value of the discount on UK annuities (PPOs) is £199m (2021: £201m). The impact of a change in discount rate for the UK annuities is given in the above sensitivities table.

Estimation techniques and uncertainties

Provisions for losses and loss adjustment expenses are subject to a robust reserving, as detailed in the Risk and capital management note (note 5). The Company has strong independent oversight governance arrangements in place to provide assurance over the reasonableness of reserve estimates.

There is considerable uncertainty with regard to the eventual outcome of the claims that have occurred but remain unsettled by the end of the reporting period. 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 relevant previous claims experience, historical payment and incurred claims trends, the volume and nature of the insurance underwritten by the Company and current specific case reserves. Also considered are developing loss trends, the potential longer-term significance of large events, the levels of unpaid claims, qualitative information that may be relevant to our loss experience, and relevant external information such as 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:

- Historic claims development trends are assessed and used to inform extrapolation of the latest payments and reported claims cost for each prior period to their ultimate value. Incurred or paid claims to date for each year are extrapolated to estimate the ultimate cost using these assessed trends which are based upon the observed development of earlier periods.
- Estimates based upon a projection of claims numbers and average cost
- Expected loss ratios
- The Bornhuetter-Ferguson method, which combines features of the above methods
- Bespoke methods for specialist classes of business or types of claims, for example, for Periodic Payment Orders in the UK where a detailed cash flow model is used with specific assumptions on future indexation and longevity given the individual characteristics of these claims.

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 class and accident period or underwriting year. A key assumption common to many classes of business is that historic experience is a good guide to what we can expect to see in the future. This depends on a variety of considerations such as consistent claims handling practice and mix of business, which is tested as part of the Company's analytic process to ensure that assumptions are reasonable.

Individual 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.

Insurance contract liability estimates remain subject to heightened uncertainty relative to normal circumstances due to the impact of the Covid-19 pandemic. The Company monitors evolving experience and regularly reviews the key assumptions and sources of uncertainty. The current assessment of claims liabilities reflects court judgements across the jurisdictions that business operates in, including those recently announced in the UK in October 2022. These most recent judgements are complex and create a number of uncertainties and the Company will continue to monitor the progression of these judgements, including the appeals. Based on information currently known and management's assumptions, the Company has made adequate provisions to cover all insurance claims and legal proceedings.

BI claims are the main direct Covid-19 claim type that remain subject to significant ongoing uncertainty. These estimates have been fully reviewed during 2022 and reflect the latest experience, judgements, legal advice and qualitative assessments. Small changes in gross and reinsurance estimates offset one another resulting in neutral net impact from the Covid BI review.

Whilst the gross estimate remains uncertain due to issues such as the noted ongoing litigation in the industry, in the event unexpected change arise from the various uncertainties, the Company expects that the reinsurance cover would respond in many of the scenarios that could evolve and as such the net position has meaningful protection against material adverse development. The catastrophe reinsurance treaty, the Group Volatility Cover (GVC) and the property risk excess of loss treaty are the relevant reinsurance covers the Company has in place that provide this protection. Reinsurance recoveries on both catastrophe cover and GVC are dependent on the identification and timing of events which trigger a reinsurance recovery claim, and for the GVC, the aggregation of all relevant claims against the retention level. Key reinsurance assumptions made, include how reinsurance contracts respond to Covid-19 losses, the date of loss that will apply to Covid-19 claims, how losses are attributed by date, and how aggregation applies across different businesses and territories which share common reinsurance treaties. All key assumptions were reviewed and updated during 2022. Reinsurance recoveries to date are in line with the Company's expectation. Failure to recover outstanding assumed reinsurance recoveries in line with the expectations could lead to a material increase in the reported net liability.

Different outcomes to those we assume are possible, driven by either direct Covid-19 claims movements or from indirect Covid-19 impacts which make reliable identification of trends more difficult and uncertain than under normal circumstances.

The increasing inflationary pressure arising from the wider economic environment during 2022, combined with the post-pandemic distortions over the same period, complicates assessment of the ultimate claims costs. Different factors are contributing to severity changes such as settlement delays and supply chain issues which are likely to have been impacted by Covid-19 and geo-political issues. Inflation increases are the largest in a generation.and impact elements of the claims cost in different ways. For some claim types, it will take time before the full impact of increased inflation becomes apparent. In the meantime our estimates require increased reliance on our assumptions compared to the previous stable inflation environment.

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The level of provision carried by the Company includes a margin over and above the actuarial indication. The appropriateness of the margin held is subject to regular review as part of our reserving process which considers the risk characteristics of our liability profile, and the sensitivity of our actuarial indication estimates to key uncertainties.

Claims development tables

The tables on the following pages present changes in the historical provisions for losses and loss adjustment expenses that were established in 2012 and prior, 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 triangle at the top of the table 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 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

	2012 and prior £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	Total £m
Estimate of cumulative claims												
At end of accident year		1,148	1,138	1,344	1,278	1,588	1,490	1,603	1,322	1,524	1,683	
One year later		1,223	1,517	1,319	1,291	1,486	1,530	1,619	1,451	1,422		
Two years later		1,201	1,477	1,263	1,259	1,487	1,508	1,671	1,438			
Three years later		1,167	1,454	1,200	1,260	1,492	1,534	1,676				
Four years later		1,170	1,401	1,206	1,254	1,547	1,496					
Five years later		1,148	1,382	1,204	1,269	1,528						
Six years later		1,143	1,385	1,252	1,253							
Seven years later		1,129	1,385	1,239								
Eight years later		1,128	1,375									
Nine years later		1,129										
Ten years later												
Current estimate of cumulative claims		1,129	1,375	1,239	1,253	1,528	1,496	1,676	1,438	1,422		
Claims paid to date		1,051	1,207	1,237	1,096	1,234	1,157	1,164	750	524	-	
Reconciliation to the balance sheet												
Current year provision before discounting	187	78	168	2	157	294	339	512	688	898	1,683	5,006
Exchange adjustment to closing rates												40
Discounting												(22)
Annuities												221
Present value recognised in the balance sheet												5,245
2022 movement	(26)	(1)	10	13	16	19	38	(5)	13	102	-	179

Claims development table net of reinsurance

	2012 and prior £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	Total £m
Estimate of cumulative claims												
At end of accident year		1,127	959	1,062	932	1,224	1,090	1,002	935	1,138	1,211	
One year later		1,218	1,288	985	939	1,215	1,127	1,051	992	1,044		
Two years later		1,199	1,286	970	920	1,192	1,112	1,072	979			
Three years later		1,168	1,256	918	919	1,194	1,129	1,073				
Four years later		1,148	1,228	917	918	1,238	1,122					
Five years later		1,142	1,213	918	917	1,231						
Six years later		1,140	1,215	963	909							
Seven years later		1,136	1,216	960								
Eight years later		1,133	1,207									
Nine years later		1,134										
Ten years later												
Current estimate of cumulative claims		1,134	1,207	960	909	1,231	1,122	1,073	979	1,044		
Claims paid to date		1,083	1,052	998	811	1,027	910	689	488	402	-	-
Reconciliation to the balance sheet												
Current year provision before discounting	166	51	155	(38)	98	204	212	384	491	642	1,211	3,576
Exchange adjustment to closing rates												26
Discounting												(14)
Annuities												127
Present value recognised in the balance sheet												3,715
2022 movement	(12)	(1)	9	3	8	7	7	(1)	13	94	-	127

35) Provisions for other risks

	2022 £m	2021 £m
Provisions for pensions and similar obligations	4	5
Reorganisation provisions	3	8
Other provisions	22	28
Total provisions at 31 December	**29**	**41**

Of the above £16m (2021: £22m) are due to be settled outside of 12 months.

Other provisions include £13m (2021: £11m) 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.

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

See note 14 for further information regarding the pension and post-employment benefit obligations.

Movements in other provisions

	2022 £m	2021 £m
Provisions at 1 January	36	50
Charged to profit and loss account	6	35
Utilised	(13)	(46)
Released	(4)	(3)
Provisions at 31 December	**25**	**36**

36) Borrowings

	2022 £m	2021 £m
Amounts owed to credit institutions	20	15

37) Other debtors

Other debtors comprise the following:

	2022	2021
	£m	£m
Pension Surplus	**204**	472
Tax recoverable	**-**	2
Derivative assets	**50**	47
Inv Sales O/S Settlements	**2**	1
Collateral Assets	**7**	12
Sublease Debtor	**5**	7
Other Debtors	**53**	50
Total Other Debtors	**321**	**591**
Amounts expected to be settled after more than 12 months are detailed as follow		
Other Debtors	**253**	**521**

38) Other creditors

Other Creditors comprise the following:

	2022	2021
	£m	£m
Tax Payable	**5**	1
Derivative liability	**25**	50
Lease liability	**43**	24
Deferred acquisition costs	**14**	11
Collateral liabilities	**30**	11
Outstanding Settlements for Investment Purchases	**1**	-
Other creditors	**100**	94
Total Other Creditors	**218**	**191**

39) Finance leases as a lessor

The Company has sublet 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 2022, the Company recognised interest income on lease receivables of £nil (2021: £nil).

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	
	2022	2021
	£m	£m
Less than one year	**2**	2
One to two years	**2**	2
Two to three years	**2**	2
Three to four years	**-**	1
Total undiscounted lease receivable	6	7
Net Investment in the lease	6	7

40) Capital commitments

The estimated amount of capital commitments contracted but not provided for in these financial statements is £29m (2021: £19m).

The Company's significant capital commitments in respect of investment property, tangible assets and intangible assets are detailed as follows:

	2022	2021
	£m	£m
Investment property	5	3
Tangible assets	8	7
Intangible assets	16	9
Total	29	19

41) 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.

The Company has guaranteed on behalf of RSAIG the following:

- the US $9m 8.95% subordinated guaranteed bonds due 15 October 2029; and
- the issue of £160m 5.125% fixed rate reset guaranteed subordinated notes. There is an option to repay the notes on specific dates from 10 October 2025.

42) Parent companies

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

Royal & Sun Alliance Insurance Limited does not prepare consolidated financial statements on the basis that its results and those of its subsidiaries are consolidated within the financial statements of RSA Insurance Group Limited, which is registered in England and Wales. A copy of that company's accounts can be obtained from Floor 8, 22 Bishopsgate, London, EC2N 4BQ.

43) Post Balance Sheet events

Subsequent to the year-end, on 27 February 2023, the Trustees of the two major defined benefit pension schemes in the UK, the Royal Insurance Group Pension Scheme and the Sal Pension Scheme ("the Schemes"), entered into an agreement with Pension Insurance Corporation plc ("PIC") to purchase bulk annuity insurance policies that operate as investment assets. Such arrangements are commonly referred to as a "buy-in". The Schemes made up around 99% of total defined benefit assets and obligations on the balance sheet at 31 December 2022. The buy-in removes all remaining material pension exposure from the balance sheet, while maintaining the security of benefits to the Scheme members. The buy-in premium has initially been funded through the transfer of the majority of the Schemes' assets to PIC, as well as by an upfront contribution from the Company of approximately £480m. The Schemes have retained ownership of various assets, including some less liquid investments, which will be liquidated over the next 12-18 months in order to settle the remainder of the buy-in premium, and cash, some of which will be required to meet ongoing expenses. In addition, the annual pension deficit funding contribution of £75m was paid in January 2023.

The upfront contribution of the Company was part funded through a capital injection of approximately £480m by the Company's ultimate parent, IFC, passed down from the Company's immediate parent, Royal Insurance Holdings Limited, in the form of an issue of 25p ordinary shares.

The Schemes already had coverage against longevity risk for around 30% of the existing pensioner population through an insurance policy entered into in 2009 with Rothesay Life. Together with the newly purchased PIC annuity assurance policies, the Schemes will now have protection against longevity risk and market risk for the material obligations of all deferred and pensioner members. As a result, the pension surplus on the balance sheet at 31 December 2022 of £200m net of tax is expected to be largely removed as the fair value of these insurance policies, held as assets of the Schemes, will be set equal to the value of the defined benefit obligations covered under IAS 19. An initial net loss of approximately £700m, based on recent market conditions, is expected to be recognised through OCI. The fair value of the insurance policies will then fluctuate going forward based on changes in the value of the defined benefit obligations covered. The transaction will temporarily increase the income tax expense as the deductibility of the upfront contribution will be spread out over three years. This results in deferred tax assets being reclassified to Other Comprehensive Income from income tax expense, with a neutral net impact on shareholder's equity.

44) Subsidiaries and associates

The Company's subsidiaries at 31 December 2022 were as follows.

Unless otherwise stated, the share capital disclosed comprises ordinary shares (or equivalent) which are 100% held.

The proportion of voting power held equals the proportion ownership interest unless indicated.

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding (%)
Brazil			
Royal & Sun Alliance Insurance Limited - Escritório de Representação no Brasil Ltda.	Avenida Doutor Chucri Zaidan, 296, 23º andar, parte, City of São Paulo, State of São Paulo, 04583-110, Brazil°		
Guernsey			
Insurance Corporation of the Channel Islands Limited	Dixcart House, Sir William Place, St. Peter Port, Guernsey, GY1 4EY		
Insurance Corporation Service Company Limited	Dixcart House, Sir William Place, St. Peter Port, Guernsey, GY1 4EY		
India			
RSA Actuarial Services (India) Private Limited[7]	First Floor, Building 10 C, Cyber City Complex, DLF Phase II, Gurgaon, Haryana, 122002, India		
Ireland			
123 Money Limited[4]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B1 Ordinary	
123 Money Limited[4]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B2 Ordinary	
123 Money Limited[4]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B3 Ordinary	
123 Money Limited[4]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B4 Ordinary	
123 Money Limited[4]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B5 Ordinary	
123 Money Limited[4]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	C Ordinary	
123 Money Limited	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
123 Money Limited	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	€1 redeemable shares	
Benchmark Underwriting Limited	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
EGI Holdings Limited	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
RSA Insurance Ireland DAC	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
RSA Overseas Holdings (No 1) Unlimited Company	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
RSA Overseas Holdings (No. 2) Unlimited Company	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
RSA Reinsurance Ireland Limited	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
RSA Broker Motor Insurance Ireland Limited (previously Sertus Underwriting Limited)	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
Isle of Man			
RSA Isle of Man No.1 Limited[7]	33-37 Athol Street, Douglas, IM1 1LB, Isle of Man		
Tower Insurance Company Limited	Jubilee Buildings, 1 Victoria Street, Douglas, IM99 1BF, Isle of Man		
Luxembourg			
RSA Luxembourg S.A.	40 rue du Cure, L-1368 Luxembourg		
Netherlands			
IDIP Direct Insurance B.V.	22 Bishopsgate, London, EC2N 4BQ, United Kingdom		
Intouch Insurance Group B.V.	22 Bishopsgate, London, EC2N 4BQ, United Kingdom		
RSA Overseas (Netherlands) B.V.	22 Bishopsgate, London, EC2N 4BQ, United Kingdom		
RSA Overseas Holdings B.V.	22 Bishopsgate, London, EC2N 4BQ, United Kingdom		
GDII - Global Direct Insurance Investments V.O.F.	Wilhelminakade 97-99, 3072 AP Rotterdam, Netherlands	Partnership Interest	

Royal Insurance Global B.V.[9]	Wilhelminakade 97-99, 3072 AP Rotterdam, Netherlands		
United Kingdom			
Centrium Management Company Limited[3]	5th Floor, United Kingdom House, 180 Oxford Street, London, W1D 1NN, United Kingdom		31.45
Punchbowl Park Management Limited[3, 5]	10 Buckingham Gate, London, SW1E 6LA, United Kingdom		65.09
Polaris U.K. Limited[3]	New London House, 6 London Street, London, EC3R 7LP, United Kingdom		25.38
RSA Northern Ireland Insurance Limited[7]	Artola House, 91-97Victoria Street, Belfast, BT1 4PB, Northern Ireland		
Emersons Green Management Company	The Old Council Chambers, Halford Street, Tamworth, England		33.00
Aztec West Management Company	Minton Place, Station Road, Swindon, SN1 1DA		3.00
Hempton Court Manco Limited[3, 5]	7 Seymour Street, London, W1H 7JW		62.50
Alliance Assurance Company Limited[7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Regent Subco Limited[7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Non-Destructive Testers Limited[7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
R&SA Marketing Services Limited[7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal & Sun Alliance Pension Trustee Limited[7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal & Sun Alliance Property Services Limited[7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal & Sun Alliance Reinsurance Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal Insurance (U.K.) Limited[7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal International Insurance Holdings Limited[6, 7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	£1.00 Ordinary	
Royal International Insurance Holdings Limited[7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	US$1.00 Ordinary	
Roysun Limited[7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
RSA Accident Repairs Limited[7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
RSA Finance[6, 7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
RSA Law Limited[7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		90.00
RSA Pension Funding GP Limited	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ		
RSA Pension Funding LP	*50 Lothian Road, Festival Square, Edinburgh,* EH3 9WJ	Partnership interest	
Sal Pension Fund Limited[1 7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		99.99
Sun Alliance and London Insurance Limited[6, 7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Sun Alliance Insurance Overseas Limited[6, 7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Sun Alliance Mortgage Company Limited[1,6, 7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Sun Insurance Office Limited[6, 7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
The London Assurance[7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
The Globe Insurance Company Limited[6, 7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
The Marine Insurance Company Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
UK Investment Management Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Westgate Properties Limited[6, 7]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		

1. Directly owned by the Parent Company RSA Insurance Group Limited.
2. No subsidiary holds a disclosable interest in the shares of RSA Insurance Group Limited.
3. Indicates that the holding represents an Investment or is an Associate of the Group.
4. Indicates ownership of non-voting shares.

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5. There is no subsidiary where the Group holds less than 50% of the voting rights. There are no entities where the Group holds more than 50% of the voting rights which are not subsidiaries other than Punchbowl and Hempton Court Manco.
6. Denotes the UK subsidiaries that will take advantage of the audit exemption by virtue of section 479A of the Companies Act 2006 for the year ended 31 December 2022.
7. Indicates companies within the Group that apply IFRS 9 and disclose relevant information in their own published financial statements in addition to that already included in these consolidated financial statements.
8. IFC hold 73.54% of the share capital of the Company in non-voting "nil-paid" shares.
9. On 1 January 2023 Royal Insurance Group B.V. was merged into RSA Luxembourg S.A. by means of a cross-border merger and no longer exists as a separate entity.