RSA Insurance Group plc

Annual Report and Accounts 2019

Who we are

For more than 300 years, RSA has been protecting individuals and businesses from insurable risk.

Our business is rooted in regional franchises, and we take pride in providing excellent customer service as well as striving to achieve high performance levels. We are a focused, agile and resilient business.

2019 was an excellent year for RSA overall. The business has recorded its three best[1] underwriting results this century over the last four years. RSA's foundations are strong and our strategy is clear; we will continue to drive improvements in pursuit of our best-in-class ambitions.

Financial and operational highlights

£6.4bn
Net written premiums
-0.8%

£383m
Profit after tax
+3.0%

12,378
Number of employees[2]
+1.1%

44.5p[3]
Underlying earnings per share ◊
39.4p[4] +5.3p

93.6%[3]
Combined operating ratio ◊
94.6%[4] -1.6pts

£656m[3]
Business operating result ◊
£597m[4] +15.5%

1. For further information see page 201.
2. Full-time equivalent.
3. Excluding UK&I exit portfolios. See pages 202 and 209 for further details.
4. Total Group. Statutory earnings per share 32.6p.

Further information on our key performance indicators is set out on pages 26 to 27.

◊

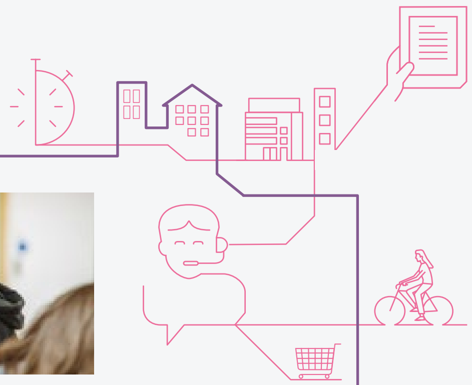
Alternative Performance Measures

RSA uses Alternative Performance Measures (APMs), including certain underlying measures, to help explain its business performance and financial position. Where not identified in the body of this report, further information is set out on pages 201 to 210.

Explore online

Visit us online to see summary information and listen to our Group Chief Executive's statement at www.rsagroup.com/annualreport

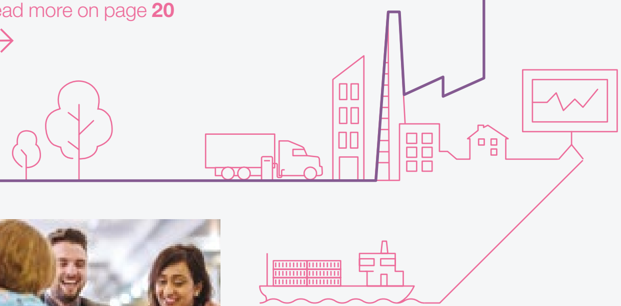
Our performance improvement levers



Focused on our customers

We are committed to delivering great service and outcomes for our customers.

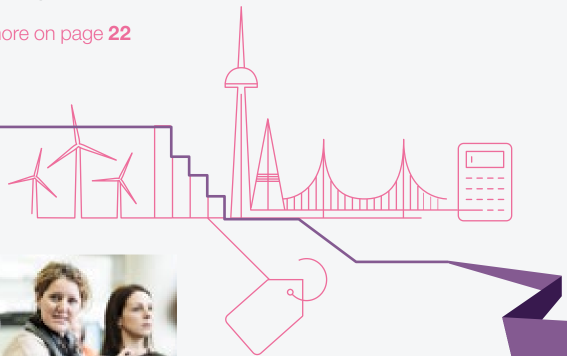
Read more on page **20**



Disciplined, expert underwriting

We are investing in our underwriting tools and capabilities, so we can constantly improve our understanding and pricing of the evolving risks that our customers face.

Read more on page **22**



Cost base management and productivity enhancements

Running an efficient, productive business helps us to remain competitive, invest for the long term and achieve sustained value for our shareholders.

Read more on page **24**

Contents

RSA is a **leading international general insurer**, operating principally through our Scandinavia, Canada and UK & International[1] regions.

Key strengths

Focused, agile mid-cap

Strong customer satisfaction

Leading positions in our chosen markets

High and stable customer retention

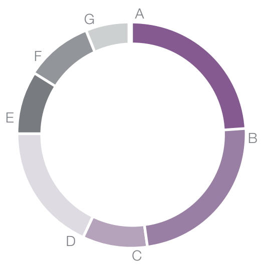
Respected consumer and commercial brands

Technical know-how

Excellent affinity partners and broker relationships

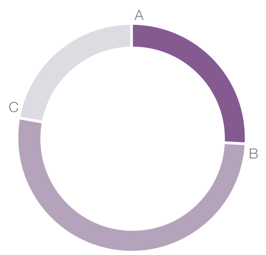
What we offer

2019 Net written premiums by product



A. Household	24%
B. Motor	24%
C. Other Personal Lines	9%
D. Property	18%
E. Liability	9%
F. Commercial Motor	10%
G. Marine and other	6%

2019 Net written premiums by distribution



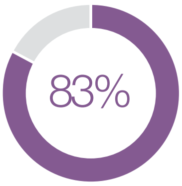
A. Direct	26%
B. Broker	52%
C. Agent/Affinity	22%

1. Includes Europe, Ireland and the Middle East.

Market regions

Scandinavia

Customer retention



In Scandinavia, we operate as Trygg-Hansa in Sweden, and Codan in Denmark and Norway.

BRANDS

59% Personal: | 41% Commercial:

Personal and Commercial:

CODAN FORSIKRING, TRYGG HANSA

£1.8bn

Net written premiums

-2.9%

87.4%

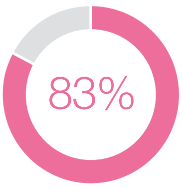
Combined operating ratio ◊

+0.6pts

Find out more on page **32** →

Canada

Customer retention



In Canada, our main brands are Johnson, RSA, Canadian Northern Shield and Western Assurance.

BRANDS

72% Personal: | 28% Commercial:

Personal: JOHNSON, WA

Commercial: RSA

Personal and Commercial:

CNS

£1.7bn

Net written premiums

+5.0%

94.5%

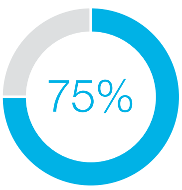
Combined operating ratio ◊

-4.0pts

Find out more on page **34** →

UK & International

Customer retention



In the UK, we operate through our MORE TH>N and RSA brands. In Europe, we trade solely as RSA. In Ireland, we operate using 123.ie and RSA. In the Channel Islands, through the Insurance Corporation of the Channel Islands and Tower Insurance in the Isle of Man. In the Middle East, we operate through Al Alamiya and Al Ahlia.

BRANDS

48% Personal: | 52% Commercial:

Personal: MORE TH>N, 123.ie

Commercial: RSA INSURANCE

Personal and Commercial:

AL ALAMIYA, Al Ahlia, TOWER INSURANCE, INSURANCE CORPORATION

£2.9bn

Net written premiums

-7.1%

95.0%[1]

Combined operating ratio ◊

97.1%[2] -4.3pts

Find out more on page **36** →

1. Excluding UK&I exit portfolios.
2. Total UK and International.

In great shape for **the future**

Dear Shareholders,

As one of the world's oldest insurers, RSA is a source of stability in our customers' lives. We exist to help when things go wrong, and we use our knowledge and skills to ensure people and business are well protected in the first place. 2019 was another successful year in more than three centuries playing this role. We can point with pride to countless examples of our teams supporting customers in difficulty and helping them to be safer.

We've significantly improved the Group's performance, addressing areas of weakness from 2018 to strengthen the business for the long term. The year was not without challenges and our ambition is to improve further for customers, shareholders and all our stakeholders.

Governance and championing a great culture are of the utmost importance to the Board. The Board's commitment to these matters together with other key areas including the Board's focus areas and activities are covered in the Governance section on page 59.

A changing context

A strong RSA is critical as we and our customers are operating in an environment of uncertainty. The world is changing, and our ability to change with it will shape our future success.

2019 saw continued turbulence in the political and economic environment. There were general elections in the UK and Canada, Brexit continued to dominate policymakers' time in Europe and the new norm of low interest rates persisted. The impact on bond returns reinforces our goal to ensure RSA earns strong and consistent profits from underwriting.

Climate change was also a major focus in 2019, as concerns grew about the response from government and business. RSA has an important role in helping our customers to mitigate climate risks, as well as supporting the low-carbon transition through our investment, underwriting and operational decisions.

Best-in-class strategy

Our success in 2019 is particularly satisfying as it represents a return to form after some disappointments in 2018. A combination of decisive action and thoughtful investment has created a better, more resilient company in the long term.

We have exited certain portfolios to focus where we can generate real and sustainable value. Alongside this we have made significant underwriting capability improvements and invested in data, analytics and technology to increase efficiency and help secure good customer outcomes.

There is more to do: in 2020 we must continue our remediation efforts in parts of our Commercial Lines business and strengthen our digital and IT platforms to support growth.

Reflecting our resilience and confidence in the business and its future prospects, we are pleased to propose a final dividend of 15.6 pence per share, making a total of 23.1 pence per share for the year. This is a 10% increase on 2018.

Managing our business well

RSA is committed to making a positive impact in society, acting with integrity for the benefit of all our stakeholders. Our corporate responsibility strategy, Confident Futures, reflects our commitment to integrate responsible business practices into our operations, and to create a future where people can more confidently manage their risks.

In 2019, the Board approved a new Low Carbon Policy, which guides our underwriting and investments and sets a new Science Based Target to reduce the environmental impact of our operations. As members of ClimateWise, we are collaborating with industry peers on these issues, including supporting the introduction of climate-related disclosures.

We are also partnering with non-governmental organisations, suppliers and other stakeholders to improve risk resilience in large and small ways. In Canada, our partnership with WWF supports communities to prepare for flooding. In the UK, we are developing our green supply chain in our claims function, as well as a new relationship with the Royal Society for the Prevention of Accidents. Our safety programmes in Scandinavia reached thousands in 2019, with our Swedish campaign on drowning winning an award for its impact.

Alongside this, we are continuously evolving our product and service propositions to deepen the support we offer customers. Across our regions we've introduced additional advice services to our customers, strengthened the rewards we offer loyal customers and implemented new guidance to help prevent underinsurance and ensure customers purchase products which suit their needs.

Martin Scicluna Chairman

Valuing RSA's people

RSA's people and culture are two of our most important assets which we must nurture and continue to invest in. We are committed to building a diverse, inclusive and supportive workplace so people can thrive in their careers at RSA. Improved flexible working and family friendly policies are supporting our people to balance home and work life.

We are especially focused on ensuring we develop and retain technical skills in our business, which is important to our competitiveness. Our growing apprenticeship scheme provides the opportunity to gain industry recognised qualifications while learning 'on the job', and we are focusing on mentoring opportunities on under-represented groups and those at key stages of their careers. Some of my Board colleagues and I enjoyed meeting some of RSA's apprentices in a recent visit to our Manchester site.

As a Board, we have made stakeholder engagement throughout the year a key priority to inform our views. We visited several sites in RSA's key regions, participating in employee town halls and other forums, attending customer meetings and undertaking an active and ongoing shareholder dialogue.

The members of the Board are very supportive of developments regarding stakeholder and workforce engagement; it is our collective responsibility to engage directly with RSA employees and we have developed a programme of activity designed to ensure that Directors have dialogue with as wide and diverse range of employees as possible.

As stated in my 2018 report, Jos Streppel stood down from the Board in May 2019, and we were joined from March by Sonia Baxendale, whose financial services experience from the Canadian market adds significant value to our discussions.

In July, Isabel Hudson also retired from the Board with our gratitude, having made a significant contribution to the Group as Senior Independent Director and as a member of the Risk, Remuneration and Nomination and Governance Committees. Martin Strobel has been appointed to the role of Senior Independent Director.

We also appointed Clare Bousfield to the Board as a Non-Executive Director with effect from 1 April 2020. Clare brings in-depth experience of life and health insurance, asset management and reinsurance to the Board, as well as a deep understanding of the regulatory environment in the UK.

The Board remains committed to maintaining robust governance; the annual Board Evaluation was externally facilitated this year. I was pleased that the results were very positive, and the process demonstrated that the Board is highly engaged and operating effectively.

Thanks to our teams

RSA is a company built on the values of its employees, and the ongoing commitment and hard work of our colleagues is greatly appreciated by the Board. Particular thanks are due to our CEO Stephen Hester, Executive Directors, Scott Egan and Charlotte Jones, and their extended teams for their efforts in 2019.

Finally, thank you to you, our shareholders, for your continued support. I look forward to welcoming you to our Annual General Meeting in May.

Martin Scicluna
Chairman

26 February 2020

Our purpose

Why we exist

RSA exists to help protect customers against risk and to serve shareholders well. In so doing, we contribute to society at large.

Our ambition

Where we are going

Our vision is to win for all our stakeholders, through striving to perform at best-in-class levels in our chosen markets.

Our strategy

How we will get there

RSA's strategy is to:

- Concentrate on the complementary regional insurance markets where we are strongest
- Sustain a platform of financial strength that enables our ambition
- Focus on continuously improving operational delivery, through better customer service, underwriting and cost-efficiency
- Consistently develop the capabilities of our people and our use of data, technology and capital resources.

Read more on **page 16**.

Our business values

What will help us win

We aim to fulfil our purpose, ambition and strategy by consistently building our core business values:

- Strong customer service
- Great technical know-how
- Focus and determination
- A culture of openness and transparency
- The power of teamwork.

Our people

How we work together

We want RSA to be a place where fulfilling careers can be built. We can achieve this through success in our business goals and living our People Principles: building a culture of high performance, working together effectively and sustaining the diverse capabilities we require to succeed.

Keeping our customers **safe** and **protected**

Our resources

Financial

We have £4.7bn of capital, which we use to support our customers and generate returns for shareholders.

Expertise

Our core technical expertise lies with our underwriting, pricing and claims handling teams who receive ongoing training to build their capabilities. We also prioritise developing a strong customer service culture to ensure policyholders get the support they need.

Relationships and partnerships

74% of our business is distributed through our brokers and partner organisations.

People

We have 12,378 employees worldwide.

Technology

We use technology to support our customers, digitise our services and automate our operations to make them more efficient.

Data

The quantity and quality of data are both constantly improving and we use this to price and underwrite more effectively and accurately. This improves outcomes and experiences for customers.

What helps RSA thrive?

We have a balanced portfolio

We have a balanced portfolio, in terms of where we operate (the major insurance markets of Scandinavia, the UK and Canada), our product offering and the way we distribute these products. This scale and breadth helps us to manage the impact of volatility on the Group effectively.

We aim to be the best-in-class

We continually invest in our people and their development to create a forward-looking, high-performance culture intent on becoming market leaders in our chosen classes of business.

We have strong brands and customer franchises

We have developed excellent regional customer franchises with trusted and recognisable brands in our markets.

We have a strong capital base and prudent capital management

We have a strong capital base and are well reserved to maintain our ongoing resilience and continue to serve customers well. Our funds are prudently invested in low-risk assets, and reserves are available to pay claims when the worst happens.

Creating value for our stakeholders

Our customers

We strive to provide tailored products that meet the evolving needs of our customers by analysing trends and investing in technology to keep pace with digital developments.

80%
Group customer retention

Our people

Our commitment to our people has helped us build a strong, high-performing workforce that believes in teamwork and is determined to serve our customers in the best way possible.

41,500
Number of customer and regulatory training hours completed across the Group in 2019

Our communities

As a responsible business, we are committed to making a positive contribution to the communities where we operate and to proactively manage the impact of our business on the world around us.

£1.9m
Value of community contribution and 11,911 volunteer hours in our local communities

Our investors

Our aim is to deliver value to our shareholders by generating attractive and sustainable returns.

£383m
Profit after Tax

16.0%[1]
Underlying ROTE ◊

1. Excluding UK&I exit portolios.

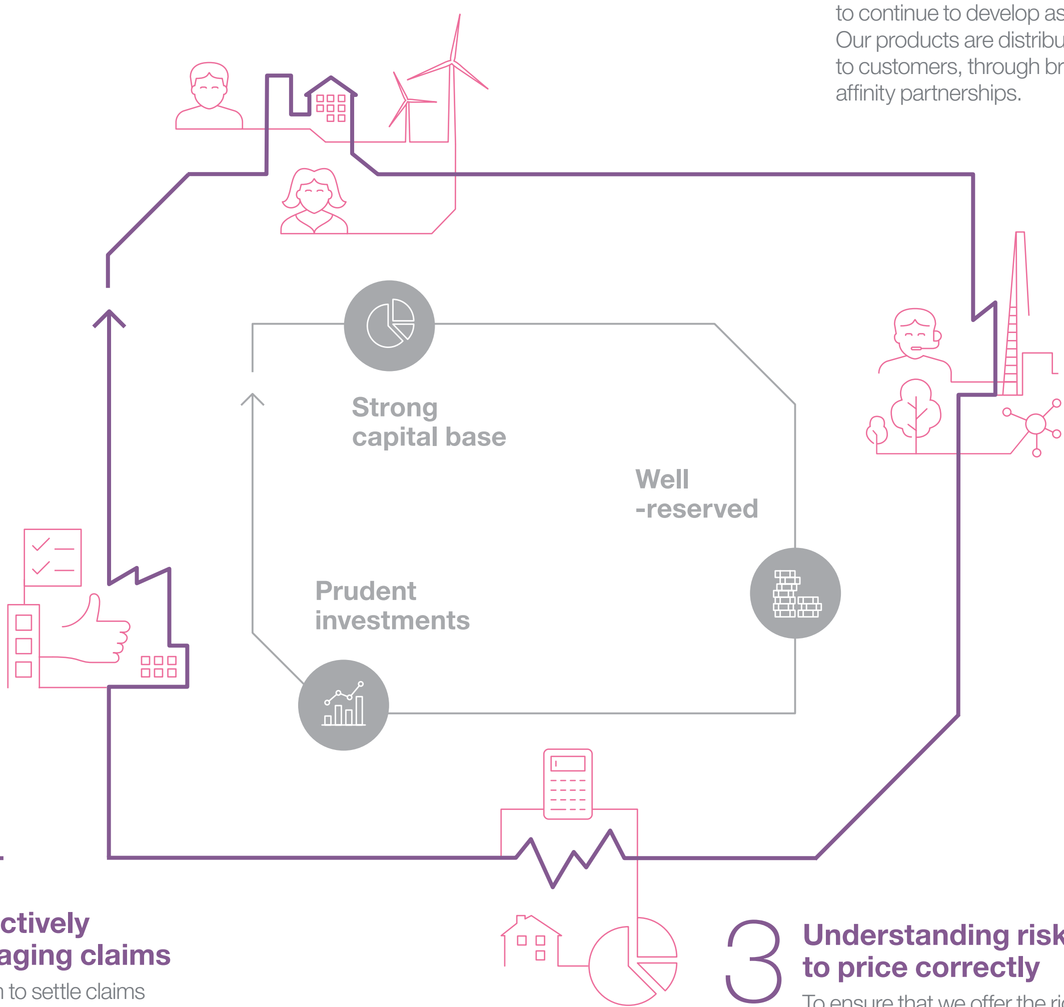
What we do and how we create value

1 Products that protect our customers

Our customers are our business. We strive to address their changing needs and continually improve our service.

2 Efficient product distribution

We need to reach our target customers effectively and efficiently to continue to develop as a business. Our products are distributed directly to customers, through brokers and affinity partnerships.



3 Understanding risk to price correctly

To ensure that we offer the right products at the right price and on the right terms, we work hard to increase our understanding of our customers' risks and their evolving needs.

4 Proactively managing claims

We aim to settle claims quickly and smoothly. We carefully manage our indemnity spend to keep the cost of claims efficient.

An open and collaborative approach to stakeholder engagement

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

The Board believes that through its stakeholder engagement programme it gains a meaningful insight into the views, priorities and issues facing its key stakeholder groups and helps us to reflect these in our decision making and planning.

In 2019, the directors and senior management engaged with key stakeholder groups across our geographic regions and different lines of business through a number of forums, from informal meetings and social events to presentations and leadership events.

The Board has reflected on the level and nature of stakeholder engagement in 2019 and concluded that it provided the Board with a comprehensive understanding of the views and interests of the key stakeholder groups. In refining and approving the stakeholder engagement plan for 2020, the Board agreed that the key priorities for 2020 are: customers, employees, shareholders and regulators. It also confirmed its commitment to continued direct and indirect engagement with these key groups and other stakeholders.

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

Customers	How we engage and consider	Outcomes and actions
Good business starts with our customers and we strive to keep them at the heart of what we do. To ensure that we offer the right products at the right price and on the right terms, we work hard to increase our understanding of our customers' risks and their evolving needs. Customer satisfaction and customer retention are critical to the long-term sustainable prospects of the Group. With this in mind, one of the Group's strategic goals is the ambition of delivering improvements in customer service. While the type of customer we serve ranges from individuals through to large corporations, our ambition to provide support and excellent service is the same and it is vital that we engage with our customers to ensure that we are meeting their expectations.	Board members meet with our brokers, affinity partners and corporate customers at various events throughout the year. This included two way dialogue with our brokers during the Board site visit to Manchester. As well as this direct engagement, customer matters were a strong focus during the Board's site visits in 2019. During these site visits, the Board met with frontline employees to discuss how the needs of our customers are being met and what customers care about the most. Whilst visiting the Manchester office, the Board participated in call listening with call handlers in the UK Commercial Lines business, which included a demonstration of the systems used. The Board also receive regular updates on customer satisfaction and customer retention, and receives quarterly updates from the Customer Committee, which has been established to support good customer outcomes and ensure that decisions are taken with the impact on customers at front of mind. The Board also receives periodic updates on customer and conduct matters, business reviews of different regions and management presentations, and an annual customer competitor pack to track customer trends by geographies. Feedback from our customers suggests that their areas of priority include not only efficient underwriting and responsive customer service, but also corporate responsibility, use of technology, innovation and new and changing areas of risk such as cyber and climate change.	Our aim to be a best-in-class insurer means an intense focus on improving customer service and our underwriting and claims technical skills. During 2019, the Board also focused on the customer experience of sales, service and distribution. We aim to be proactive and digitally enabled and provide tailored products that address evolving customer demands and needs. The regular updates received by the Board have helped to ensure we promote and secure positive outcomes for our customers and enabled the Board to focus on all areas that are important to our customers. The Board approved investment in further technology, analytics and digital offerings, including tools to help us to price in a more sophisticated way and to automate parts of our claims and customer service. The benefits of these systems will include being more intuitive for employees and increasing operational efficiency, thereby reducing costs. The Board has sought to ensure corporate responsibility and sustainable business practices are relevant considerations in all Board decisions. For further information on RSA's approach to environmental, social and governance matters (including climate change), and how the Board has taken these into account, see page 13 and 44 to 49.

Workforce

RSA is a people-centred business, with an ambition to perform at best-in-class levels. The Board recognises the key role of the workforce in delivering the Group's strategy and values time spent with them.

We engage with our workforce to ensure that we are fostering this environment and meeting the needs of our workforce.

We define our workforce as our employees across all regions of the business, as well as those individuals on a contract for service, agency workers and remote workers.

Although we engage with different members of the workforce in different ways, the Board acknowledges that the entire workforce can be affected by Board decisions and believe engagement with all sections of the workforce will ensure that the widest possible range of shared views are taken into account.

The Board considered the workforce engagement models set out in the Corporate Governance Code and determined that the most effective engagement would result from all Board members maximising engagement with the workforce through the wide range of activities described in the adjacent column. The Board sought to meet employees from each of its regions at different levels of seniority and role type and discuss issues relevant to them.

Taken together, these engagement activities provided a meaningful and regular dialogue between the Board and the workforce and allowed for all members of the Board to be involved directly in workforce engagement matters, with the result that the Board as a whole has spent more time in the business than would otherwise have been possible.

How we engage and consider

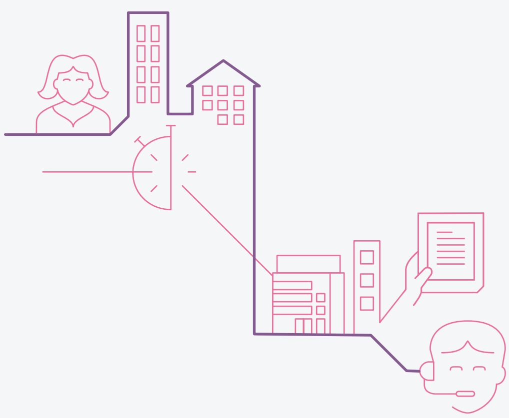
During the course of 2019, the Board met with a range of employees and other members of the workforce to understand their roles within the business and their priorities. These meetings gave our workforce the forum to share concerns or opportunities they see, and discuss how their work influences Board decisions and vice versa.

The Board also spent time in the business, both collectively and individually, to gain a greater insight into our business operations, including Board visits to Scandinavia, Manchester and Horsham to meet with the local board, senior management and workforce. The Board visit to the Scandinavian IT hub in Malmö provided the opportunity to experience first-hand an example of our investment in people through the development of new capabilities in customer facing technologies and agile ways of working. The Chairman and the Group Chief Executive attended the European Works Council, RSA's European employee representative body. The Board also met with the Diversity and Inclusion Councils for our UK and Scandinavian businesses.

The Board hosted 'town hall' meetings to hear directly from the workforce, as well as a number of events to discuss issues of importance to the Group. All members of the workforce are encouraged to attend these 'town hall' meetings, and arrangements are made for remote workers to dial in where practicable.

We also regularly undertake employee engagement and cultural surveys to gain insight into the opinions of our employees. These surveys address the medium and long-term aspects of employment relationship growth and are therefore targeted at people we directly employ. Other members of our workforce who may be with us on a shorter-term, contingent basis are encouraged to share their views at any time through their line managers or various online feedback tools.

The Board received regular updates on diversity and inclusion, culture and workforce, and regional employee engagement updates from UK & International, Scandinavia and Canada, as well as reports from the Ethics and Compliance team. These reports include the results of any relevant employee surveys.



Outcomes and actions

Throughout 2019, the Board encouraged and supported the work of the executive team and senior management in improving our people proposition based on feedback from the workforce, and this will continue during 2020.

The enthusiasm and passion displayed by our people during the Board site visits demonstrates the impact of our commitment to our people strategy, 'Your Best U'. We know that it is vital to the long-term success of the Group that we invest in our people and that the Board sets and drives a good corporate culture. For further details on the steps taken by the Board in 2019 in connection with our people strategy and culture, see page 50.

The Board's direct engagement with the workforce, including through the site visits, has been successful in achieving meaningful, regular two-way dialogue between the Board and the workforce. Following positive feedback on the site visits undertaken during the year, the Board plans to build on this, with further site visits planned for 2020.

We have identified a number of areas of particular interest to our workforce, including culture, diversity and inclusion, flexible working and personal and professional development. With this in mind:

- The Board continues to support and monitor a programme of actions that focus on improving Group-wide diversity and inclusion
- The Group has explored ways to enable and support a more flexible workforce
- We have built on the training offered to, and leadership development opportunities for, our people.

For further information, see **pages 50 and 51**.

Shareholders

The Group remains committed to maintaining high levels of transparency and disclosure to investors to aid understanding of the Company's investment case.

We have an extensive engagement programme with our shareholders and analysts. Maintaining strong relationships with these shareholders helps ensure that the Company has access to the capital it requires.

We consider there to be two main groups of shareholders: institutional investors and private shareholders. Engagement with both of these groups of shareholders is important to ensure that we can maintain investor support for our long-term strategic objectives.

How we engage and consider

We understand that the views and priorities of institutional investors and private shareholders are not necessarily the same. With this in mind, the Board looks to engage with both groups to determine their areas of focus.

Institutional investors

During the year, members of the Board, senior management and the Investor Relations team had contact with hundreds of investors and analysts to discuss financial performance and the Group's strategic ambition.

To keep the Board up to date, the Investor Relations team presents to the Board semi-annually on investor sentiment, competitor trends and comparisons, and details of any roadshows or shareholder meetings.

A new Remuneration Policy will be proposed for shareholder approval at the 2020 AGM. Ahead of this, the Chair of the Remuneration Committee wrote to our largest shareholders to explain our proposal in respect of remuneration and offered the opportunity for direct engagement on this topic. The Chairman and the Chair of the Remuneration Committee met with institutional investors to seek their views on the Group's proposed approach to executive remuneration. The Chairman and Chair of the Remuneration Committee also met with a number of major investors to discuss a variety of other matters identified as being important to those investors, including environmental, social and governance matters and the Group's financial performance.

The Group Chief Executive and Chief Financial Officer led quarterly presentations of the Group's financial results and carried out extensive investor interaction in the UK, US and Europe. This ongoing engagement ensures two-way communication with shareholders on business performance and our strategy.

Private shareholders

The Board considers our AGM an important opportunity to engage with all shareholders, but particularly private shareholders who might otherwise not have any direct engagement with the Board. Shareholders are invited to ask questions during the meeting, and have the opportunity to meet Directors before and after the formal proceedings.

At each AGM, the Group Chief Executive presents an update on the Company's performance and activities during the year. The Chairman and each Board committee chair make themselves available to take questions from shareholders.

More information about the AGM and Equiniti, the Company's Share Registrar, can be found on **pages 211 and 212**.

Outcomes and actions

Meetings with shareholders over the course of 2019 have been positive, engaging and beneficial. with a key focus area being the performance of the UK business.

After each meeting with investors, the relevant Director provides a verbal summary of the engagement to the following Board meeting, to ensure that all Directors are aware of the views and priorities of the investor(s).

The Remuneration Committee was informed of feedback from investors in relation to the proposed Remuneration Policy and, in line with that feedback, concluded that the existing policy continues to align well with our long-term business strategy and that no major overhaul was needed.

RSA's shareholders have benefited from a strong combined operating ratio, dividend growth of 10%, and an increase in share price over the past five years of 29%. Our performance target of 13–17%, return on tangible equity represents an attractive shareholder return relative to both cost of capital and insurance industry norms. Underlying performance is critical to ensuring that we are in a position to continue to deliver attractive returns, and the Board takes this into account when determining the strategic focus of the Group and recommending dividends. The business model set out on pages 6 and 7 reflects that priority and provides the framework to deliver value to our shareholders.

For further information on the Board's consideration of capital allocation and dividend policy, see **page 13**.

Regulators and ratings agencies

RSA is committed to working with all of its regulators in an open, cooperative and transparent manner. We seek to ensure a strong regulatory compliance culture throughout the Group in order to pre-empt and, where necessary, resolve regulatory issues and to avoid or minimise business impact, the risk of customer harm and surprises.

The Board continues to have constructive engagement with our regulators, ensuring that they gain a comprehensive view of the Group's governance priorities and that we understand the issues of interest to them.

Given the importance of our creditworthiness to our customers, investors and other stakeholders, the Group also engages on a regular basis with our two key ratings agencies.

How we engage and consider

The Board engages regularly with the Group's regulators and in 2019 the PRA hosted a meeting for our regulators from across the globe. Representatives from the Board attended this regulatory college and have also met separately with the FCA and PRA and our regulators in Denmark, Ireland and Luxembourg. The FCA and the PRA also attended Board meetings in 2019 to discuss regulatory priorities.

The Board receives periodic updates from the business on regulatory matters and priorities, including the priorities of the Group's regulators in regions other than the UK.

Key topics for engagement included culture and governance, treatment of existing customers and technology resilience. Customer conduct, including pricing practices, has continued to be a focus of our regulators across the globe in 2019. The regulatory capital requirements of the Group are also monitored and discussed with the relevant regulators.

Senior management interacts regularly with Standard & Poor's and Moody's, our two key rating agencies. Board members are kept informed of the current views of the rating agencies through regular commentary and financial metric reporting at Board meetings.

Outcomes and actions

We believe that open and regular dialogue promotes transparency between the Group 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 the Group's priorities and focus for the year set out in the Group's regulatory compliance plan, which is considered and approved by the Group Audit Committee.

Open and constructive dialogue with our regulators has also helped to ensure that, in 2019, we received PRA approval for the latest enhancements to our internal model at a Group level, as well as model approval from the Danish regulator in respect of our Scandinavian entities to mitigate the risk of moving to the Standard Formula in the event of a 'hard Brexit'.

As well as the key stakeholder groups listed above, the Board is committed to engaging with its other stakeholders in order to ensure that we maintain positive relationships and take account of their views and interests.

Community and the environment

Climate change is a serious environmental, social and economic challenge. We understand that it is important to our stakeholders (as well as to the future prospects of the Group) that we address responsible business issues, including climate change. Our new Confident Futures strategy seeks to ensure that we consider our environmental impact at every possible opportunity, and the Board took steps throughout 2019 to ensure that this is integrated into the business and our decision-making processes.

We also know that RSA plays an important role in supporting communities in their times of greatest need. We encourage our employees to get involved in and support our local communities in order to strengthen this connection. In 2019, the Group invested £1.9m in local communities through payments to charities, employee fundraising and supporting employee volunteering.

For further information on our Confident Futures strategy and how the Board has considered the impact of our operations on the community and the environment, see **pages 44 to 49**.

Suppliers

Our suppliers are critical to our business and the long-term success of the Group. We are committed to the principles of the Prompt Payment Code and aim to treat suppliers fairly and consistently, for example by offering equal payment terms between suppliers, in order to build strong and lasting relationships. We use a supplier information and risk management portal to assist in monitoring our suppliers' performance and have held meetings with key suppliers in the UK and Scandinavia to better understand their approach to managing key issues. For further information on how we manage our supply chain and encourage high standards of business conduct, see page 45.

Pension schemes

RSA is committed to fully supporting the pension schemes and, in 2018, approved the funding agreements for the Group's two defined benefit pension schemes, designed to provide a more stable, lower-risk future for the plans themselves and for RSA as sponsor. The Group has committed to pay contributions at this level until the schemes are fully funded on a lower-risk basis. During the course of 2019, the Board considered the funding level of the Group's pension schemes, the contributions payable and the pension investment strategy to ensure that the funding and other arrangements remained appropriate. Quarterly updates on Group performance were provided to the pension trustees.

Considering the long term and the interests of our stakeholders

In making its decisions 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.

For details of how we engaged with our key stakeholders, see **pages 8 to 11**

Decision-making and section 172 of the Companies Act 2006

The success of the Group depends on our ability to engage effectively with our stakeholders and take their views into account. Section 172 of the Companies Act 2006 requires directors, in making their decisions and choices, to have regard to a non-exhaustive list of factors to ensure that, in promoting the success of the Company for the benefit of its shareholders, broader implications of decisions are considered. Information on the issues, factors and stakeholders taken into account by the Board when complying with the provisions of section 172 of the Companies Act 2006, the methods used to engage with stakeholders and the effect of this engagement on the Board's decision-making during 2019 are set out on pages 8 to 11.

The following principal decisions and activities demonstrate how the Board has assessed and addressed different stakeholder interests and impacts in making decisions that support the implementation of the Group's long-term strategy (as set out on page 16). We believe that principal decisions are both those that are material to the Group and/or also those that are significant to any of our key stakeholder groups.

Setting our culture and people strategy

Having a good corporate culture gives the Board confidence that everyday decisions are approached with the right mindset and taken in line with the Group's values and objectives, in order to maintain our reputation and continue our progress to achieving best-in-class. It also helps to contribute to good outcomes for our customers. Our goal is a culture of high performance and engagement and this is reflected in every decision taken by the Board and senior management.

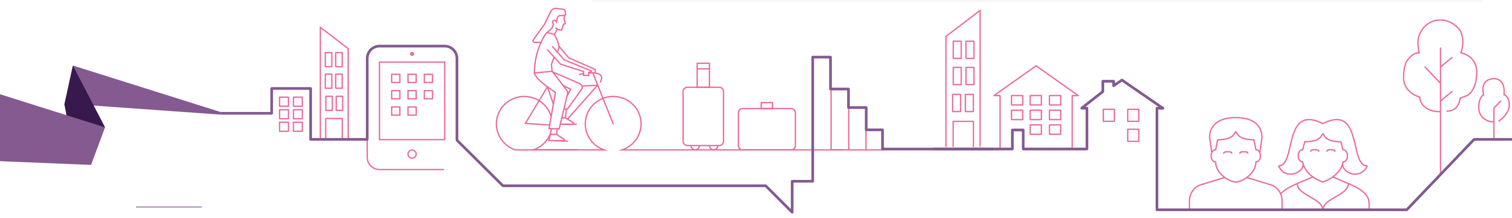
In late 2018, the Board discussed the cultural characteristics to be instilled in the business to deliver the Company's purpose, values and strategy. It also discussed our senior leader expectations and people principles which underpin the people strategy in each region. Consistently developing the capabilities of our people is one of the core aspects of our strategy. During 2019, the Board took further steps to monitor and embed the Group's corporate culture and ensure that it is aligned with our purpose, values and strategy. In particular, the following information was reported to the Board as part of a new biannual Group-wide culture and workforce board paper:

- The results of a quarterly cultural health review process completed in each region to highlight any key people risks
- The results of cultural mini surveys undertaken to improve ongoing monitoring and assessment of culture across the Group.

In support of a good corporate culture, behaviours are taken into account when considering individual performance and determining remuneration.

Based on this information, the Board discussed and considered various cultural indicators and the people strategy and whether any further actions should be taken. Following feedback from the workforce, and taking into account how best to maintain good relationships with customers and a reputation for high standards of business conduct, the Board decided to progress with the people strategy and extend the workforce engagement plan to include additional direct and indirect channels for engagement. The Board Risk Committee also approved the Group's refreshed 'Speaking-Up and Whistleblowing' policy, which encourages a culture of openness and enables individuals to raise concerns knowing that those concerns will be valued and treated seriously. The Board also used stakeholder engagement opportunities to actively promote RSA's purpose, business values and desired culture.

Further information on the Board's activities in respect of monitoring and assessing corporate culture and workforce engagement is included on **pages 8 to 11**.



Balancing competing demands for capital

Throughout the year, the Board considered the capital position of the Group and the allocation of capital throughout the business. Based on our strong profitability and capital generation, robust capital position and confidence in the future prospects of the business, the Board decided to recommend a final dividend for 2018 of 13.7 pence per share, an interim dividend for 2019 of 7.5 pence per share and a final dividend for 2019 of 15.6 pence per share. In considering these dividends, the Board took into account the three year operational plan and capital forecast and the results of stress testing (together with the other factors set out in the viability statement on page 111) to ensure that sufficient resources would remain available to deliver the Group's strategy and meet our long-term obligations, including the agreed funding arrangements in respect of the defined benefit pension schemes. In August 2019, the Board decided to further increase internal capital flexibility by raising £350m through the issuance of senior notes.

In applying the Group's dividend policy and considering uses of capital, the Board balanced the resources required to support the Group's long-term strategy (including the need to retain funds to meet the Group's regulatory capital requirements, ensure that customers are adequately protected, support future investment and meet agreed pension contributions) with the interests of shareholders for whom income is an important metric. The Board considered, among other things, the Group's capital positions, projected capital generation and expenditure and forecast positions.

Further details on our viability assessment and dividend are on **pages 111 and 153**.

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Building up the Board's expertise

Sonia Baxendale was appointed to the Board with effect from 1 March 2019 and Clare Bousfield was appointed to the Board with effect from 1 April 2020, each as an independent Non-Executive Director. When planning for the succession of Board roles, the Nomination and Governance Committee considers not only the balance of skills and experience required for the Board to provide effective leadership and promote the long-term sustainable success of the Group, but also how to ensure that the Board as a whole has the necessary stakeholder awareness and expertise.

In 2018, the Nomination and Governance Committee identified that the Board would benefit from the appointment of a director with experience and expertise in Scandinavia or Canada in order to give insight into the interests of, and issues facing, our customers and employees in those areas. This was reflected in the role profile for a new non-executive director and Sonia Baxendale was appointed to the Board based, among other things, on her breadth of skills and experience, Canadian expertise and cultural fit.

In 2019, the Nomination and Governance Committee decided that the appointment of an additional non-executive director with significant financial expertise would contribute to the long-term success of the Group. Following a rigorous selection procedure which highlighted her extensive experience in audit and finance, and considerable technical knowledge of the insurance industry, Clare Bousfield was appointed to the Board with effect from 1 April 2020.

For further information on Board appointments, see **page 66**.

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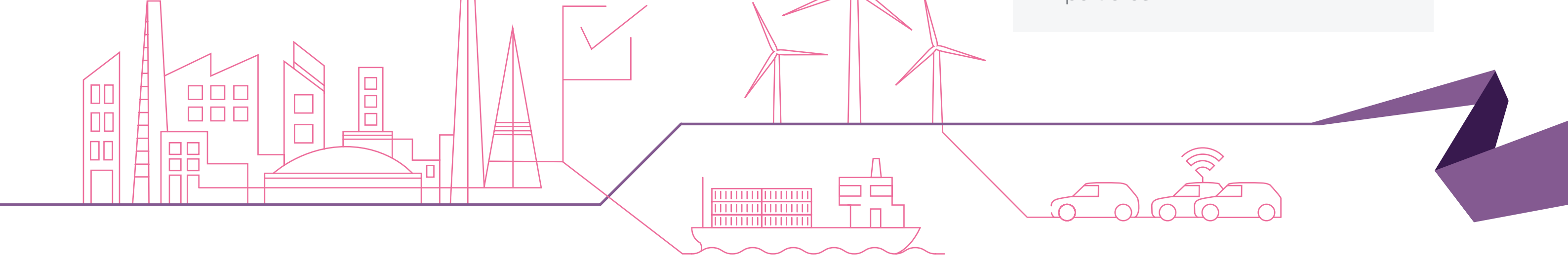
Taking a fresh approach to Environmental, Social and Governance (ESG)

2019 saw the launch of our Confident Futures strategy, which seeks to integrate responsible business practices into our everyday operations and marks a more integrated approach to managing environmental and social matters across the business. For further details, see pages 44 to 46. Throughout the year, we have seen growing stakeholder interest in our approach to responsible business issues, particularly among investors, regulators and the workforce, and we consider the proper management of ESG matters to be vital to the long-term sustainable prospects of the Group.

In response to this and feedback from customers, employees and shareholders, the Board and the Group Investment Committee have taken a number of steps during the year to ensure that ESG matters are properly considered and integrated into strategic decisions. In particular:

- The Board received updates on the implementation and development of our Confident Futures strategy and approved the priority actions going forward, including driving increased stakeholder engagement with the strategy
- Climate change featured as a key topic for discussion at the Board's strategy away day – this included input from expert speakers and discussion on key issues and the role we can play
- The Board approved the adoption of the Group's low-carbon policy position to clearly articulate our perspective on climate change, investment in/underwriting of carbon intensive sectors and support for the transition to a low-carbon economy and
- The Group Investment Committee discussed and approved the ESG ratings of the Group's assets and the integration of ESG considerations into the operation of the Group's portfolios.



Succeeding in an **evolving market** and a **changing world**

Remaining resilient and supporting our customers by monitoring and responding to changing global developments.

Global macro trends		RSA perspective
Political	**Protectionism continues to affect global relations** Protectionist trade policies continue to strain relations between countries and impact levels of global trade. The US and China trade war was a dominant feature of 2019 and the pace of global economic activity remains weak, while tensions remain heightened in the Middle East. Meanwhile, Britain is coming to terms with Brexit, and its future relationships with key trading partners remain unclear.	· Our balanced footprint means we are well equipped to weather macropolitical risks. Most of our business is local and locally incorporated. · Our exit of certain segments of London Market Commercial business means we're less exposed to global trading volumes. · Our Luxembourg hub protects our UK & International business from operational Brexit risks.
Economic	**Global growth slows** Global economic growth was sluggish in 2019, contracting 0.7 points to 2.9%*, the lowest level since the last financial crisis. Capital markets were volatile, driven in part by trade tensions between the US and China, while negative yielding debt reached historic levels in 2019. Growth patterns remain unpredictable, with the long-term global outlook impacted by the tightening of financial conditions and ongoing global tensions. Global growth is forecast to reach 3.3%*, but this may be tempered slightly by the impacts of the ongoing coronavirus outbreak. * Source: International Monetary Fund	· Global insurance volumes are largely insensitive to normal fluctuations in GDP growth. · Falling bond yields reduce investment income derived from our conservative investment portfolio and put greater emphasis on underwriting performance. As such, we are carefully looking at our investment strategy to respond to the changing economic environment. · With a focus on a number of mature markets we have sufficient diversification and our low-risk businesses have a well-matched approach to investments; we remain resilient in the face of negative economic developments.
Social	**Changes in society are changing consumer expectations and business needs** Increasing interconnectivity and developing technology mean customers expect more from companies. Consumers demand seamless digital service, with 24/7, instant responses. There is a growing awareness of the needs of vulnerable customers, which businesses are adapting to. With a growing interest in climate change, as evidenced by the growth in activism and the increasing criticism of single-use plastics and aeroplane travel, there has never been more interest in corporate responsibility. Meanwhile, urbanisation and an ageing population are changing the demographics and needs of insurance customers. The asset ownership model is being challenged through the rise of the 'sharing economy', and insurance products will need to respond accordingly.	· RSA's purpose is to protect customers against risk and ensure the products and services we offer meet their changing needs. Our telematics, cyber insurance and e-trade propositions are examples of how we adapt to meet customer demand. · Our Personal Lines business serves customers of all ages. Our focus is on building our digital approach while differentiating our support for vulnerable customers. · As well as following ESG investment principles, our Confident Futures strategy ensures we act responsibly, while playing an active role in helping society manage risks in a smarter and safer way: – We increasingly focus on digital solutions and data to manage emerging risks – We're building on our digital and product proposition in the commercial space to ensure we meet the changing needs of businesses. Meanwhile, our telematics product provides affordable insurance for young drivers.
Technology	**Big data, digitisation and new technology are creating both risks and opportunities** Digitisation and the availability of big data mean that companies can improve how they operate. This has shifted consumer expectations and led to increased scrutiny from regulators. Greater sophistication in data analytics and the continued development of artificial intelligence and automation have created an opportunity for better risk management and improved customer service. However, this has created some challenges for an insurance industry trying to keep pace with innovation. Insurers are continuing to invest significant resources to enhance their digital proposition to meet the evolving needs of their customers.	· We are continuing to invest in customer journeys, new products and better digital interfaces. · We are harnessing big data and advanced modelling to assess and price our products more efficiently and accurately. · We are also evolving our technical capability strategy and staff development programmes to build the skills required to address these new opportunities. · We take the protection and integrity of customer data seriously and have a framework in place to understand and mitigate potential risks as cyber crime continues to grow in sophistication. We must continue to evolve to ensure data is protected.

Key insurance themes and how we're responding

Climate change and extreme weather

Climate change presents both short-term and long-term physical risk and a mid-term transition risk

- Extreme weather events are not only becoming more frequent but also more intense.
- Significant action is needed to meet the targets set by the 2015 Paris Agreement on Climate Change, which could create transition risks as we shift to a low-carbon economy.
- We have sufficient reinsurance to limit our exposure to severe weather events, as well as promoting prevention and investing in cross-industry risk pooling schemes.
- As part of our Confident Futures programme, we aim to reduce our own environmental impact, including helping our customers respond to climate change, assisting in the transition to a low-carbon economy.
- We are a leading insurer of offshore wind farms and provide cover for the world's largest single-site solar energy plant.
- In investment terms, we are a relatively low-risk investor and monitor ESG factors within our portfolio where possible.

Customer conduct

The insurance industry must respond to increasing focus from market regulators on ensuring that customers are treated fairly

- The UK regulator, the FCA, is increasing its focus on conduct towards customers, especially with regard to pricing within General Insurance.
- The trend is not unique to the UK but is becoming prevalent across the globe in mature insurance markets.
- Our Group Customer Policy outlines steps our business must take to ensure customers are treated fairly and products and service continue to meet their needs.

Economic shocks

Financial market volatility remains a risk with a persistent low bond yield environment impacting investment income

- Financial market conditions were volatile in 2019 impacted by political developments and their impacts upon monetary and economic trends. RSA is relatively well protected with a conservative bond portfolio and a broad array of internationally derived profits.
- The low bond yield environment continues to persist and as such investment income is forecast to fall if yields remain at today's level. This is putting greater emphasis on underwriting discipline and control. We will continue to exit underperforming segments of business where we can't generate long-term sustainable returns and seek to improve underwriting standards, pricing accuracy and risk management in areas where sustained profitability can be achieved.

Post-Brexit transition

Leaving the European Union could bring unexpected challenges and extend economic uncertainties

- The creation of RSA Luxembourg has insulated us from the main regulatory impacts of Brexit. The transfer of risk currently underwritten through our European branch network to our Luxembourg subsidiary has ensured a smooth transition for our customers and brokers following the UK's departure from the European Union.
- As we move into the Brexit transition period, there is the potential for economic shocks, claims inflation and supply disruption, but we are working hard to ensure we are well placed to respond to and mitigate any impacts.
- We continue to monitor scenarios closely.

Cyber risk

The demand for cyber insurance is increasing as the frequency, severity and sophistication of attacks increase

- We have a framework in place to understand potential threats, as well as to manage and mitigate potential risks to customer data.
- We have a large suite of cyber-specific solutions for large and multinational businesses, as well as SME solutions. We are monitoring the market to make sure we understand demand.
- Reinsurance arrangements ensure that we are protected from volatility and large losses while we develop our understanding of the sector.

Automation

Automation and robotics are helping corporates become more efficient

- Automation and robotics, supported by investments in technology, are increasing efficiency and supporting better customer experience by digitising manual and routine tasks.
- Automation is also impacting customer needs and expectations, with customers more reliant on technology than ever before.
- Our customers are increasingly expecting us to be able to serve them digitally, both through sales and service and claims processing. We are investing in new technology in all our regions to meet these emerging needs.
- Technology is also having an impact on claims patterns and risk management; for example, as a result of the shift to more automated vehicles or through the use of smart technology within modern factories.
- We are investing in technology and analytics to help us to price in a more sophisticated way and to automate parts of our claims and customer service.

Our mission is out-performance for customers and shareholders

2019 was a pleasing year for RSA with total Group profits up on all measures.

Underlying earnings per share[1] grew to 44.5p and underlying return on tangible equity[1] to 16.0%, despite headwinds from low interest rates and FX. Dividends increase 10% to 23.1p/share for 2019.

RSA's results come in the context of our consistent strategy, to focus on core markets and seek to improve operational capabilities towards 'best in class' levels. While we have much yet to do in pursuit of these ambitions, each of our three regions contributed well to 2019 results. In particular the repositioning of our UK & International region showed good progress with underwriting profits[1] of £144m. The costs of this repositioning – losses on exit portfolios and cost restructuring charges – impacted results at a statutory level however.

Strategy and focus

RSA is a focused international insurance group. We have complementary leadership positions in the large general insurance markets of the UK, Scandinavia and Canada together with supporting international business in Ireland, Continental Europe and the Middle East. The Group is well balanced between personal (57%) and business customers (43%), and across product lines and distribution channels.

"RSA has recorded its three best[2] underwriting results this century over the last four years."

Our disciplined strategy has enabled important improvements to customer service, underwriting skills and cost effectiveness in recent years. These improvements are driven by significant development of our capabilities and performance culture, as well as in our technology and data science tools. As a result, RSA has recorded its three best[2] underwriting results this century over the last four years.

The Group's only 'down year' since 2013 came in 2018, driven particularly by marketwide losses and weaknesses in the London market portfolios of our UK & International division. In response, we announced the exit of c.£250m of business (NWP) which has been substantially completed. Extensive changes to leadership and management structure in this division were also made and a new programme is well advanced to bring structural costs down further.

Stephen Hester Group Chief Executive

Customers

Serving customers well is RSA's raison d'être. For over 300 years we have built our brands and reputation in this way. Modern times bring heightened demands and expectations from our customers. These range from digital delivery of services, to help with new or changing areas of risk such as cyber and climate change. We are committed to doing all we can to improve and to serve customers well.

Across the Group, where our underwriting is stable and producing the expected results, customer retention and satisfaction levels are generally high and even improving. Conversely, when loss challenges require adjustments to pricing or underwriting conditions, we experience more challenges with service and retention. Many initiatives continue across our business, using technology and data science, to serve customers better. And we are striving to meet rising customer expectations with competitive services that deliver good outcomes.

1. Excluding UK&I exit portfolios, refer to pages 202 and 209 for further information.
2. See page 201 for further details.

Market conditions

General insurance markets are relatively mature, consolidated and stable, though with natural intrinsic volatility. Strong levels of competition mean that profitable growth opportunities are modest, and require a continuous focus on strong underwriting discipline and cost efficiency. Nevertheless, well managed companies do produce returns well above cost of capital and RSA is clearly in that position. Despite competition, in those market segments challenged by negative loss trends, pricing has increased in 2019 which is helpful. Climate change is a key issue for insurers with heightened weather losses seen, notably in North America and certain international business lines.

Insurers are exposed to financial markets, and through them to political and macro-economic challenges, despite insurance services themselves being relatively insensitive to GDP changes. 2019 saw yield declines in most bond markets off already low levels, which produces further income headwinds for insurers. It is striking that investment income made up c.90% of RSA operating profit in 2010 vs well under 50% today. The intense focus on improving underwriting margins has been a very necessary one. Similarly, since c.75% of RSA's profits come from international business, Sterling's strength post UK election produces an earnings translation challenge for 2020, though our individual business units are well matched in currency terms.

2019 actions

It was a busy year for RSA. Right across the business, improvement programmes continue in pursuit of "best in class" ambitions. They span customer service, underwriting & claims, cost efficiency, technology and people performance. Superimposed on these programmes were decisive actions to address problem areas from 2018 and correct performance. We are encouraged by the results to date.

Management: An important feature of 2019 was senior management change – to reward success and to bolster areas needing better performance. We recruited Charlotte Jones as Group CFO, Scott Egan moved to CEO UK&I Region and Ken Norgrove moved from CEO Ireland to CEO Scandinavia. In their regional executive committees there was also significant change. Christian Baltzer has joined as CEO Codan Denmark, new CEO's of Ireland, Middle East and Europe were hired as was a new Group HRD and head of UK Personal Lines. It is an important measure of RSA's progress that we are able both to internally develop leaders and to hire talented people from outside successfully. And beneath these changes, throughout the organisation professional development and performance delivery are advancing as part of our culture.

RSA's culture is also advancing in other ways. We have met two key diversity & inclusion targets in 2019 – over 33% of the senior management group are now female, as are 40% of my direct reports.

Underwriting & Pricing: At the heart of our business sit the data science driven disciplines of underwriting and claims handling. Every year we seek to move these forward, using modern techniques of analytics and AI, as well as focus on skills and training.

In general our Personal Lines capabilities are in a good place but need continued investment. Exceptions are motor underwriting in the UK where technology driven retooling is underway; and in parts of Canada where claims inflation challenges, especially weather related, are driving further action.

In Commercial Lines we saw the greatest re-underwriting activity in 2019 in addition to substantially completing the UK portfolio exits announced last year. In terms of actions taken, the year went even better than planned. However, while UK & International results improved strongly, Canada and Denmark remained disappointing and further action will need to continue into 2020.

Our additional reinsurance covers for 2019 proved valuable in both Canada and Scandinavia, though a better weather year at Group level meant no recoveries for our GVC layer. The coverage for 2020 is substantially unchanged.

Cost Efficiency & Technology: Data science and technology advancement are at the heart of all we do. We are progressively implementing "backbone" IT platform replacements in all regions whilst pursuing many smaller enhancements. Spend is likely to continue in excess of historic depreciation levels. Technology and better ways of working drive our efficiency efforts, whilst also enabling better underwriting and customer service. Cost efficiency is absolutely vital for any mature, competitive industry. RSA's record is very good in this regard. However, our top line reductions in the UK necessitate a further targeted programme of >£50m p.a. cost saving by end 2021, which is well advanced.

Financial Results 2019: It was a strong year for RSA with total Group profits up on every measure. The best indicator of ongoing performance levels are our underlying results (ex. exits). These show EPS at 44.5p[1] and return on tangible equity of 16.0%[1] (vs 13-17% target). Statutory profit after tax was up 3% despite the impact of exits and restructuring costs in the UK. Proposed dividends are up 10% to 23.1p/share.

Driving our Group results were strong underwriting profits of £405m[1] and combined ratio ('COR') of 93.6%[1] (ex. exits). These were achieved on flat premium income with improvements in each of attritional loss ratio, weather and large loss costs, but a reduction in prior year development.

On a geographic basis, the highlight was a major improvement in our UK & International results, to a combined ratio of 95.0%[1] (ex. exits). Canada improved sharply to 94.5%, Scandinavia was as usual the largest contributor (87.4% COR), though held back by poor Danish Commercial lines results.

The repositioning of RSA's UK&I region in 2019 has driven some significant costs for exit portfolios and restructuring of expense base. Those actions make us more valuable going forward and have been absorbed by our organic capital generation.

Dividends: We propose total dividends for 2019 of 23.1p/share, up 10%. This represents a 52% payout of underlying EPS (ex. exits), above our 40-50% policy range. Our strong capital position and organic capital generation support this, despite the costs of 'below the line' items and bond 'pull to par'. Reflecting the improvements of recent years in RSA's performance and resilience, we are also increasing our target dividend payout range to 50-60% of underlying EPS.

Looking forward

RSA's focused regional strategy is working well. Our ambition to drive towards "best in class" performance levels remains in place and we are optimistic about the ability of our business to improve further to that end. We target progress in each of our three regions in 2020. We have headwinds from lower investment income and adverse FX translation, but believe that EPS growth overall is again in prospect, subject to normal underwriting volatility.

Thanks

RSA could not perform well for stakeholders, without their heartening and reciprocal support – for which we are very grateful. While customers and shareholders are our primary audience, we are also determined to serve the broader interest of RSA well. All we achieve is driven by the efforts of RSA's people. I am proud to work with and to lead this group. And my sincere thanks go to them for 2019's efforts.

Stephen Hester
Group Chief Executive

26 February 2020

Group Chief Executive's strategy Q&A

Q

You've been Group CEO at RSA for six years; how do you feel the insurance industry has changed during your tenure?

The general insurance industry has been around for over 300 years. In that time, the world's stock of risk has grown continually, with economic development increasing the value of insured risks, and human evolution gradually changing the mix of risks – such as through climate change or cyber risk. So, the insurance industry evolves in a measured way, and is less prone to 'revolution'. However, as the original data science industry, the advances of recent years – in tools to gather data, learn lessons from it and apply those lessons – are of particular importance to insurance companies. We need to adopt the tools and capabilities now available – if we do so well, we can continue to prosper for shareholders by meeting enduring customer needs, while delivering our services in ever smarter, more convenient and efficient ways.

"Best-in-class is an ever-shifting destination. As such, it is essentially a cultural goal, with various 'hard data' expressions. It demands an outward-looking culture, a culture driven to succeed, open to change and accountable for results."

Q

How is RSA adapting to that change and what does it need to do next?

Property and Casualty Insurance is a very large mature industry. No patents mean competitors offer very similar services. Change is gradual but unmistakable. Like in other industries with these characteristics, there is a clear formula to 'win'. RSA has pursued this formula since 2014, while building on its distinguished heritage of many previous years. We focus in a disciplined way on the three regional businesses where we are market leaders and have the attributes needed to succeed. Our businesses are highly complementary. Across them, we continually strive to improve our capabilities and execution towards best-in-class levels within our competitor group. This means intense focus on improving customer service, underwriting and claims technical skills, and our business efficiency. These efforts are driven by our people and technology. When things go well, we keep doing them. When we make mistakes, we try to change to put them right quickly.

Q

You've made some significant changes to your executive team during 2019, could you explain the rationale for those changes?

Capable and effective leadership is a vital requisite for companies aspiring to sustained high performance. As CEO, it's my job to focus hard on the top team, to make sure we have the best team we can, to develop our leaders positively, to make changes when necessary and to reward and enable progression. Three of the top four ExCo jobs (3 regional CEOs and Group CFO) changed this year. In each case, it was a pleasure to 'reward' promise and performance; giving Scott Egan a big challenge as UK&I head, Ken Norgrove a promotion after turning around our Irish business so well, and Charlotte Jones a new challenge as CFO moving from her prior Non-Executive Director role.

Q

You've been explicit around the financial expression for the businesses best-in-class combined ratio ambitions, but how would you describe a best-in-class performance culture?

RSA's best-in-class goals are far-reaching and ambitious. Just as our competitors keep improving, and new challenges and capabilities impact our markets, best-in-class is an ever-shifting destination. As such, it is essentially a cultural goal, with various (and changing) 'hard data' expressions. It demands an outward-looking culture, a culture driven to succeed, open to change and accountable for results. It is anchored in today, yet necessarily focused on actions to impact tomorrow. It's a destination we may never fully reach, but good progress towards which will markedly improve our company to the benefit of all.

Q

What role do you believe the insurance industry has in tackling climate change?

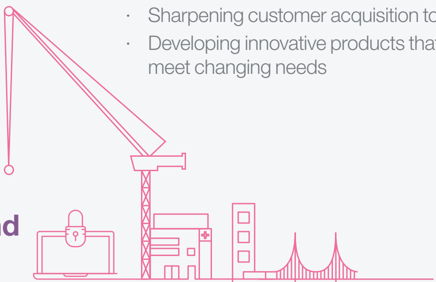
Climate change is an absolutely central issue for general insurers. Our social and industrial purpose is to help society cope with risk and manage it better – and risk to property (and through it to livelihoods) is the biggest insured risk there is. We serve society by insuring customers against greater and more extreme weather patterns; by adapting our risk management advice to help our customers cope with changing threats. We play our own role by lowering our company's carbon footprint in line with Paris goals. And our policies on investment, as well as our selection of insurance risks, encourage the shift to cleaner energy – not least through our market-leading role as an insurer of renewable energy, and especially wind power.

Performance improvement levers

There are three levers we can pull to improve performance…

1 Customer service

- Treating customers fairly and delivering good customer outcomes
- Developing digital platforms for convenience, flexibility and speed
- Increasing customer satisfaction and retention
- Sharpening customer acquisition tools
- Developing innovative products that meet changing needs



3 Cost efficiency and productivity

- Deploy 'lean' techniques, robotics and process redesign
- Optimise overheads and procurement
- Continue site consolidation and outsourcing
- Develop further automation to drive productivity improvements

2 Underwriting

- Set and enforce rigorous underwriting standards
- Continue ongoing business-as-usual portfolio re-underwriting
- Invest in tools and technology
- Provide training for our staff
- Optimise reinsurance

We have several critical assets, which help us to create value:

- Technology
- Focused performance culture
- Strong balance sheet and capital management
- Highly skilled workforce

The combination of which results in our ambition to achieve best-in-class combined operating ratio performance:

<85% Scandinavia

<94% UK & International

<94% Canada

With high-quality, repeatable earnings, and excellent returns for shareholders:

- Return on tangible equity 13–17% or better
- Target dividend pay-out of 50–60% of underlying earnings

Focused on our customers

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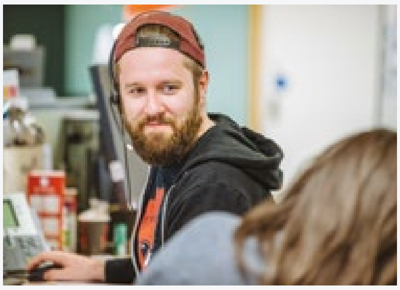


Customers are at the heart of what we do. We are committed to ensuring customers achieve good outcomes through their interactions with us, evolving to meet their changing needs and providing excellent service.

Our focus

- Treating customers fairly and delivering good customer outcomes.
- Developing digital platforms for convenience, flexibility and speed.
- Increasing customer satisfaction and retention.
- Sharpening customer acquisition tools.
- Developing innovative products that meet changing needs.

Our progress

- We sell a promise to our customers and are committed to ensuring good customer outcomes. Our Group Customer Policy outlines steps our businesses must take to ensure we treat customers fairly and provide them with products and services that meet their needs. Supporting this, our regional Customer Committees ensure we have effective oversight of customer risks.
- Customer satisfaction levels remained generally strong: in Denmark, Codan CSAT remained stable at +76 (2018: +76) and retention was above target for both Codan and Trygg-Hansa. In the UK, MORE TH>N showed strong year-on-year improvement in NPS[1] scores, reflecting investment in the brand. While in Canada, Johnson recorded a sales and service NPS[1] score of +45.
- In April 2019, Johnson began the roll-out its new distribution partnership with Scotiabank, one of the largest banks in Canada. The transfer continues to progress well.
- In Personal Lines, we continue to invest in technology to improve customer satisfaction, retention and sales efficiency. In Canada, we piloted the Claims Advice Line for Johnson, a dedicated telephone service providing claims guidance to customers without impacting their policies. In the UK, our digital servicing platform, Unity, is helping us to provide more seamless interactions for MORE TH>N and affinity customers. In Scandinavia, investment in digital has seen automatic settled claims rise 8 points to 31% in Swedish Personal Motor.
- Developing innovative and relevant products remains an important differentiator. In the UK, MORE TH>N, has developed a customer loyalty programme – MORE TH>N Rewards – which has over 16,500 users. Meanwhile, in Canada, policyholders can earn Air Miles, with one mile earned for every $20 spent on premiums. More than 350,000 policyholders actively collected AirMiles in 2019.
- In Commercial Lines, RSA Pro[2] user adoption continues to increase in Canada; up 5 points to 30% in 2019. Meanwhile in Sweden, commercial customers can now buy online bespoke insurance packages to comprehensively cover the needs of their business.

1. Net promoter score.
2. Web-based application that enables direct submissions and servicing by brokers for SME policies.

Case study

Help for flood-hit **communities**

Our approach

We aim to help anyone impacted by flooding; whether they're customers or not. In 2019, we mobilised our Emergency Response Vehicle in the UK, providing support for impacted communities by offering them advice on their insurance, or just somewhere to sit, have a cup of tea or charge their phone.

100+

More than 100 flood victims visited our Emergency Response Vehicle in 2019

Disciplined, expert underwriting

1 2 3

We continue to invest in our underwriting tools and capabilities, so we can constantly improve our understanding and pricing of the evolving risks that our customers face.

Our focus

- Set and enforce rigorous underwriting standards.
- Continue ongoing business-as-usual portfolio re-underwriting.
- Invest in tools and technology.
- Provide training for our staff.
- Optimise reinsurance.

Our progress

- The 2019 Group underwriting result (ex-exits) was £405m. The total Group underwriting result was £346m, which improved significantly versus prior year (2018: £250m), but there are still areas for improvement.
- We remain confident that we are taking the right underwriting and pricing actions. We will continue to exit underperforming segments of business where we can't generate long-term sustainable returns and seek to improve underwriting standards, pricing accuracy and risk management in areas where sustained profitability can be achieved.
- The performance of the business that we exited in 2018 generated an underwriting loss of £59m[1] in 2019, reaffirming our belief that the actions we have taken, and are taking, are the right ones.
- The Group attritional loss ratio of 55.0% was 1[2] point better than prior year; with improvements across all regions. Personal Auto in Canada showed a c.2 point improvement, while UK Household improved 2.5 points, reflecting actions taken to address the 'escape of water' claims inflation issue which presented in 2017. We continue to achieve good rate in each of our regions to combat ongoing claims inflation.
- Large losses improved by 1.6 points to 10.0% but remain elevated, particularly in Danish Commercial and Canada. All large losses over £1m across the Group undergo an independent 'triage' evaluation process to ascertain whether the risks were correctly evaluated and learnings from this embedded in underwriting. Pleasingly, underwriting quality has improved significantly since the introduction of this process in 2017.
- Weather continues to be a dominant feature of the Canadian P&C market and we seek to capture any changes in weather patterns or trends in our pricing.
- Alongside our Group aggregate reinsurance cover, we purchased new local aggregate covers for the UK, Scandinavia and Canada in 2019 to protect us from frequency in mid-sized large losses. Recoveries of £15m and £17m were made from the Canadian and Scandinavian covers respectively.
- We continue to invest in new technology to enhance our underwriting and pricing sophistication, making the most of our data through machine learning and automation.
- Ongoing training is a crucial component to maintaining high underwriting standards and technical expertise. In 2019, 618 new employees completed our technical induction programmes.
- In 2019, the Board approved the Group's new Low Carbon Policy, which included our position on underwriting of carbon-intensive sectors (see pages 47 to 49 for further details).

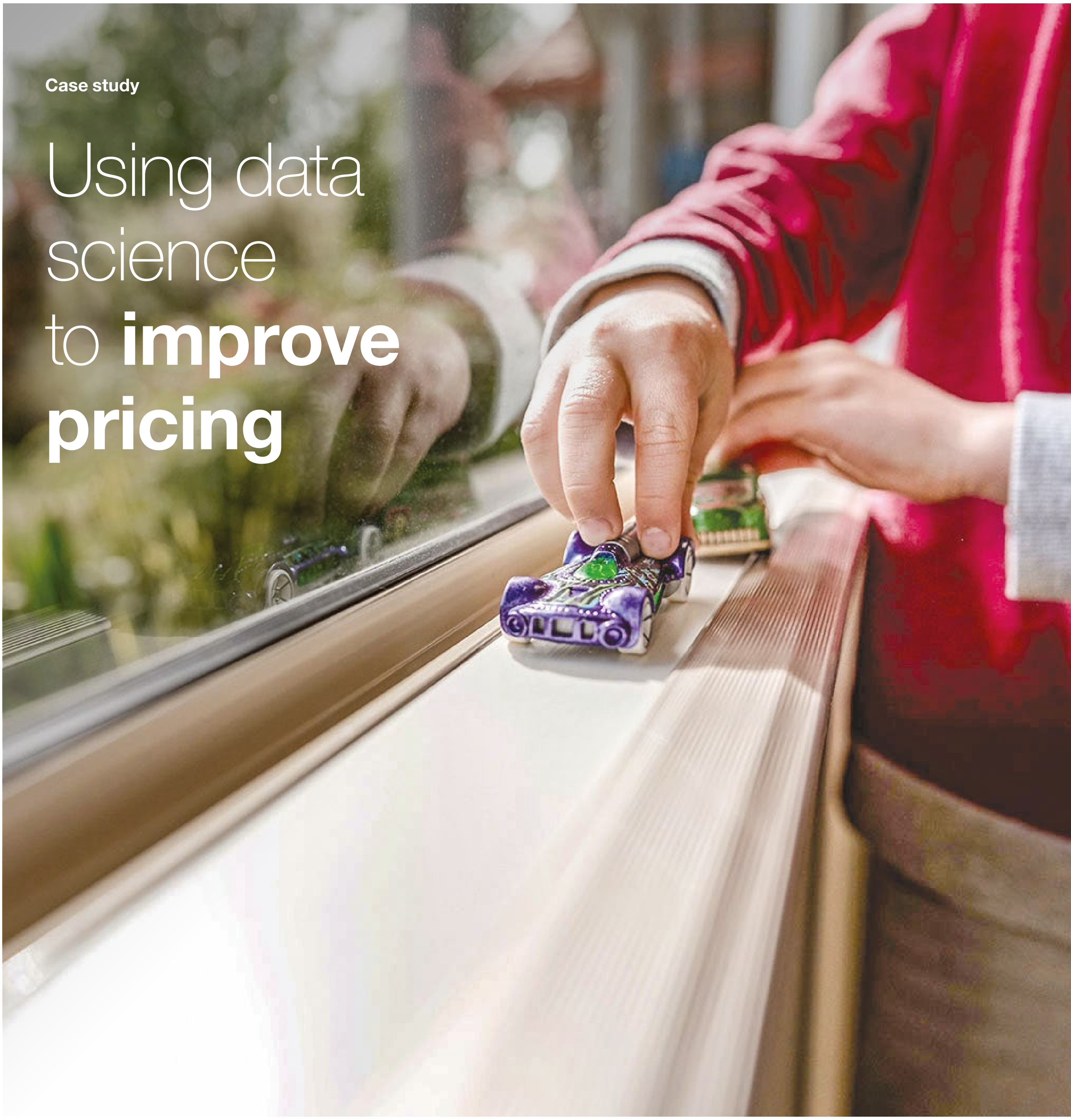
618

employees completed our technical induction programme

1. £8m of prior year GVC recoveries relating to UK&I exited business has been reallocated from Central Functions to UK&I Exits and therefore to total UK&I.
2. At constant FX and ex. changes in reinsurance. See page 210 for further details.

Case study

Using data science to **improve pricing**



Our approach

Data is the key to an increasingly sophisticated understanding of risk and, therefore, more accurate pricing models. In Ireland, we rolled out a new Irish Motor gradient boosting machine pricing model, which identifies higher risk rating areas using postcode analytics.

c.1,100

Number of different variables analysed by our new Irish Motor pricing model

Cost base management and productivity enhancements

1 2 3

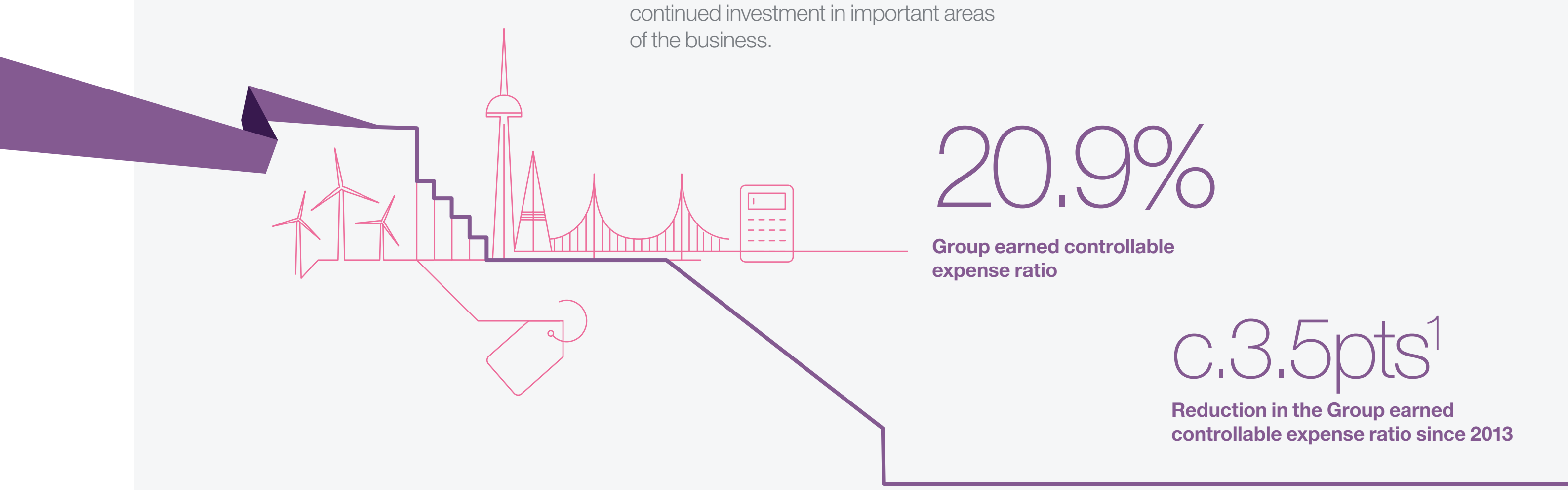
Running an efficient, productive business helps us to remain competitive, invest for the long term and achieve sustained value for our shareholders.

Our focus

- Deploy 'lean' techniques, robotics and process redesign.
- Optimise overheads and procurement.
- Continue site consolidation and outsourcing.
- Develop further automation and IT improvements.

Our progress

- Cost management continues to be a vital business lever, and we continue to drive cost-efficiencies in our business, targeting a controllable expense ratio of 20% or better in each of our regions.
- In 2019, Group written controllable costs were £1,346m (2018: £1,343m). This comprised 2% cost reductions, offset by 2% inflation. At CFX and gross of inflation, Scandinavia written controllable costs of £379m were flat vs 2018, Canada (£294m) was 2% lower, and UK & International (£667m) was 2% lower.
- The earned controllable expense ratio of 20.9% was up slightly versus 2018 (20.4%) mainly due to lower premiums resulting from UK business exits. The ratio is down by c.3.5[1] points since 2013
  - In Scandinavia, the controllable expense ratio was up 0.6 points versus 2018, in part due to a flat topline and our continued investment in important areas of the business.
  - In Canada, controllable costs improved again to 16.9%, below our target, despite the costs of capability investments coming through. In 2020, we expect this to rise, but remain below target, as technology-related amortisation builds.
  - In the UK & International, the controllable expense ratio increased due to premium contraction after underwriting and portfolio actions, but is down c.2[1] points since 2013.
- In 2019, we commenced a new cost reduction programme in our UK business. This is targeting the removal of >£50m costs by 2021. Associated restructuring costs of c.1.3x are expected, with £27m booked in 2019 and the remainder to be booked in 2020. Savings are expected to be made through the key levers of organisational design, premises and IT.
- Improved digital and online self-service capabilities continue to drive efficiency. In Sweden, the use of robotics is significantly reducing quote times for broker business. Meanwhile, in 2019, the number of Digital transactions increased 16% for Johnson, supported by our new chatbot tool.



20.9%
Group earned controllable expense ratio

c.3.5pts[1]
Reduction in the Group earned controllable expense ratio since 2013

1. At constant FX and ex. disposals (where relevant).

Case study

Building our **internal expertise**

Our approach

In 2019, we focused our Scandinavian IT capabilities in-house to our Malmo hub. The creation of the Malmo IT-hub has helped us have better control of our business, reduce costs and attract new talent. Since the start of the project, we have been able to attract 70 new full-time employees.

70

New employees have been brought in-house since the launch of the Malmo IT-hub

Measuring our progress
towards best-in-class

The following nine key performance indicators (KPIs) are important in measuring the delivery of our strategic priorities.

KPIs are linked to executive remuneration. To read more about executive variable remuneration, including the set of financial and non-financial performance measures on which it is based, please see **pages 72 to 103**.

APM
Alternative performance measures

RSA uses Alternative Performance Measures (APMs) including certain underlying measures to help explain its business performance and financial position.

1. Group excluding disposals, at constant FX.
2. Coverage ratio under Solvency II introduced in 2015.
3. The Solvency II capital position as at 31 December 2019 is estimated.

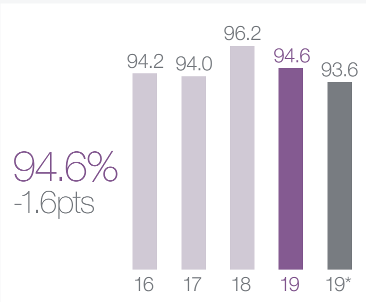
* Excluding UK&I exit portfolios.

Combined operating ratio

Definition
A measure of underwriting performance – the ratio of underwriting costs (claims, commissions and expenses) expressed in relation to earned premiums.

Commentary
The COR is used as a measure of underwriting effectiveness across the industry. The aim is to achieve a COR as sustainably low as possible – that is without uncompetitive pricing or compromising reserves.

Outlook
We target further improvements in combined ratio.

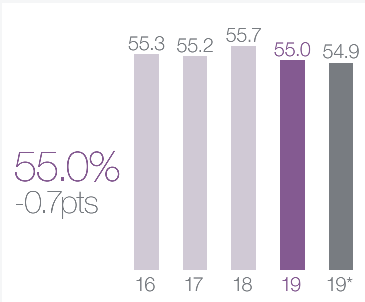


Group attritional loss ratio[1]

Definition
This is the claims ratio (net incurred claims and claims handling expense as a proportion of net earned premiums) of our business prior to volatile impacts from weather, large losses and prior year reserve development.

Commentary
Attritional loss ratios are a key lever in the Group's financial performance. Improvements in the business mix, together with investments in digitally enabled underwriting and claims excellence, are targeted at reducing the attritional loss ratio.

Outlook
We target attritional loss ratios in the medium term in line with best-in-class performance.

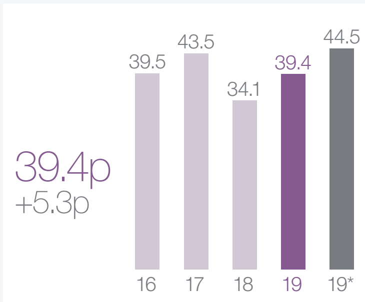


Underlying earnings per share

Definition
Business operating result attributable to ordinary shareholders less finance costs and underlying tax, per share.

Commentary
A key measure of the underlying earnings power of the Group as it excludes shorter-term and temporary changes, such as restructuring costs.

Outlook
We target continued growth in underlying EPS as performance improvement actions take effect.

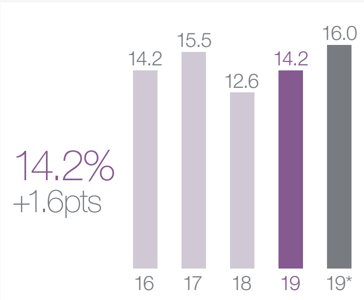


Underlying return on tangible equity

Definition
Business operating result attributable to ordinary shareholders less finance costs and underlying tax, expressed in relation to opening tangible shareholders' funds, i.e. excluding goodwill and intangible assets.

Commentary
A key measure of shareholder value and one that informs overall valuation in the insurance sector.

Outlook
Targeting 13-17% in the medium term.



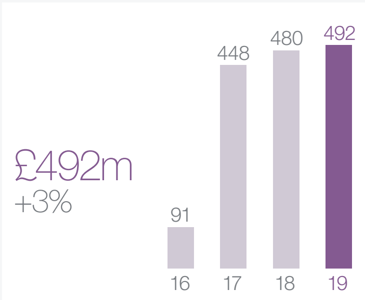
Profit before tax

Definition
The net profit generated before taxes have been deducted.

Commentary
This is a key statutory measure of the earnings performance of the Group. The impact of tax can vary from company to company, therefore excluding this enhances comparability.

Outlook
We target continued growth as performance actions take further effect.

For the executive remuneration, an underlying measure of profit before tax is used. See page 87 for further detail.

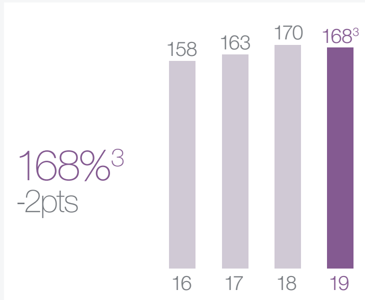


Solvency II coverage ratio[2]

Definition
The Solvency II coverage ratio represents total eligible capital as a proportion of the Solvency Capital Requirement (SCR) under Solvency II.

Commentary
The Solvency II coverage ratio is a measure of the capital adequacy of insurance companies. Our SCR is calculated on our risk profile using the Group's internal capital model.

Outlook
We prefer to operate above the top end of our target Solvency II coverage ratio of 130–160%.

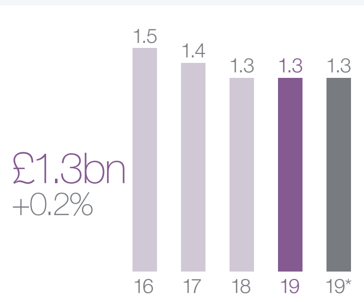


Controllable expenses

Definition
A measure of operating expenses incurred by the Group, mainly comprising underwriting administrative costs and claims handling costs.

Commentary
Reduction of controllable expenses is a key element of the Group's strategy. We monitor both the absolute level of expense and the expense ratio as part of the ongoing performance focus.

Outlook
We target continued progress towards our ambition of an earned controllable expense ratio of less than 20% in each of our Regions.

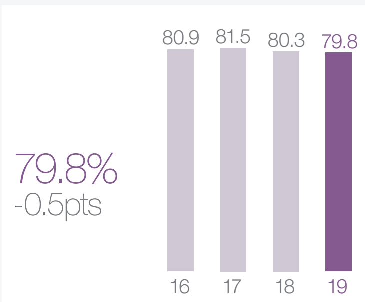


Customer retention

Definition
A measure of the amount of business that is renewed with us each year.

Commentary
Strong customer satisfaction translates to high retention levels and improved underwriting results.

Outlook
By ensuring customers are at the heart of everything we do, we can optimise business performance. We target improving retention over time.



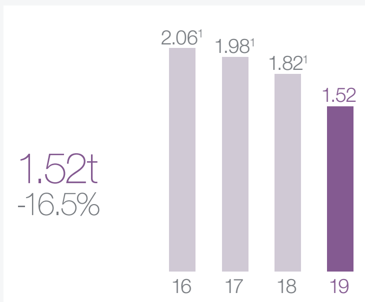
Carbon emissions per FTE

Definition
Gross tonnes of carbon dioxide equivalent per full-time equivalent (FTE) employee.

Commentary
We endeavour to reduce our emissions as far as possible by operating efficiently, procuring sustainable alternatives and promoting sustainable business practices.

Outlook
We target a 50% reduction in carbon emissions by 2030 with an interim target of 37% by 2025.

1. Calculations have been amended to include data that was not available at the time of publication and reflect improvements in methodology.



Strong results for 2019

Improvement actions including repositioning of the UK & International business are showing good promise.

I am pleased to report a year of strong performance at RSA, reflecting good underlying performance plus significant actions taken to improve the areas with disappointing results in 2018. We report year-on-year increases in profit after tax, earnings per share and dividends. The Group underwriting result (excluding exits) was £405m. The total Group underwriting result of £346m was up 38% from 2018, with all regions contributing positively. Pleasingly, current year underwriting results improved to £314m for the Group, with all regions better than 2018.

Personal Lines (57% of the Group's premium) continues to deliver excellent results reporting a combined ratio (excluding exits) of 88.5% helped by lower weather costs across the Group. We continue to see premium growth in our most profitable lines in Sweden and Johnson (our direct to consumer retail business in Canada). Retention levels are generally strong, and we continue to invest in technology in order to meet the evolving needs of our customers.

Commercial Lines (43% of the Group's premium) has been more challenging, reporting a combined ratio of 98.5% (excluding exits). In Scandinavia, Danish Commercial lines has disappointed, although we aim to restore profitability with actions already taken in 2019, and more to follow in 2020. Canadian Commercial Lines has also remained challenging; we have taken extensive underwriting and pricing actions, including some reductions to risk appetite, which has contributed to volumes falling by 13%.

Charlotte Jones Group Chief Financial Officer
Charlotte was appointed Group CFO on 31 July 2019

Pleasingly, the ongoing UK Commercial business has performed well and our UK regional commercial business is showing promising signs of growth.

In 2019, we added new reinsurance covers to reduce the volatility of claims between £1m and £10m in each of our regions. Recoveries of £15m and £17m were made in our Canadian and Scandinavian businesses respectively. The overall reinsurance programme for 2020 is substantially similar.

In 2018, targeted portfolio exits were announced as part of an ongoing strategic review of the UK & International business. This was in response to challenging market conditions as well as our own strategic reassessment. The strategic review concluded in 2019, with further portfolio exits announced. These exited portfolios represented c.£250m of premiums against a 2017 baseline. In 2019, the exited portfolios reported an underwriting loss of £59m[1]. As the majority of premiums associated with these portfolios have now earned through, the residual risk going into 2020 is much reduced.

These premium reductions in the UK require us also to take action on our cost base and we have announced a targeted programme of >£50m per annum cost saving by end 2021, which is well advanced. In relation to this, £27m of restructuring costs were booked in 2019 outside the underwriting result, in line with historical practice. The remainder will be booked in 2020. The restructuring activities mainly relate to organisational design, IT and premises, with the majority of 2019 restructuring costs relating to the first two.

In addition to our existing metrics, this year we have provided Alternative Performance Measures (APMs) to show the results for our ongoing businesses, given the significant portfolio exits undertaken in the UK&I. The aim of this is to enable better assessment of potential future performance. On this basis, excluding the portfolio exits, the Group reported 2019 underwriting profits of £405m, a combined ratio of 93.6%, underlying EPS of 44.5p, and underlying return on tangible equity of 16.0%. All APMs are defined and reconciled on pages 201 to 210.

2019 financial highlights

- **Profit after tax of £383m, up from £372m in 2018**.
- **Underlying earnings per share (excluding exits) of 44.5p,** underlying earnings per share (including exits) of 39.4p (2018: 34.1p).
- **Statutory earnings per share of 32.6p** (2018: 31.8p)
- **Underlying return on tangible equity (excluding exits) 16.0%**, underlying return on tangible equity (including exits) 14.2% (2018: 12.6%); versus 13-17% target range.
- **Underwriting profits (excluding exits) of £405m**, underwriting profits (including exits) of £346m up 38% (2018: £250m).
- **Net written premiums** down 1% at constant FX but broadly flat[2,3] excluding exits.
- **Group written controllable costs were £1,346m** (2018: £1,343m). Earned controllable cost ratio 20.9%.
- **Capital levels remain strong** with a Solvency II coverage ratio of 168%[4] (31 December 2018: 170%) and tangible equity of £2.9bn (31 December 2018: £2.9bn).
- **Final dividend** of 15.6 pence per ordinary share bringing total 2019 dividends to 23.1 pence per ordinary share (up 10%) representing a 52% payout ratio of underlying EPS (excluding exits).

Premiums

Group net written premiums of £6.4bn were down 1% in the period at constant FX. Underlying premiums were down 2%[2] adjusted for reinsurance changes but broadly flat[2,3] excluding the exit portfolios.

Group retention remained strong at 80% (2018: 80%) with improvements across Scandinavia, and in UK Personal Lines. In Commercial Lines, retention was down in the UK and Canada, where we have been taking the most rating and underwriting action.

Scandinavian premiums were flat or up 1% excluding changes in reinsurance, both at constant FX. Personal Lines premiums were flat[2,5] and included underlying growth of 2% in Sweden. Premiums were up 2%[2] in Commercial Lines. Rate was ahead of our plans and last year, but was dampened by a reduction in volumes.

Premiums grew 3% in Canada at constant FX. This was driven by 6%[2] growth in Personal Lines led by Johnson. We achieved high single-digit rate, and hard market conditions meant that retention remained strong at c.90% for Johnson. Overall, policies-in-force (PIFs) were up 4% in Johnson, with continued organic growth supplemented by our new partnership with Scotiabank commencing in the spring. Premiums in Commercial Lines decreased by 4%[2] where a reduction in volumes was partly offset by strong rate. Lower volumes were driven by targeted lapses and were in line with our plans.

Premiums were down 7% in the UK & International region at constant FX. Exits accounted for c.5 points of the reduction. UK Personal Lines premiums were down 11% in the period, with exits driving c.1.5 points of the reduction. Household was down 10% with the sale of Oak Home accounting for c.3 points of the reduction. Importantly, we have continued to achieve good rate increases through our Household book. Motor and Pet premiums also decreased. Commercial Lines premiums (which now exclude Europe which is reported separately within UK&I) were down 7%[2] excluding reinsurance changes, but up c.5%[2,3] excluding exits: rate was positive in all major lines of business, although this impacted retention. Premiums in Europe were down 7%[2] reflecting the reshaping of the portfolio. Irish premiums increased by 6%[2] helped by strong new business in Personal Motor. In the Middle East, premiums were down 5%[2] driven by lower volumes in Commercial Lines and rating pressure in Personal Lines.

Net written premiums in the UK & International exit portfolios were £17m. Net earned premiums were higher at £88m reflecting the on-going run-off of exposures. Earned premiums will reduce to c.£15m in 2020.

Underwriting result

The Group underwriting profit was £405m (excluding exits) with a combined ratio of 93.6% (excluding exits). Total Group underwriting profit was £346m (2018: £250m) with a combined ratio of 94.6% (2018: 96.2%).

Current year underwriting profit for the total Group was £314m (2018: £85m). The Group attritional loss ratio of 55.0% was 1[2] point better than 2018. Scandinavia improved by 0.4 points[2] with improvements in Danish Personal and Norway, partly offset by Danish Commercial.

1. £8m of prior year GVC recoveries relating to UK&I exited business has been reallocated from Central Functions to UK&I Exits and therefore to total UK&I.
2. At constant FX and excluding changes in reinsurance.
3. Excluding UK & International exit portfolios.
4. The Solvency II capital position at 31 December 2019 is estimated.
5. Excluding a one-off adjustment in Swedish Personal Accident in Q1 2018.
6. 2015-2019.

In Canada, the attritional loss ratio improved by 2.1 points; Personal Auto performed particularly well with better rates and claims initiatives starting to have an impact. The UK & International attritional loss ratio improved by 1.2[2] points. In the UK, improvements in Household, Pet and Commercial Property were partly offset by an increase in Motor. Household improved by 2.5 points reflecting the actions taken to address the 'escape of water' claims inflation issue which presented in 2017.

Weather, large losses and prior year development

Group weather costs were £167m or 2.6% of net earned premiums (2018: 3.7%; five-year average[6]: 2.9%). Overall, weather for the year was around half a point better than our expectations, despite heavier Canadian weather in the first quarter.

Large losses were £645m or 10.0% of net earned premiums (2018: 11.6%; five-year average: 10.0%[6]). This was 9.7% excluding UK&I exit portfolios. All regions reported improvements vs 2018, with Scandinavia and Canada each around 1 point better, and the UK & International 3 points better.

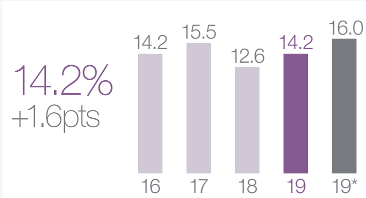
Group prior year profit of £45m provided a 0.8 point benefit excluding exits to the combined ratio (0.6 points inc. exits; 2018: 2.6 points). This included positive development from each of our three regions (ex. exits), although negative development in UK Personal Lines, driven mainly by Ogden, dampened this in the UK & International. Overall Group PYD for the year was impacted by a flat first quarter which included negative prior year development in Commercial Lines arising from refinements to loss estimates relating to the 2018 accident year.

Our assessment of the Group reserve margin (the difference between our actuarial indication and booked reserves in the financial statements) remains at its target level of c.5% of best estimate claims reserves.

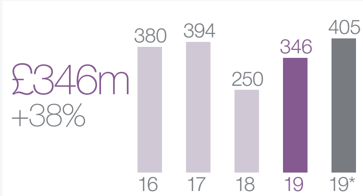
Underwriting expenses and commissions

The Group underwriting expense ratio of 14.7% increased as expected. Scandinavian and Canadian expense ratios increased slightly vs 2018, while the expense ratio in UK & International increased by 1 point, in line with expectations and reflecting the contraction in premiums. We have commenced a further UK-focused cost programme to address this. The Group commission ratio of 12.9% decreased by 0.7 points (2018: 13.6%), mainly due to a higher proportion of Personal Lines in net earned premiums.

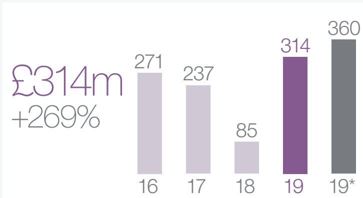
Underlying return on tangible equity



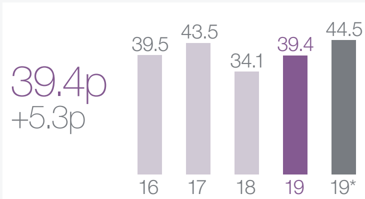
Group underwriting result



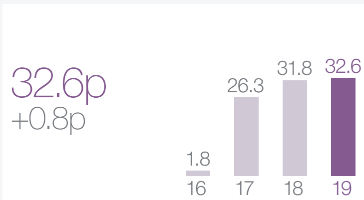
Current year underwriting result



Underlying earnings per share



Statutory earnings per share



* Excluding UK & International exit portfolios.

Controllable costs

Group written controllable costs were £1,346m (2018: £1,343m). This comprised 2% cost reductions, offset by 2% inflation. At CFX and gross of inflation, Scandinavia written controllable costs of £379m were flat vs 2018, Canada (£294m) was 2% lower and UK & International (£667m) was 2% lower.

The earned controllable expense ratio of 20.9% was up slightly versus 2018 (20.4%) mainly due to UK&I business exits. The ratio is down by c.3.5[1] points since 2013 and our ambition of an earned controllable expense ratio of less than 20% is unchanged.

Group FTE[2] was 12,378 at 31 December 2019, down 25% (excluding disposals) since the beginning of 2014.

We have commenced a new cost reduction programme in our UK business. This is targeting the removal of >£50m costs by 2021. Associated restructuring costs of c.1.3x are expected, with £27m booked in 2019 and the remainder to be booked in 2020.

Investment result

The investment result was £263m (2018: £275m) with investment income of £306m (2018: £322m), investment expenses of £12m (2018: £14m) and the liability discount unwind of £31m (2018: £33m).

Investment income was down 5% on prior year, primarily reflecting the impact of reinvestment at lower yields, which was partly offset by increased income from actions taken on the portfolios to increase exposure to less liquid credit investments. The average book yield across our major bond portfolios was 2.1% (2018: 2.3%). At current market forward rates, we expect investment income of c.£255m-£270m in 2020.

Other items

Interest costs were £32m (£46m including the Tier 1 issuance), up from £25m (£39m including the Tier 1 issuance) in 2018. The increase reflects changes to lease accounting (IFRS 16), mainly on properties. Coupon costs of £14m (2018: £14m) for the 2017 Tier 1 issuance are presented at the bottom of the management basis: Income statement (shown in this section of the Annual Report) as 'other equity costs', as per accounting rules.

Other charges were £73m (2018: £12m), and included £19m of final costs relating to the disposal of UK Legacy liabilities to Enstar Group Limited. This follows the sanction of the Part VII transfer of these liabilities by the High Court of Justice of England and Wales on 13 June 2019. The completion of this transaction provided a net benefit to capital.

2019 also included a £27m restructuring charge relating to the cost programme that has commenced in the UK business.

There was also a £15m charge for the accounting impact of a reduction in the discount rate in the first half, on long-term insurance liabilities in Denmark.

Tax

The Group reported a tax charge of £109m for 2019, giving an effective tax rate (ETR) of 22% (2018: 23%). The tax charge largely

Segmental income statement – management basis

	Scandinavia £m	Canada £m	UK&I ex. exits £m	UK&I exit portfolios[a,b] £m	UK&I total[b] £m	Central functions[b] £m	**Group ex. exits 2019 £m**	**Group 2019 £m**	Group 2018 £m
Net written premiums	**1,764**	**1,735**	**2,864**	**17**	**2,881**	**37**	**6,400**	**6,417**	**6,470**
Net earned premiums	1,767	1,723	2,893	88	2,981	(9)	**6,374**	**6,462**	6,537
Underwriting result ◊	**223**	**94**	**144**	**(59)**	**85**	**(56)**	**405**	**346**	**250**
Investment result ◊	**63**	**65**	**135**	**–**	**135**	**-**	**263**	**263**	**275**
Central expenses	–	–	–	–	–	(12)	**(12)**	**(12)**	(8)
Business Operating result ◊	**286**	**159**	**279**	**(59)**	**220**	**(68)**	**656**	**597**	**517**
Interest								**(32)**	(25)
Other charges								**(73)**	(12)
Profit before tax								**492**	**480**
Tax								**(109)**	(108)
Profit after tax								**383**	**372**
Non-controlling interest								**(24)**	(23)
Other equity costs[c]								**(23)**	(23)
Net attributable profit								**336**	**326**
Underlying profit before tax ◊							**624**	**565**	492
Combined ratio (%) ◊	**87.4**	**94.5**	**95.0**		**97.1**		**93.6**	**94.6**	**96.2**
Tangible net asset value (£m) ◊								**2,910**	2,867
Underlying earnings per share (p) ◊							**44.5**	**39.4**	34.1
Underlying return on tangible equity (%) ◊							**16.0**	**14.2**	12.6

a. Exit portfolios in UK & International which have substantially run-off over the course of 2019.
b. £8m of prior year GVC recoveries relating to UK&I exited business has been reallocated from Central Functions to UK&I Exits and therefore to total UK&I. Further details on page 209.
c. Preference dividends of £9m (2018: £9m) and coupons on Tier 1 securities of £14m (2018: £14m).

Solvency II coverage ratio walk

	%
At 1 January 2019	**170**
Underlying capital generation[5]	27
Net capital investment after amortisation	(3)
Impact of pension contributions	(4)
Pull-to-par on unrealised bond gains	(4)
Exit losses	(3)
Reorganisation costs	(2)
Dividends	(14)
Market movements including IAS 19 and other	1
At 31 December 2019	**168%[4]**

comprises tax payable on overseas profits. The Group's ETR of 22% is higher than the UK statutory rate of 19% mainly due to higher tax rates in some of the Group's core overseas jurisdictions and withholding taxes. The Group underlying tax rate for 2019 was 20% (2018: 20%). Excluding UK&I exited business, the Group underlying tax rate for 2019 was 19%.

The carrying value of the Group's deferred tax asset at 31 December 2019 was £209m (2018: £234m), of which £180m (2018: £189m) was in the UK. The decrease in the Group's deferred tax assets in 2019 was largely due to accelerated tax depreciation in Canada and a small reduction in UK deferred tax asset reflecting lower investment income outlook. At current tax rates, a further £254m (2018: £260m) of deferred tax assets remain available for use but not recognised on balance sheet; these are predominantly in the UK and Ireland.

For 2020, we expect the Group's ETR and underlying tax rate to continue to be in the region of 20%, given the scale of unrecognised UK and Irish tax assets.

Tax strategy and contribution

Our tax strategy supports our commitment to responsible business and delivering long term value to our environment and society. Our overall strategic aim is to manage our tax affairs in a responsible and proactive manner. We also recognise the important contribution that paying tax makes to society and so we disclose this information annually.

The taxes borne by the Group in 2019 were a total of £298m from our four largest territories (UK £90m, Ireland £9m, Scandinavia £96m and Canada £103m). Taxes collected by the same territories were an additional £581m.

For more details, please refer to our published Group tax strategy: www.rsagroup.com/responsibility/disclosures/

Balance sheet and capital

RSA's balance sheet and capital is strong and resilient. Tangible net assets increased by 1% to £2.9bn at 31 December 2019. The increase was driven by profit in the year of £443m[3] and positive fair value mark-to-market movements of £122m, mainly reflecting tightening credit spreads and falling bond yields. Tangible net assets were reduced by payment of the 2018 final dividend (£141m) and 2019 interim dividend (£78m), together with investment of £143m in intangible assets, which were primarily IT related (net investment of £59m after amortisation of £84m shown as part of profit).

We maintain a measured approach to capital management, targeting a single 'A' credit rating (the Group's S&P rating is 'A' stable and its Moody's rating is 'A2' stable). This involves considering a range of indicators relating to capital, to operating results and to qualitative factors.

RSA is a diversified, multi-channel, multi-product general insurer and its business mix reduces exposure to significant volatility. However, the UK pension scheme provides a degree of volatility under Solvency II for RSA. We consider a target Solvency II operating range of 130 – 160% capital coverage to be appropriate to the Group's risk profile.

The Solvency II coverage ratio of 168%[4] was down 2 points in the year (2018: 170%).

The key drivers included underlying capital generation[5] which added 27 points of coverage. Market movements, including IAS 19 and other, added 1 point. Pull-to-par on unrealised bond gains accounted for a 4 point reduction and net capital investment after amortisation accounted for a 3 point reduction. Underwriting losses on Exit portfolios accounted for a 3 point reduction and reorganisation costs relating to the UK restructuring programme accounted for a 2 point reduction. The 2019 interim and final dividends reduced the coverage ratio by 14 points.

In 2019, RSA successfully completed a £350m senior debt issue, to increase the resilience and financial flexibility of the Group in the event of negative economic influences from a 'hard Brexit'.

Pensions

At an aggregate level, the pension fund surplus under IAS 19 increased during 2019 from a £182m surplus at 1 January to a surplus of £211m at 31 December (net of tax).

The UK IAS 19 position benefited from strong equity performance over the year as well as deficit funding contributions paid by the Group (£86m pre-tax); however, these gains were partly offset by an increase in liabilities driven by a material (25-30bps) tightening of AA credit spreads.

Further details on RSA's pension schemes and movements in the year can be found in Note 38 to the accounts.

Dividend

We are pleased to declare a final dividend of 15.6 pence per ordinary share (2018: 13.7 pence). Together with the interim dividend of 7.5 pence, this brings the total dividend for the year to 23.1 pence (up 10%), representing a 52% payout of underlying EPS (excluding exits). This is supported by our strong capital position and organic capital generation, despite the costs of 'below the line' items and bond 'pull-to-par'. Reflecting the improvements of recent years in RSA's performance and resilience, we are also increasing our target dividend payout range from 40-50% to 50-60% of underlying EPS.

Summary

2019 has been a year of intense activity, with many actions targeted at improved performance successfully completed, and with more still in progress. Although there is more to do, RSA's strategy, performance potential and financial targets remain unchanged.

Charlotte Jones
Group Chief Financial Officer

26 February 2020

1. At CFX and ex-disposals (where relevant).
2. Full-time equivalent.
3. Profit after tax adjusted for items relating to good will and intangible assets.
4. The Solvency II capital position at 31 December 2019 is estimated.
5. Capital generation represents profit after tax attributable to ordinary shareholders, adjusted for changes in intangible assets, deferred acquisition costs and other non-capital items.

Performance

87.4%
Combined ratio ◊
+0.6pts

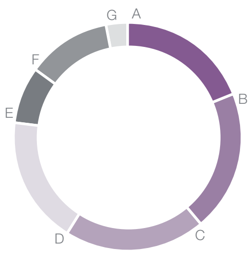
£1.8bn
Net written premiums
-2.9%

"2019 was a year of mixed results. Personal Lines continues to excel, but there is work still to do in Commercial Lines."

Ken Norgrove
CEO, Scandinavia

Type of business

A. Household	19%
B. Motor	20%
C. PA and other	20%
D. Comm. Property	18%
E. Liability	8%
F. Comm. Motor	12%
G. Marine and other	3%



Brands

Personal and Commercial:

Financial summary

	2019 net written premiums		Underwriting result		COR
	£m	% change[1]	2019 (£m)	2018 (£m)	2019 (%)
Personal	1,043	0	231	222	77.8
Commercial	721	1	(8)	16	101.1
Total	1,764	0	223	238	87.4

1. At constant FX.

Our operations in Scandinavia

RSA is one of the leading insurers in Scandinavia, operating as Trygg-Hansa in Sweden and Codan in Denmark and Norway.

Approximately 60% of our Scandinavian business is Personal Lines and 40% is Commercial Lines. We distribute mainly direct to customers, but also leverage strong agency relationships.

Scandinavian market context and risk profile

The Scandinavian economy remained resilient in 2019 despite a slowdown in global growth. In Sweden, real GDP growth of 1.2%[1] was a point lower than 2018 as demand for exports fell. Meanwhile, GDP growth in Denmark declined modestly and Norway improved versus 2018.

The insurance market is mature and consolidated, with growth driven largely by GDP and rate. A few major players dominate, with brand an important driver. While there is strong competition, long-term players have maintained their competitive position.

Customers continue to demand quicker and slicker service; the major market players in the Scandinavian market are responding by increasing their investment in digital self-service models.

Financial performance

Scandinavia delivered a business operating result of £286m, down 3%[2]. The combined ratio of 87.4% was 0.6 points higher than last year and above our <85% best-in-class ambition. Personal Lines continued to deliver excellent performance with a combined ratio of 77.8% (2018: 78.9%). Commercial Lines performance was disappointing, delivering a combined ratio of 101.1% (2018: 97.9%). Danish Commercial Lines was a key driver of Commercial Lines underperformance.

Regional net written premiums of £1,764m were flat at constant FX or up 1%[3] on an underlying basis. Personal Lines premiums were flat[3,4]. This included Swedish Personal Lines growth of 2%[3,4] with Household, Motor and Personal Accident all up. Commercial Lines premiums were up 2%[3] on an underlying basis. Rate was ahead of our plans last year in all lines of business but was dampened by a 4% reduction in volumes.

The current year attritional loss ratio of 63.4% was flat versus 2018 or around half a point better excluding the impact of 2019 reinsurance changes. Large losses of 7.8% were 1.1 points better than 2018, but still elevated compared to the five-year average of 6.8%. This was dominated by Danish Commercial Lines; particularly Property. Sweden and Norway both reported lower large losses than 2018.

Written controllable expenses were up 2%[2] in 2019, with costs flat pre-inflation. The earned controllable cost ratio of 21.7% increased by around half a point, in part due to a flat topline as we continue to invest in the business.

Sweden generated an underwriting profit of £257m (2018: £251m) and a combined ratio of 75% (2018: 76%), driven by lower large losses and better expenses. Denmark reported an underwriting loss of £18m (2018: £6m profit) and a combined ratio of 103% (2018: 99%). Danish Personal Lines performed well but the result was driven by poor Danish Commercial Lines performance, with higher attritional and large losses. The underwriting loss in Norway of £16m (2018: £19m loss) included improvements in current year performance offset by a £6m prior year underwriting loss.

Doing more for customers

As customers are increasingly seeking to interact with us digitally, we are focused on improving these capabilities. While maintaining a strong service culture, we have focused on improving digital access, from the point of purchase to claims. Following the launch of our IT-hub and roll-out of pricing tool Radar Live in 2018, digital sales in Sweden have grown 1%[5]. Meanwhile, the percentage of customers settling claims online also increased by 8 points to 31% in Swedish Personal Motor.

We have also introduced a digital claims platform, where the claims team can communicate with customers and share documents quickly and easily. The platform allows customers to track their claims in real time, and the policyholders that have used it so far access the platform an average of four times per claim.

In Denmark, we launched a road safety campaign, to open up a dialogue with experienced drivers on unconscious bias and how it impacts their driving. A supporting film, released on social media, was seen by 2.4 million Danes. We also had our Annual Reflector Day at the end of October, where 35,000 reflectors were handed out to pedestrians and cyclists.

Growing in the right areas

Our Personal Lines businesses continue to achieve profitability and we benefit from a strong market share. Our investments help us achieve greater scale in these lines, offer value to customers and remain competitive. Our 2018 and 2019 performance was impacted by poor performance in Danish Commercial Lines. In response to this, we have taken strong action to re-price, re-underwrite and lower capacity where required.

Strategy and outlook

Our strategy

For the past five years, our focus in Scandinavia has been to combine our strong brands with efficient operations to secure customer loyalty and good profitability. We continue to focus on growing these businesses, while improving underwriting to secure better performance, making the most of digitisation to improve customer experience and reduce costs.

Outlook

There is scope for medium-term growth based on the stability of the regional economies, especially if we continue to improve the appeal of our brand, customer service levels, operational excellence and underwriting.

Case study

Product packages in Sweden

Commercial customers in Sweden can buy online bespoke insurance packages to comprehensively cover the needs of their business.

Read some of our other success stories here: **rsagroup.com/casestudy**

→

1. International Monetary Fund.
2. At constant FX.
3. At constant FX and excluding changes in reinsurance.
4. Excluding a one-off adjustment in Swedish Personal Accident in Q1 2018.
5. Excluding Aktsam, a Swedish insurance brand owned by Trygg-Hansa.

Focus on
Canada

Performance

94.5%
Combined ratio ◊
-4.0pts

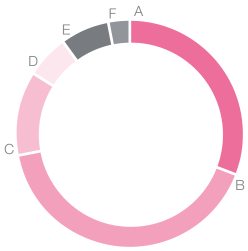
£1.7bn
Net written premiums
+5.0%

"We were pleased with performance, which improved sharply. We continue to grow our direct customer business as well as investing in systems and our people."

Martin Thompson
President and CEO, RSA Canada

Type of business

A. Household	31%
B. Motor	41%
C. Comm. Property	12%
D. Liability	6%
E. Comm. Motor	7%
F. Marine and other	3%



Brands

Personal:
JOHNSON
WA

Commercial:
RSA INSURANCE

Personal and Commercial:
CNS

Financial summary

	2019 net written premiums		Underwriting result ◊		COR ◊
	£m	% change[1]	2019 (£m)	2018 (£m)	2019 (%)
Personal	1,245	6	106	29	91.3
Commercial	490	-4	(12)	(4)	102.3
Total	1,735	3	94	25	94.5

1. At constant FX.

Our operations in Canada

We are one of the leading insurers in Canada, operating across all provinces, offering a range of Personal and Commercial Lines products. In Personal Lines, which accounts for around 72% of our overall business, we operate under the leading brand Johnson, as well as the RSA brand via brokers. Our Commercial Lines business operates through brokers.

Canada market context and risk profile

While competition in the Canadian market remains strong, rates are increasing to meet rising claims costs across both Personal and Commercial Lines. Capacity is tightening in certain Commercial Lines segments, providing additional pricing opportunities.

Adverse and more volatile weather trends continue to impact our customers, with property damage from storms, one of the main drivers of claims trends. We continue to respond well to the needs of our customers.

In the majority of provinces, motor insurance pricing is regulated. Regulators in many provinces have created a more challenging pricing environment, while in our largest market, Ontario, we have seen positive changes to rate regulation enable more timely responses to motor trends.

Financial performance

In 2019, our Canadian business delivered a business operating result of £159m, up from £84m in 2018. The combined ratio of 94.5% was four points better than last year. Adverse weather remained a feature despite being lower than 2018, while large losses and attritional losses also improved versus 2018.

The weather loss ratio of 5.0% was 1.8 points lower than 2018 but remained elevated relative to the five-year average of 4.7 points. Insured damage for severe weather events in 2019 reached $1.3bn[1] for the industry, the seventh-highest on record. The large loss ratio was 8.0% for 2019, despite improving 1.4 points versus 2018 it was still 0.7 points higher than the five-year average; particularly driven by Commercial Property. The attritional loss ratio of 56.0% improved by 2 points with improvements across most major lines of business.

Net written premiums of £1,735m were up 3% at constant FX or 3%[2] on an underlying basis. Personal Lines reported growth of 6%[2] driven by Johnson, our direct business. The rating environment was strong in 2019, and we applied rate increases of c.8% in Personal Auto and c.11% in Household. This helped to combat ongoing and significant claims inflation and build an allowance for heavier weather losses expected as a result of climate change. Despite these conditions, retention in Johnson remained strong at c.90% while Personal Broker reported a 6 point decrease to 83% reflecting targeted actions to improve profitability.

Premiums in Commercial Lines decreased by 4%[2] where a 13% reduction in volumes was partly offset by rate of 9%. Lower volumes were in line with our plans and mainly driven by targeted lapses. We expect to continue to prioritise profitability over volume in 2020.

The earned controllable expense ratio of 16.9% was 0.4 points lower than last year and better than our plans.

Our affinity partnership with Scotiabank

In April 2019, we launched an exclusive affinity partnership with Scotiabank to offer home and motor products. The partnership has so far outperformed our expectations. The roll-out has been underpinned by digital enhancements, including a white labelled website, live chat and an online quote facility.

Commercial Lines improvements

Following a disappointing performance in our Commercial Lines business in both 2018 and 2019, we are focusing on prudent underwriting and pricing, enhancing our portfolio mix and better exposure management. This includes a thorough review of our portfolio, taking tough actions where appropriate and a more selective approach to new business in Property and Commercial Motor.

An area of focus has been the development of our RSA Pro digital proposition, which enables brokers to service their clients remotely and provides instant communication with RSA underwriters. We have also moved to develop our frontline Commercial Lines staff through an increase in underwriting training and day-to-day coaching. We are developing the next generation of underwriting leaders with the launch of a new development programme known as LEAD, a mentorship and training scheme for our brightest and best employees.

Resolving claims swiftly

Following a successful trial in 2018, we launched a new claims portal, provided by Guidewire, which eliminates wait times and provides customers with immediate access to claims details. 'First notice of loss' notifications completed digitally through the portal are now at 5% of our new claims volume. Our launch to Johnson customers in late Q4 is making the process more efficient and speeding up the entire claims journey.

Strategy and outlook

Our strategy

Our operations in Canada are well balanced geographically, by customer type, product and distribution channel, helping us to manage the challenges of adverse weather, increasing claims cost and regulation.

Our strategy is one of continuity – to pursue growth in the Johnson business, improve our digital capabilities and retain a focus on disciplined underwriting and pricing to maintain a strong commercial insurance footprint and improved profit contribution.

Outlook

We target a best-in-class combined ratio, underpinned by selective growth and continued cost-effectiveness. Our partnerships with brokers, our relationship with customers and the hard work of our employees will continue to be the foundation of our success.

Case study

Resilience through conservation

In 2019, RSA Canada partnered with the World Wildlife Fund as part of its effort to help customers become more flood resilient by playing a greater part in conservation.

Read some of our other success stories here: **rsagroup.com/casestudy**

1. Source: Catastrophe Indices and Quantification Inc.
2. At constant FX and excluding changes in reinsurance.

Focus on

UK & International

Performance

95.0%[1]

Combined ratio ◊

97.1%[2] -4.3pts

£2.9bn

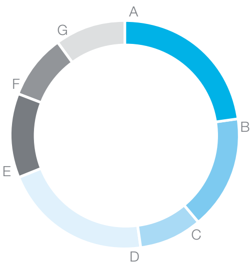
Net written premiums

-7.1%

> **“2019 saw the UK&I region return to underwriting profit, with strong results in Ireland and the Middle East.”**
>
> **Scott Egan**
> CEO, UK & International

Type of business

A. Household	23%
B. Motor	16%
C. Pet	9%
D. Comm. Property	21%
E. Liability	12%
F. Comm. Motor	9%
G. Marine and other	10%



Brands

Personal:

MORE TH>N 123.ie

Commercial:

RSA INSURANCE

Personal and Commercial:

TOWER INSURANCE, INSURANCE CORPORATION, AL ALAMIYA العالمية, Al Ahlia الأهلية

Financial summary

	2019 net written premiums		Underwriting result ◊		COR ◊
	£m	**% change[3]**	**2019 (£m)**	2018 (£m)[3]	**2019 (%)**
UK Personal	**1,038**	**(11)**	**2**	(23)	**99.8**
UK Personal ex. exits	**1,038**		**18**		**98.4**
UK Commercial[4]	**1,082**	**(8)**	**1**	(70)	**99.9**
UK Commercial ex. exits[4]	**1,072**		**32**		**96.9**
Total UK[4,5]	**2,120**	**(9)**	**3**	(93)	**99.9**
Total UK ex. exits[4]	**2,110**		**50**		**97.7**
Europe[4]	**237**	**(7)**	**5**	(13)	**97.6**
Europe ex. exits[4]	**230**		**17**		**92.6**
Ireland	**327**	**6**	**42**	30	**87.1**
Middle East	**197**	**(5)**	**35**	33	**83.0**
Total UK&I[5]	**2,881**	**(7)**	**85**	(43)	**97.1**
Total UK&I ex. exits	**2,864**		**144**		**95.0**

Our operations in UK & International

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

Some 51% of our UK business is in Commercial Lines. In 2019, we substantially completed the run-off of several portfolio exits announced in 2018 (as well as some further portfolio exits in 2019), notably in the London Market, and simplified our business structure to better reflect our distinct markets and customer needs. This included creating a single Commercial insurance business for UK markets, and a separate European business. The latter is headquartered in Luxembourg, with a presence in Belgium, France, Spain and the Netherlands.

In Ireland, we are a leading Personal and Commercial insurer distributing through 123.ie (our direct to consumer brand), affinity partnerships and brokers. Our Middle East operations, of which we own c.50%, cover Bahrain, the United Arab Emirates, Oman (where we operate under the Al Ahlia brand) and Saudi Arabia (where we operate under the Al Alamiya brand).

UK & International financial performance

The UK & International region delivered a business operating result of £279m in 2019 (£220m[5] including exits) and the combined ratio was 95.0% (97.1%[5] including exits).

UK&I weather costs of 2.5% (2.3% ex. exits) were 3.2 points lower than 2018 with better experience across all parts of the region. Large losses of 11.2% (10.4% ex. exits) improved by 3pts versus prior year driven by UK Commercial, Europe and Ireland. The attritional loss ratio of 49.1% (48.7% ex. exits) improved by 1 point with improvements seen particularly across the UK and Europe. Within the UK, Household was 2.5 points better as strong rate earned through. Prior year development added 0.3[5] points to the COR (0.1 point benefit ex. exits) compared to a benefit of 2.4 points in 2018. This was mainly due to the impact of the Ogden discount rate change and strengthening on recent accident years including 2018. This was offset by strong positive development in Ireland and the Middle East.

1. Excluding UK&I exit portfolios.
2. Total UK&I.
3. At constant FX.
4. Europe, previously reported with UK Commercial, is now reported separately within UK&I.
5. £8m of prior year GVC recoveries relating to UK&I exited business has been reallocated from Central Functions to UK&I Exits and therefore to total UK&I.

The UK&I expense ratio increased by a point as expected, savings of 3% gross of inflation were offset by the impact of lower premiums. These topline reductions have necessitated a further targeted cost programme in the UK of >£50m p.a. cost saving by end 2021. This is already well advanced, and associated restructuring costs of c.1.3x are expected, with £27m booked in 2019 and the remainder to be booked in 2020.

UK market context and risk profile

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

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

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

UK financial performance

The UK reported an underwriting profit of £50m and a combined ratio of 97.7%, excluding exit portfolios. This was driven by better current year results offset by lower prior year development. Including exits, the COR was 99.9%[5].

Net written premiums of £2,120m were down 9% as reported. Personal Lines premiums decreased by 11% in the period; Household was down 10% with the sale of Oak Home accounting for c.3 points of this. We have continued to achieve good rate increases in Household and pleasingly new business in MORE TH>N Home doubled in 2019. Motor and Pet premiums also decreased. While retention improved, new business was down as we continued to hold our discipline on rate. Commercial premiums were down

2019: Strategy and outlook

Our strategy

Our aim is to build a more balanced business in the UK & International, with all parts of the region contributing to underwriting profits. This requires further improvement to results in the UK, and investments to ensure that our excellent results in the Middle East and Ireland can be sustained. We will achieve this by stabilising and then strengthening our Commercial Lines business, growing our direct channel in UK Personal Lines and continuing to improve our productivity. We are therefore focused on simplifying our business, equipping it with the tools and digital capabilities required to serve customers efficiently and well, and building a culture that values high performance and develops talent.

Outlook

Digital investment to support Personal Lines growth and continued portfolio actions to reshape our Commercial Lines business will help us to achieve consistent and sustainable profits in competitive markets. Our ambition is for a best-in-class combined ratio of <94% in UK & International by 2022-2023.

Case study

Regional gains

In 2019, we made numerous improvements to our regional trading sites aimed at making it easier for our brokers to do business with us.

Read some of our other success stories here: **rsagroup.com/casestudy**

7% excluding reinsurance changes, but up c.5%[1] excluding exits. Rate was ahead of plan and prior year in all major lines e.g. Commercial Property achieved rate of 6% and Marine achieved 10%. However, pricing and underwriting actions have impacted retention. Benign weather helped to reduce the combined ratio, while both the attritional loss ratio and large loss improved versus prior year.

Doing more for customers

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

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

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

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

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

Playing our part in the community

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

We have focused our efforts this year on boosting our involvement with local communities, resulting in an increase in volunteering hours and participation in the UK&I, as well as record engagement with our match-funding scheme.

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

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

Europe[2] financial performance

Europe delivered an underwriting profit of £17m (£5m including exits) and a combined ratio of 92.6% (97.6% including exits). Net written premiums decreased by 7%[3] as a result of lower volumes in Property and Marine. Benign weather helped to reduce the combined ratio, while large losses and the attritional loss ratio both improved versus prior year.

Ireland financial performance

Ireland reported another excellent performance, with a £42m underwriting profit (2018: £30m) on a combined ratio of 87.1% (2018: 90.2%) which included strong prior year development. Net written premiums increased by 6%[3] helped by strong new business in Personal Motor. Benign weather and lower large losses (down 3.5 points) helped deliver the result.

Middle East financial performance

Middle East underwriting profit was £35m (2018: £33m) with another excellent combined ratio of 83.0% (2018: 83.4%). Net written premiums were down 5%[3] largely as a result of lower volumes in Commercial Lines and rating pressure in Personal Lines. Benign weather and a lower attritional loss ratio (down 0.3 points) helped deliver the result.

Case study

As fit as a butcher's dog

We've partnered with PitPat, to offer our dog insurance customers membership to PitPat Life, which includes a free PitPat dog activity monitor, which can be attached to a dog's collar to track their exercise and weight.

Read some of our other success stories here: **rsagroup.com/casestudy**

1. At constant FX and excluding changes in reinsurance.
2. Europe, previously reported within UK Commercial, is now reported separately within UK&I. 2018 comparatives have been restated.
3. At constant FX.
4. £8m of prior year GVC recoveries relating to UK&I exited business has been reallocated from Central Functions to UK&I Exits and therefore to total UK&I.

Exit portfolios

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

The underwriting loss from these portfolios was £59m[4] in 2019. Net written premiums were £17m. Net earned premiums were higher at £88m reflecting the ongoing run-off of exposures. A further c.£15m of exited premiums are expected to be earned out in 2020.

Our 2019 Strategic Report, on pages 2 to 51, has been reviewed and approved by the Board of Directors on 26 February 2020 and signed on its behalf by Stephen Hester, Group Chief Executive.

Regional CEO round table discussion

Ken Norgrove, Martin Thompson and Scott Egan discuss common challenges and their 2020 ambitions.

Q

What challenges do your businesses have in common and how do you share solutions?

Ken Norgrove
We face many of the same challenges, whether it's meeting the changing needs of customers, underwriting as accurately as possible, enhancing productivity or getting the best out of our employees. As regional CEOs, we are always talking to each other, sharing what our teams are working on, and getting our people to connect with each other to share experiences and learnings.

Scott Egan
Our challenges are not so different. We're all grappling with how we make good use of technology to make our business more efficient and serve our customers well. We're exploring the opportunities of data to drive continuous improvement, and we're always looking to improve how we support and motivate our employees to attract and retain the best talent. There's no magic formula to solve any of these issues – the key is to learn from best practice and those around you. That's why it works so well to operate as RSA does as a group – our markets have many similar dynamics. We constantly leverage one another's knowledge to hear what is working well and we steal with pride!

Q

What are we seeking to do for customers that is distinctive?

Martin Thompson
We're here to give our customers peace of mind and support them when the worst happens, so I'm particularly proud of an initiative we launched this year with Johnson. Customers with young children, who have suffered a traumatic event, whether it's a serious auto accident or a house fire or flood, receive a Johnson the Dog stuffed mascot and a letter of care. The pilot of the programme was very successful and the feedback was overwhelmingly positive. Sometimes it's the little things that show our customers that we're there and that we care.

Scott Egan
Insurance is a centuries-old industry and no matter what innovations are available for those who buy policies from us, the crux will always be whether we are there for them when the chips are down. Having worked in the industry throughout my career, I believe RSA people have a distinctive commitment and care for our customers. My goal is to make sure that the business has the systems, processes, capabilities and culture to enable them to get that passion across in every interaction.

Q

What does success look like for your business in 2020?

Ken Norgrove
There are areas of the business where we need to improve profitability, such as Danish Commercial Lines, but we can't lose sight of the things we're really good at. We want to continue to be successful in our best performing businesses by growing market share and continuing to serve customers well. In 2020, our aim is to improve operational and financial stability while driving a focus on investment and transformation to become a leading digital insurance company.

Martin Thompson
From a financial perspective, we want to achieve our stated best-in-class combined ratio ambitions. To achieve this, we need to continue our strong performance in Personal Lines, but need to repair and improve Commercial Lines. We will continue to invest in digital to improve our customer delivery in both claims as well as sales and service. Finally, we want to continue to invest in our talented workforce and support a high-performance business culture.

Scott Egan
It's no secret that the UK business in particular has had some challenging results in the last few years, and we are really pleased that every part of the UK & International region turned a profit in 2019. However, it is vital that we sustain and keep improving that. To build a better business, we need to focus on growing the parts of the business where we know our underwriting and customer offering is strong, and reduce the cost profile of the UK business. This means simplifying our products and IT, and investing in new capabilities so we can perform to a high standard both today and in years to come. Above all, we need to make sure our customers feel and benefit from the great culture we have in RSA, so they continue to choose us.

"For those who buy policies from us, the crux will always be whether we are there for them when the chips are down."

Scott Egan
CEO, UK and International

Managing risk to achieve our goals

Aiming to deliver consistently for our customers while achieving good long-term sustainable performance.

The Group'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 while maintaining a robust capital base. Our risk function takes an active role in challenging the plan, informed by financial analysis, economic projections, peer reviews (e.g. by the underwriting and actuarial teams), expert judgement and current risk assessments.

Approach to managing risk and our appetite in 2019

Our risk management and controls frameworks were created to ensure that we identify, measure and manage risks across the Group before they adversely impact on our customers or the business. This information, together with the strength of the Group'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 strategic objectives.

Risks are managed within risk appetite. For material financial risks, we operate within our risk appetite throughout the year and our three-year plans predict that 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 significant progress in some key risk areas, including customer, IT/cyber and underwriting.

Changes to risk management in 2019

- The Risk Policy Framework has been developed to enhance alignment between risk, requirements and controls, and to bring better definition to controls validation. The set of policies has been revisited to remove policies no longer needed and to identify any gaps requiring new policies. The number of policies has been reduced.
- A set of early warning indicators and horizon scanning reports have been developed, covering underwriting, actuarial and compliance to support forward-looking analysis.
- The approach to operational resilience is being strengthened, with executive and Board training, a crisis management exercise and approval of an updated and expanded Operational Resilience Policy with a business service lens.
- Compliance has reviewed its structure and approach. This allows greater alignment between compliance and operational risk teams, and the right distinction between the responsibilities and activities of business areas (1st line) and Risk and Compliance (2nd line).

In a rapidly developing business environment, we strive for best-in-class risk management in order to protect our customers from loss and poor outcomes, while maximising shareholder risk-adjusted returns. We leverage our core expertise in order to be selective in the risks we wish to retain, while ensuring we manage, mitigate and avoid risks we are not adequately rewarded for. As a pure general insurer, our key area of expertise is insuring Property and Casualty risks. This means we can provide our customers with competitive products, while serving them well and ensuring that the risks we accept are collectively managed to maximise our long-term performance.

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 senior management team has been instrumental in setting the right 'tone from the top', which is further underpinned by the Group's quarterly cultural health check and annual staff survey.

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

Risk management in action

Senior debt issuance

During August, the Group successfully completed a senior debt issue, with an intention to increase the internal resilience and financial flexibility of the Group. With interest rates remaining low and a range of economic stability risks on the horizon, this was a prudent decision to make. Risk appetite associated with senior debt leverage was also introduced.

Risk management in action

Delivering for the customer

The focus on ensuring good outcomes for our customers has continued into 2019. We have further enhanced and embedded the frameworks used to govern this in the UK, with a positive impact in many areas, from product and pricing to incident management, and with strong engagement at every level of the business. We have developed a comprehensive product oversight and governance approach, supported by leading-edge RegTech developed with a third party. Supporting this is a refreshed, forward-looking approach to managing and monitoring conduct risk and compliance, which is also being rolled out overseas.

Emerging risk – monitoring future threats

Emerged risk	**Cyber risk** Emerging threats arise on a frequent basis; however, there remains a risk of increasing capability of hostile states and organised crime to engineer severe attacks.	**Terrorism** Terrorist threats remain high. Attacks could impact on a large number of our customers and staff as well as broader society.	**Brexit** Risks remain in relation to disorderly Brexit effects with potential for economic and claims/supply chain implications.	
Near-term risk	**Low interest rate environment** Continuing low interest rate environment may lead central banks and governments to adopt more unusual monetary policies with unforeseen economic outcomes.	**Global socio-political uncertainty** Tensions over trade, international relations and EU stability are all factors that may have significant social and economic implications.	**Persistent or more extreme weather patterns** A warming planet is resulting in more extreme weather with the potential for further worsening with more persistent patterns arising.	**Geopolitical tensions** Geopolitical tensions could result in new diplomatic, economic, cyber or physical conflicts.
Medium-term risk	**Transition risk** As economies shift to low-carbon emissions, the transition could have material micro- and macroeconomic implications, affecting asset values and economic growth.	**Longevity risk** Longevity risk can affect long-term annuity-like bodily injury claims and pensions risks. Several factors including medical advances could shift the risk in the future.	**Autonomous machines** Autonomous machines are likely to change insurance needs and could have varying effects on frequency and severity of losses.	**Pandemic risk** Pandemic events could lead to a fall in global economic performance, impact on supply chains and impact operational resilience.
Long-term risk	**Climate change accelerates** Climate change trends have been recognised as a key emerging risk for insurers for some time; however, the work of the Intergovernmental Panel on Climate Change has increased understanding.			

Themes: Political Economic Social/environmental Technology & digital

Risk management in action

Financial and insurance risk from climate change

During 2019, RSA continued to review its financial and insurance risks arising from climate change, in terms of both physical risk and transition risk. These risks have been considered in strategic Board discussions and our risk management processes. This has included operating an ESG Committee, developing a Climate Change Risk Action Plan and publication of a Low Carbon Policy position. We have applied science-based targets to our energy sector underwriting and to our own business emissions, established a risk appetite for exposures to carbon-intensive industries in our underwriting and reviewed the carbon emissions and broader ESG issues associated with our investment portfolio.

Risk Management System

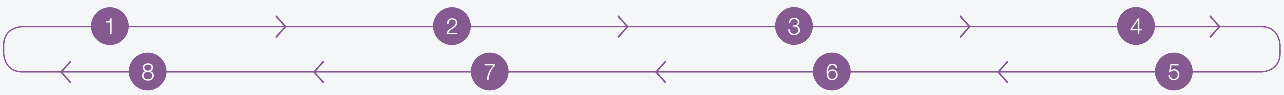
Risk Management System underpins the Operational Planning Cycle

Board sets business strategy
Board sets the business strategy which is incorporated in the three-year operational plan. Risk Strategy combined with Line 2 challenge of the operational plan provides robust challenge of validity and achievability of plan.

Board sets risk strategy and appetite
Risk strategy defines the approach to managing principal risks and creates the overarching principles for setting the Risk Appetite Limits and Indicators.

Policies direct management of risks within appetite
Comprehensive policy suite sets the required business processes and controls to deliver the operational plan within appetite. Robust control testing used to identify risks out of appetite.

Monitor appetite and action tracking
Line 1 manage risks and define actions, where out of appetite, with oversight provided by Regional Risk and Control Committees and escalation to local and Group boards.



ORSA reported to Board
Validated output from the model is reported to the Board, so that changes can be made to the three-year operational plan to ensure the Group remains in appetite.

Model outputs used in ORSA
The internal model is run regularly throughout the year in order to assess the risks impacting the Group and determines how much capital the Group needs to hold to remain solvent even after a major stress event(s). This forms part of the ORSA process.

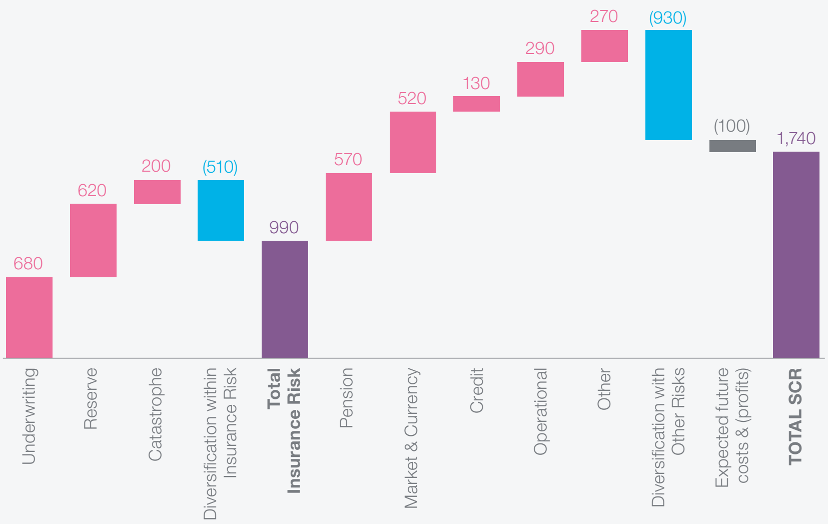
Model outputs checked and used in business decisions
Output from the model is sense checked against non-modelled stress and scenario events to ensure it provides a reliable basis for making business decisions, including capital planning, reinsurance purchase, performance analysis and pricing.

Risk assessment and update internal model
Significant changes in risk assessments are considered by the Internal Model Governance Committee and, where appropriate, the Group's internal model is updated.

Solvency II and Solvency Capital Requirement (SCR)

Insurers are required to calculate the level of capital needed based on their unique risk profile under the Solvency II regulatory regime. For RSA, this is calculated using our own internal model and is a key component of the annual Own Risk and Solvency Assessment (ORSA). RSA also publishes its Solvency and Financial Condition Report (SFCR) annually, which contains extensive information on how RSA manages its risks and exposures, and reports the financial position of the Company using Solvency II valuation principles. RSA operates a programme of continuous development in relation to the internal model and a Group-level regulatory approval was received in 2019 for the latest set of enhancements. Model approval was also received in 2019 in respect of our Scandinavian entities to mitigate the risk of moving to Standard Formula in the event of a 'hard Brexit'. We expect further major model change applications may be required in 2020 in response to further enhancements to insurance risk and market risk modelling.

Breakdown of Group SCR by risk driver[1] (£m)



1. As per 2018 SFCR published April 2019.

Key risks and mitigants

Key risks and exposures	Key mitigants and controls
Catastrophe risk Arises from the risk of large natural disasters, with our main exposure being to North European windstorms and Canadian earthquakes.	· Our reinsurance programme significantly reduces our exposure to catastrophe risks, with historical losses being well covered by our programme. The programme is designed to cover at least 1-in-200-year events and is stress-tested for climate change scenarios.
Reserving risk This is the risk that the Group's estimate of future claims is insufficient. Longer tail-lines of business present more uncertainty on the size and timing of payments, with our largest exposure being the Swedish Personal Lines (including motor). The risk includes legislative changes, e.g. the Ogden rate change.	· Reserves are reviewed and challenged at the Group Reserving Committee meeting, which is attended by the Group Chief Actuary, CRO, CUO, CFO and CEO. · The reserve assurance programme has independently verified >90% of the Group's net reserves over a three-year period. · Claims case reserves are prudently set and reviewed at quarterly case reserving committees.
Underwriting and claims risk This is the risk that underwritten business is not in line with appetite or is less profitable than planned due to insufficient pricing and setting of claims case reserves. Key exposures arise from large portfolios where claims trends are slow to emerge, such as UK Commercial and Marine.	· Controlled through well-defined risk appetite statements (including climate change factors), which are rigorously monitored at quarterly portfolio reviews, with remediation action taken where deemed necessary. · Brexit risks to inflation and supply chain delays are being monitored and we are ready to respond. · Extensive control validation and assurance activities are performed over underwriting pricing and claims.
Market, credit and currency risk This is the risk to our insurance funds arising from movements in macroeconomic variables, including widening credit spreads, fluctuating bond yields and currency fluctuations.	· RSA adopts a prudent investment strategy with the investment portfolio favouring high-quality fixed income bonds and selected less liquid assets subject to strong internal and external governance. · RSA ensures assets are closely duration and currency matched with insurance liabilities to hedge volatility. · Investment positions are regularly monitored to ensure limits remain within quantitative and qualitative appetite (including ESG factors). · Asset managers are positioning assets to manage Brexit risk where possible.
Pension risk We face longevity and market-related risks, which arise from our defined benefit pension schemes. This includes exposures arising from credit spread and equity movements.	· Funding assets are well matched to liabilities in the pension schemes, including the use of swap arrangements. · A long-term de-risking plan is in place following the last triannual valuation. · Possible market impacts of Brexit related scenarios are examined with a specific focus on pension risk.
Operational risk This risk relates to customer and/or reputational damage arising from operational failures, such as IT system failure.	· Operational risk and resilience processes and procedures are in place, including incident management. · Control effectiveness monitored through formal validation and assurance. · Customer Policy being embedded across the Group. · IT and data risks remain a key focus, especially cyber threat.

Themes: Political Economic Social/environmental Technology & digital

Commentary

Consistent with our strategy and appetite for retaining risks that reside within our core expertise, where we are able to maximise risk-adjusted returns, our Solvency II Capital Requirement (SCR) primarily comprises insurance-related risks, including higher than anticipated underwriting losses, large retained catastrophe losses and deterioration in our stock of reserves for future claims.

While our investment strategy remains deliberately conservative, we continue to look for opportunities to increase returns through the purchase of less liquid high-quality assets as we are able to match the cash flow profile against that of our liabilities.

Another key SCR risk arises from the Group's defined benefit pension schemes. Although these schemes are well funded (95% at the latest triennial review), under the Solvency II rules we are required to hold sufficient capital to withstand a 1-in-200-year event. For more information on the pension schemes, see note 38 of the financial statements.

Management of operational risk is key to servicing and supporting our customers, as well as an SCR driver. Cyber remains one of our key operational risks. The last few years have seen the volume, nature and capabilities of would-be attackers increase significantly, meaning the risk is ever present. In response, RSA has been investing heavily in our technology and capability to counter such threats and building employee awareness through briefings and training. These efforts continue at pace driven by a refreshed Group Cyber Strategy.

The Viability Statement can be found in the Governance Report on **page 111** considering the Group's prospects over the next three years.

Creating a **Confident Future**

RSA's long-term success depends on our ability to support customers, employees and the communities we serve to manage and respond to a wide range of risks and opportunities.

By focusing on providing effective products and services, strengthening our relationships and managing the everyday issues impacting our industry, we can create sustainable value now and in the future.

We have always had a strategic response to managing environmental and social matters, but our new Confident Futures strategy, launched in 2019, marks a more integrated approach to considering these issues. Our strategy focuses on:

- Managing the everyday well – addressing responsible business issues in our day-to-day operations, including investment and underwriting practices, supply chain, our use of data, our environmental impacts and ensuring we act with integrity
- Building stronger relationships – responding to the needs of our customers, colleagues and communities
- Shaping a smarter tomorrow – using partnerships and innovation to help people and businesses learn about the risks they face and how to manage them effectively.

In 2019, we built the foundations for the strategy, increasing awareness and engagement among employees and stakeholders. This has been led by the Group Corporate Responsibility Committee, chaired by Scott Egan, UK & International Chief Executive and supported by our Environmental Social Governance (ESG) Committee, chaired by William McDonnell, Group Chief Risk Officer.

Shaping a smarter tomorrow

We can play an important role in society by using our insight, data and product development expertise to help keep people safer in their homes, on the roads and at work.

This year, we continued to invest in charitable partnerships that have risk education and behavioural change at their heart. Our long-standing relationship with the Swedish Life Saving Society to tackle water safety continues to be successful, and our TruceTO campaign has promoted harmony between pedestrians, cyclists and motorists in Canada.

We have also developed new partnerships to support our ambitions. In Canada, we refocused our partnership with WWF on improving flood resilience by educating communities on the value of nature-based flood defence measures. In the UK, we established a new partnership with the Royal Society for the Prevention of Accidents (RoSPA) to address safety on the roads and at home.

Our products and services also help customers better understand and manage their risks. In Personal Lines, we have expanded our telematics offering to Ireland through the launch of 123GO, enabling young drivers to receive feedback on their driving style, encouraging safer behaviours.

In Commercial Lines, we have continued to invest in risk management tools. Our Risk Engineering Database, RSA Red, is now used by 170 customers, and we launched a new online risk assessment platform to help businesses better understand their risk environment and make improvements.

Building stronger relationships

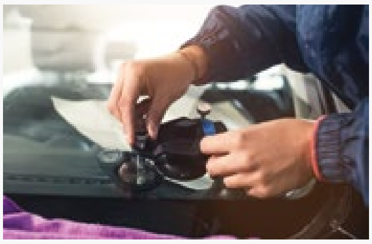
Our relationships with customers, employees and the communities we serve underpin our business.

Excellence in customer care

During 2019, we reviewed our governance and oversight structures to ensure the fair treatment of customers – and consistently good customer outcomes – are at the heart of everything we do. This includes our proposition design, pricing and customer journeys.

In the UK, our Customer Committee works across our business to guide and improve our practices, using internal and external insights. The committee oversees our conduct framework and customer policy, ensures that risks are identified and appropriately managed, and provides a forum to discuss customer-related industry and regulatory changes. This year, all UK-based employees completed mandatory training on conduct and good customer outcomes, which focused on how their behaviours can help us do an even better job for customers.

Case study



Providing sustainable claims solutions

Working in partnership with Autoglass to encourage windscreen chip repair over replacement. By conducting 10,000 chip repairs we've helped avoid 138 tonnes of waste glass and 450 tonnes of carbon emissions.

Find out more here: **rsagroup.com/the-thread/confident-futures-working-with-a-responsible-supply-chain/**

→

In Canada, we have introduced improved customer feedback and governance mechanisms. We have also piloted and introduced a Claims Advice Line, enabling our customers to contact us for advice before submitting a claim. In Scandinavia, we have invested in improving customer journeys through the introduction of digital platforms that are more convenient and flexible.

For more information on the actions we are taking, see pages 20 and 21.

A flourishing workforce

Enabling our employees to flourish by providing training and development, promoting inclusion and diversity and providing the right supporting policies and environment is incredibly important.

This year, we have invested in leadership development academies in Canada to develop the capabilities of executives, directors and people leaders. Through our Group-wide Diversity & Inclusion Councils, we have coordinated support for our pipeline of female talent to take the next step in their careers, and we were proud to be shortlisted for an Apprenticeship Employer of the Year award in the UK.

For more information on the actions we are taking, see pages 50 and 51.

Active in communities

We play an important role supporting communities during times of need. Our focus on being active in communities helps us to strengthen our local connections and enabled £1.85m to be invested in 2019. Our Community Investment Policy provides the framework for charitable donations and enables employees to use their two-day volunteering allowance to support the causes closest to their hearts, as well as our strategic partnerships.

In 2019, we saw record levels of engagement with our programme, with a 45% increase in volunteering hours to 11,911. Our actions have supported 610 organisations. Our community work focuses on risk education, as well as supporting local charitable causes linked to education and employability, social inclusion, emergency relief and improving the environment. No political donations are made by RSA Group.

Managing the everyday well

During 2019, we focused on ensuring the right policies, systems and processes are in place to manage risks effectively and make informed decisions.

Environment

Climate change is a serious environmental, economic and social challenge. The insurance industry has an important role to play in the transition to a low-carbon economy and in supporting those facing more frequent and severe weather events. During 2019, we defined our new Low Carbon Policy position as part of our commitment to responsible investment and underwriting. We have also started adopting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in our reporting (see pages 47 to 49).

In 2019, we reduced our emissions impact by 15% compared to 2018 through the implementation of new business travel policies, ensuring our property portfolio is right-sized for our organisation and encouraging more flexible working. We also switched to renewable energy for properties where we directly purchase electricity in the UK. Full emissions data can be found on page 109.

We have also set a new carbon emissions reduction target, aligned to the science-based target (SBT) methodology. We have committed to achieving a 50% reduction in carbon emissions by 2030 with an interim target of 37% by 2025. This is supported by our environmental policy, which sets out our commitment to reducing our environmental impact.

Tackling many of the global environmental challenges we face requires collaboration with external stakeholders. During 2019, we engaged through ClimateWise, the CRO Forum, United Nations' Principles for Sustainable Insurance and the Climate Financial Risk Forum to discuss industry-wide opportunities and how we integrate environmental, social and governance issues into our decision-making.

> RSA participates in the CRO Forum's Emerging Risk Initiative and, as Chair, led its work to publish the paper 'The heat is on: Insurability and resilience in a changing climate'.

Responsible supply chain

In addition to the impact of our own operations, through our supply chain we have many opportunities to make a positive environmental and social impact.

Our expectations on suppliers are formalised through our Group-wide Supplier Code of Conduct. During 2019, we focused on improving supplier due diligence and engagement on these issues. In the UK, we rolled out a new supplier information and risk management portal to better monitor suppliers' actions, and held meetings with key suppliers to understand their approach to managing key issues.

During 2019, we also analysed the carbon emissions associated with our broader supply chain activities and increased our promotion of the principle of 'repair over replace'.

Human rights

RSA has been a signatory to the UN Global Compact since 2007, which helps companies align their operations with the ten universal principles covering the environment, human rights, labour and anti-corruption. In 2019, we refreshed our Human Rights Policy, which is based on the Universal Declaration of Human Rights, the International Labour Organization's Fundamental Principles on Labour and the United Nations' Guiding Principles on Business and Human Rights. It sets out the standards we expect for our employment practices, the actions of our supply chain, and principles we apply to our investment and underwriting portfolios.

Case study

Supporting flood-resilient communities

We undertook a study with WWF to explore Canadian attitudes to flooding, highlighting the need for education and community collaboration. We're partnering to improve Canadian flood education and champion nature-based solutions to improve flood resilience.

Our aim is to raise awareness of issues, ensure that procedures are in place to prevent breaches and conduct appropriate due diligence. The introduction of our new supplier management information portal in the UK this year has improved our ability to monitor suppliers' approaches to managing human rights and our ability to track performance over time. To date, 830 suppliers are registered on our supplier portal, with 47% of suppliers having a dedicated human rights policy in place. Our procurement team considers human rights when reviewing supplier tenders, as well as existing supplier contracts. Further information can be found in our Modern Slavery Statement on our website.

Our HR policies and procedures ensure that human rights are respected. This year, we conducted refresher training with our procurement teams to ensure that they are aware of the signs of modern slavery, alert to the risks and able to ask the right questions of suppliers, or know where to go for further support.

Anti-bribery and corruption

Bribery and corruption are not tolerated anywhere in our operations. Our Anti-Bribery and Corruption Policy and Conflicts of Interest, Gifts and Hospitality Policy both apply across all parts of our business. They set out detailed guidance on gifts and hospitality and relationships with third parties, as well as establishing 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. 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. In 2019, all our employees completed mandatory eLearning modules on these topics. We encourage employees to identify and escalate concerns to management or our confidential third-party whistleblowing helpline in line with our Whistleblowing Policy. Operating countries complete risk assessments, which are reviewed and updated annually, supported by a central team enabling continuous improvement to controls. The Audit Committee periodically reviews Internal Audit findings in relation to our Anti-Bribery and Corruption and Whistleblowing policies.

Customer privacy and data security

It is essential that our customers have confidence in us to protect their privacy and keep their data safe. We are committed to managing data sensitively through the design and delivery of our products and services, with clear policies and standards in place to help ensure that we mitigate potential threats.

In 2019, we raised awareness of this topic with dedicated internal campaigns focusing on behaviours that promote cyber security and data protection alongside mandatory eLearning training for our employees. We have improved the security of our network by implementing enhancements to detection systems, access control and third-party risk assessments.

Looking forward

Over the coming year, we will be reviewing our position on responsible investment and underwriting across a broader set of environmental and social issues. We are seeking to grow our partnerships, products and services that demonstrate our commitment to shaping a smarter tomorrow.

We are also keen to work with our stakeholders to scale up our activities in support of local communities, a more responsible supply chain and reducing our environmental impact. To support and evidence these ambitions, we are committed to strengthening our overall measurement and reporting across all dimensions of our strategy.

The information contained in the Corporate Responsibility and People sections of this report on pages 44 to 51, together with the description of our business model on pages 6 and 7 and our principal risks on pages 40 to 43, form our non-financial information statement.

Confident Futures

Shaping a smarter tomorrow

Using partnerships and innovation to help people and businesses learn about the risks they face and how to manage them effectively.

- Partnered with WWF Canada on a project to create climate-resilient communities in the St. John River watershed by restoring natural infrastructure.
- Expanded our TruceTO campaign promoting harmony among cyclists, pedestrians and motorists in Toronto, working with DriveWise to reach 6,000 people with educational materials.
- Expanded our telematics offering to Ireland with the launch of 123GO.
- Collaborated with RoSPA in the UK to research the main causes of accidents on the road and in the home, and to build awareness and encourage action to reduce their impact.
- Launched a campaign with the Swedish Life Saving Society to raise awareness of ‘the sound of drowning’ as part of our commitment to water safety.

Building stronger relationships

Understanding and taking action to meet the needs of our customers, colleagues and communities.

- Promoted diversity and inclusion across our organisation, in talent development, succession planning and support for events including the annual Dive In festival.
- Invested in leadership development with programmes targeting managers and directors.
- Implemented regional programmes with a focus on improving customer outcomes.
- Achieved a 45% uptake in employee volunteering, investing 11,911 hours supporting 610 organisations.
- Partnered with Dollar A Day in Canada and BRIS in Sweden to support mental health resilience.
- Partnered with DaneAge to tackle loneliness among the elderly in Denmark.

Managing the everyday well

Managing our impacts in a transparent and responsible way.

- Achieved a 15% reduction in carbon emissions; set a new carbon emissions reduction target for our direct operations, aligned to a 1.5ºC emissions pathway.
- Developed our Climate Change Risk Action Plan – find out more in our first statement aligned to the TCFD recommendations.
- Developed a Low Carbon Policy position outlining our support for the transition to a low-carbon economy and the actions we will take in our investment and underwriting portfolios.
- Participated in the United Nations’ Principles for Sustainable Insurance project to develop guidance on ESG issues in underwriting.
- Introduced a new risk management tool covering 80% of our UK suppliers to improve monitoring of environmental and social issues.
- Engaged our key suppliers on reducing our environmental impact through promotion of ‘repair over replace’.
- Raised awareness of the importance of cyber security with dedicated internal engagement campaigns.
- Refreshed our Group-wide Human Rights Policy and modern slavery training for procurement professionals engaging Tier 1 suppliers.

You can find out more about the first year of our Confident Futures journey in our Corporate Responsibility Report, see: **rsagroup.com/responsibility**

Environmental risk management

Task Force on Climate-related Financial Disclosures (TCFD)

This year, for the first time, we are beginning to report in line with the Task Force on Climate-related Financial Disclosures (TCFD) framework. Doing so will enable our stakeholders to understand the ways in which climate change is affecting our business now, and in the future.

"We understand that investors are increasingly concerned about ESG issues, and we are committed to meeting their need for better, more credible information on the impact of climate change on RSA."

William McDonnell
Group Chief Risk Officer

Pathway towards adopting TCFD recommendations

In June 2017, the Task Force on Climate-related Financial Disclosures (TCFD) published recommendations to encourage businesses to increase disclosure of climate-related information. These recommendations focus on governance, risk management and business strategies to manage climate-related risks and low-carbon opportunities, with an emphasis on financial disclosure and the use of scenario analysis.

RSA already responds to CDP and reports against the ClimateWise principles, which are aligned to the TCFD recommendations, and is committed to implementing these voluntary recommendations in full by 2021; this year, we have taken the first step to integrating these requirements into our strategic report.

Governance

The RSA Group Board has responsibility for oversight and challenge of the overall strategy of the Group, including considering climate-related issues in business plans and exposure to risks.

In 2019, climate change featured as a key topic for discussion at the Board's strategy away day; this included input from expert speakers and a discussion on issues such as trends in costs from weather-related events as well as the proactive role RSA can play in supporting the energy transition. Climate change is also specifically considered in Board discussions on the operating plan.

Responsibility for climate change is integrated into roles and responsibilities of senior managers across a number of key functions, including Finance, Underwriting, Investments and Risk. William McDonnell, our Group Chief Risk Officer, has overall responsibility for the environment and RSA's overall response to the risks of climate change, chairing our ESG Committee which regularly updates the Group Corporate Responsibility Committee, Executive Committee and Group Board on activities and progress against targets. Within each region, country-level senior management is responsible for ensuring business strategy is executed and that our business plans take into consideration the operating environment and material risks.

The Group Corporate Responsibility Committee is responsible for monitoring progress against the Corporate Responsibility strategy, 'Confident Futures', including our commitment to 'Managing the everyday well', which includes a strategic focus on 'Responsible investment and underwriting' and 'Sustainable operations'. This encompasses actions to respond to climate risks and opportunities, including minimising the impact of our direct operations and supporting the transition to a low-carbon economy. For more information on Confident Futures, see pages 44 to 46.

Risk management

Our enterprise-wide approach to risk management (covered in more detail on pages 40 to 43) ensures that the right processes and procedures are in place to identify, understand and monitor the risks associated with a changing climate across our operations. Climate risks feature on our emerging risk profile and have been incorporated into our existing risk control environment for assets and underwriting. Long-term climatic trends will show up through shorter-term changes in the frequency and severity of weather events.

As a result of our analysis on long-term weather trends, we have revised the weather assumptions included within our annual three-year plan. These assumptions are normally based on a five-year historical analysis; however, forward-looking trend analysis can help to factor in more frequent weather extremes resulting from climate change. For example, our analysis suggests that extreme precipitation events are increasing by up to 3%. RSA's reinsurance treaties are used to ensure exposure to weather events remains within our risk appetite.

Aligning with the TCFD

Governance

2019 progress

- Board oversight with updates on a six-monthly basis
- Executive oversight through Group Corporate Responsibility Committee and ESG Committee
- Climate change incorporated into senior manager responsibilities

2020 priorities

- Embed and improve our governance mechanisms
- Establish reporting to monitor delivery against the Climate Change Risk Action Plan

Risk management

2019 progress

- Prioritised ESG issues relevant to RSA
- Integrated climate change in Group Risk Appetite Statement and Own Risk and Solvency Assessment (ORSA)
- Converted long-term physical risks to short-term trends for use in risk management and planning

2020 priorities

- Having articulated our risk appetite in 2019, ensure this is fully embedded through underwriting, asset and risk management processes
- Develop approach to climate change scenario analysis
- Monitor and refine our Low Carbon Policy position

Strategy

2019 progress

- Defined specific position on climate change and our support for the transition to a low-carbon economy, and Climate Change Risk Action Plan
- Launched Confident Futures strategy, including focus on responsible underwriting and investments and sustainable operations
- Climate change discussed at Board offsite

2020 priorities

- Review how climate issues are integrated into regional and portfolio underwriting strategies
- Continue our engagement with forums, including ClimateWise, UN Principles for Sustainable Insurance and PRA/FCA Climate Financial Risk Forum
- Further develop our view of transition opportunities and risks

Metrics and targets

2019 progress

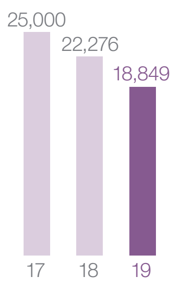
- Achieved a 15% reduction in carbon emissions compared with 2018
- Set new carbon emissions reduction target for our direct operations; and commitment to sourcing renewable energy for our operations
- Achieved a score of B in the 2019 CDP climate disclosure framework

2020 priorities

- Enhance the metrics we use to track and measure progress on our strategic objectives
- Explore carbon footprinting of our underwriting portfolio

Carbon emissions (scopes 1, 2, 3) tCO_2e

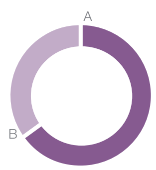
Target:
50%
reduction by 2030



Energy underwriting portfolio (% of NWP)

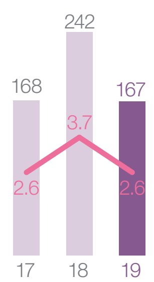
A. Renewable energy	65%
B. Non-renewable energy	35%

Target:
50%
energy portfolio NWP in renewable energy



Total weather-related losses/weather loss ratio

£167m
2.6%
of net earned premiums



Strategy

As an insurer, the risks and demands of a changing climate are of critical importance to our business, customers and stakeholders. Climate change is integrated into strategic decisions covering:

- Underwriting strategy and portfolio management – particularly in relation to physical risks and reinsurance decisions
- Company strategy – including the decision to invest in renewables underwriting specialism
- Reducing our own environmental impacts
- Investment decisions
- Risk management governance, policies, processes and systems.

Managing physical risk

RSA's risk and operational teams regularly review the emerging risk landscape – analysing company-wide data, exposure and trends, and external research, to identify a management approach to climate-related risks. Climate risk is well managed through our operational policies and standards:

- Annual policies mean we can respond to changing weather patterns
- Reinsurance provides protection against losses from severe weather events
- We work with our customers to promote measures that improve resilience to extreme weather
- We continue to develop our use of weather peril models, and invest in geolocation tools to support sophisticated risk assessment and underwriting of weather perils for both homes and commercial properties.

Reinsurance is our primary means of reducing the financial impacts of climate-related losses associated with the physical risks of changing weather patterns. Our catastrophe reinsurance covers flood, windstorms, hurricanes, wildfires and other severe weather events, with special provisions providing additional protection for prolonged or greater frequency events. Our reinsurance programme is designed to cover at least 1-in-200 year events and is optimised to mitigate the impact of extreme weather. We buy this annually, meaning that any climate change (increases in severe weather events) would be factored in over time.

Operating costs associated with weather-related events have potential impact through increased claims. In 2019, weather-related losses were £167m, which was an improvement compared to the prior year. Planning for changing weather patterns, using up-to-date catastrophe models and building identifiable trends into our weather planning, technical pricing and exposure management are a key part of our underwriting guidance. We also have an opportunity to influence our customers to improve their resilience through tools such as the RSA Risk Engineering Database, which enables our Commercial Lines customers to assess their exposure to weather-related perils and develop action plans to reduce these risks.

In 2020, we will improve our use of scenario analysis to build on our understanding of short-, medium- and long-term impacts of different climate change scenarios.

Supporting low-carbon transition

We believe we can play an important role in helping society transition to a low-carbon economy. This year, we have set out our Low Carbon Policy, formalising our position on the actions we take in relation to investments and underwriting of carbon-intensive sectors for the first time. This seeks to ensure our business activities are consistent with a below 2°C world and sets out our commitment to supporting the development of renewable energy technologies through our products and services.

Find out more here:
rsagroup.com/responsibility
→

We hold market-leading propositions in renewable energy insurance across our portfolio – Codan leads the market in offshore wind, while our Commercial Lines business includes a team of specialist underwriters and risk engineers with the skills, technical knowledge and industry experience to handle construction and operation of renewable energy projects around the world.

In addition to our Renewable Energy offer, we are a specialist in providing insurance to the rail industry. Reducing emissions from transport will be critical to limiting climate change, as it is responsible for almost one-quarter of energy-related greenhouse gas emissions. Growth in the rail industry represents an opportunity to further support low-carbon transition planning.

As well as the actions we take in relation to our underwriting and investment activity, we recognise the importance of understanding, measuring and managing the impact of our own operations. We have measured and mapped carbon emissions across our own operations and have set a target to reduce our carbon emissions by 50% by 2030, as well as a commitment to source renewable electricity. Our key metrics and targets are shown in the table opposite.

A **capable, high-performing** and **valued workforce**

RSA is building a culture of high performance driven by passionate team players who are encouraged to bring their very best selves to work.

RSA's continued ambition is to perform at best-in-class levels delivering good outcomes for customers and shareholders. Our People Principles remain core to underpinning our People Proposition, Regional People strategies and all people decisions across the Group.

Group-wide, our goal is a culture of high performance and engagement. We look to deliver this through the quality of our new hires, providing first-class technical and leadership development and ensuring that we have organisational efficiency. 2019 has been a year of stabilisation and building on the work that started in 2018. Our "Your Best U" programme has continued to be embedded in RSA, inspiring a working culture where people are able to bring their best selves to work every day.

Inclusion

2019 progress Group-wide

This year, we have made strong advances to the Group-wide Diversity and Inclusion (D&I) agenda. There has been significant work across all regions in raising awareness of D&I and building continued engagement with employees. Supporting this, we have rolled out inclusive leadership and unconscious bias training in every region sponsored by local D&I Councils.

Gender diversity remains important, and we have taken steps to improve diversity among senior management, where there has been an increased focus and attention on ensuring women have the requisite opportunities and support to progress their careers at RSA.

RSA sponsored the Dive In Festival in 2019, a pan-insurance initiative led by Lloyd's of London focusing on inclusion. The vision for the insurance industry is to be recognised as a progressive industry, which can attract and support the best talent regardless of background. RSA also co-hosted successful events on inclusion in Dublin, on mental health and well-being in Manchester, and on social mobility in London. We continue to celebrate and recognise many different aspects of diversity across our regions, including supporting Pride in all regions and recognising World Mental Health Day.

We published our second Gender Pay Gap figures in the UK – the full report can be accessed via the following link
www.rsagroup.com/media/3391/rsa-gender-pay-gap-report-2018.pdf

→

2020 priorities

In 2020, roll-out of our inclusive leadership and unconscious bias training will continue, supplemented by embedding unconscious bias learnings into our people processes.

We will revisit our gender targets and recognise that further progress is required in terms of increasing senior female representation across the business.

This year, we have explored ways to enable and support a more flexible workforce; we intend to turn our plans into action and measure our progress in this area.

2019 progress

In the **UK**, an evolving people strategy, which recognises changes to the UK business, has been of key strategic importance. A key pillar has been to create a clearly defined culture and organisation designed to deliver high performance and achieve our best-in-class ambitions.

"Our vision is to create an inclusive workplace where everyone can bring their best selves to work."

Workforce headcount by gender end 2019

	Male	Female
Year end 2019 headcount		
Group Board of Directors	6	3
Group Executive Committee	7	3
Senior Management Group	398	211
Group overall	**5,966**	**6,882**

Notes:
Based on Group permanent and non-permanent headcount. In line with FRC guidance, the headcount information shown in the table above covers RSA's wider workforce, including contractor, temporary and agency workers.
Senior management reflects the same group reported in Women in Finance Charter goals. As at 31 December 2019, there were 135 males and 34 females who were directors of subsidiary undertakings included in the consolidation. This includes dormant companies. It is not a reference group that RSA uses and we do not believe it is an accurate indicator of diversity; however, it is disclosed to comply with regulatory requirements.
Note that there are 110 independent contractors in Canada and 83 independent contractors in Scandinavia for whom gender data cannot be collected. These individuals have been excluded from the gender headcount analysis shown above.

Case study

Leadership development

Leadership development has been at the centre of our work in Canada for the past two years. In 2018, we conducted a needs analysis and used the data from this to design a three-tier leader development programme in conjunction with the Ivey (University of Western Ontario).

In April 2019, the Executive Development Academy (EDA) kicked off with a two-day off-site event in London, Ontario, with in-class sessions for Executives and Vice Presidents. To strengthen our future succession pipeline, ten Directors were also selected to participate in the academy as part of the application process. The full programme includes three modules of two days each, and action learning projects which were presented in November 2019.

Projects were based on current business problems and were presented back to the Executive team in November 2019. The feedback from the programme was very positive with an 86% overall satisfaction rating for the first two modules.

A dialogue with the UK executive team and other senior leaders in September 2019 resulted in a clear vision for the culture we desire. Action plans are now in place to ensure we achieve this.

Our all-employee pulse survey, which we completed in Q2, showed an improvement of 4% in engagement levels on last year's result. Following communication of the results, we created local action plans in all sites and functions, as well as a top-down UK regional plan.

We have continued our focus on leadership development with the delivery of 41 resilience workshops, and selection skills for 400 employees, c.50% of the current leadership population.

In **Scandinavia**, we have a spotlight on acquisition and development as part of our people strategy. We successfully established a new internal recruitment hub to replace our previous outsourced solution, and since establishment the new team has recruited more than 200 new hires.

We continue to build on our reward and performance strategy, and undertook a job-grading exercise to assess whether attraction levels and development strategies were fit for purpose. Our work on performance management evaluation methodology has provided our employees with a new performance scale of 'what they are delivering' and 'how they are delivering', providing them with a clearer link to the leadership behaviours that will enable them to be successful.

A two-pronged approach to development has seen us focus on building in-house change management capabilities, as well as developing a programme for specialists, from different functions and countries, so that we can improve cross-collaboration in order to drive innovation at speed.

In **Ireland**, our People Plan, which is now in its fourth year, has been focused on employee engagement, investing in leadership and fostering a culture of high performance, wellness and inclusion. It has consistently concentrated on key enablers to drive an open and high-performing culture, where our people are the heart of our business. We have continued to celebrate success through committing to a refreshed performance management approach, alongside the relaunch of our Recognition Awards, which saw a 200% increase in nominations on 2018.

We are also utilising the RSA Group-wide Connected Leader development programme, which is extremely important to the success of our business. RSA Ireland is a founding partner of Leading Ireland's Future Together (LIFT) and this programme has delivered 25 accredited facilitators with over 50% of our leaders participating.

Canada's People Plan focus has been on working together effectively. The journey for 2019 included a strategy refresh, which was shared extensively with staff through townhalls and tailored executive communications.

Improving consistent communications and key messaging has also been important. We have delivered monthly CEO intranet messages to all employees, quarterly key messaging documents to senior leaders and monthly CEO-led calls with Vice Presidents. Feedback has been positive on all three and we are continuing to look for new and different ways to support engagement.

We have also maintained progress on building capability with our senior leader population through an Executive Development Academy and Director Development Academy focused on openness and transparency.

The **Middle East** region has focused on the performance and development of employees through an uplift in our technical development programme and the roll-out of a new performance management process, which brings it in line with the wider Group approach. The design of our new offices has enabled us to further foster a more collaborative and open working culture.

2020 priorities

For the **UK**, the journey will continue with a sustained focus on building a high-performing business culture. The culture work is an ongoing dialogue within our business that will encompass all the UK population through focus groups.

Learning and development will continue through the ramp-up of further core development for our leaders. We will also offer leadership apprenticeships to school/college leavers to increase our attractiveness to different communities.

Scandinavia's 2020 journey will be a continuation of its 2019 goal of having a well-functioning HR organisation in place, which includes building a learning organisation to close capability gaps, reach performance expectations and enable continuous learning anytime anywhere.

Ireland's People Plan will focus on driving greater employee engagement, investing in leadership and fostering a culture of high performance, wellness and inclusion. Work will commence on exploring the Future of Work, particularly in relation to how technology will impact business processes and flexible working requirements.

Performance management will remain at the forefront of our priorities along with identifying and supporting development of our talent.

Canada's focus for 2020 will be enhancing performance and continuing to build capability. We will refresh our employee value proposition, which will also include a review of employee incentives and benefits. To support this work, we will define improvements to our strategic workforce planning process and ensure the outputs from this link with capability planning, employee development and ongoing leadership development.

In the **Middle East**, development initiatives will continue in 2020 to further build performance strength. To grow the Middle East business requires a purpose-driven culture that embraces change and enables collaboration, innovation and accountability.

Chairman's Governance Letter

The primary responsibility of the Board is to provide effective, entrepreneurial leadership to ensure that it promotes the long-term sustainable success of the Company for the benefit of its members as a whole.

Martin Scicluna Chairman

Directors' and Corporate Governance Report

Dear reader

The Group's 2019 results reflect the strong progress towards our best-in-class ambitions and I am proud of the hard work and commitment which my Board colleagues, the management team and the Group's employees have shown in the past year. The Group continues to work towards delivering improvements and efficiencies for its customers, particularly across underwriting effectiveness, and technology and digital.

The Board is responsible for setting the Group's strategy and overseeing the executive management team in the delivery of this ambition. It monitors the Group's performance and the commitment to best-in-class with careful consideration of the interests of the Group's shareholders, while having regard to the Company's other stakeholders. See pages 8 to 11 for details of the Board's engagement with our key stakeholders.

The Board and its committees focused on the following key areas in 2019:

- Strategy and execution
- Customers
- Underwriting and portfolio management
- People and culture
- IT and digital
- Finance, capital and investor relations
- Governance, controls, risk and regulatory.

Further information on these areas of focus is set out later in this report.

The primary responsibility of the Board is to provide effective leadership to ensure that it promotes the long-term sustainable success of the Company, generating value for our shareholders and other stakeholders and contributing to wider society.

Commitment to governance

The Board is committed to maintaining effective governance, sound risk management and a robust control environment. The 2018 UK Corporate Governance Code (the Code) came into effect on 1 January 2019 which puts relationships between the Company and its shareholders and stakeholders at the heart of long-term sustainable growth. The Board believes this framework supports effective decision-making, robust governance and risk management throughout the Group and this report sets out RSA's framework for good governance against this backdrop.

Culture, purpose and values

RSA is a people-centred business which aims for a culture of high performance, where working together as a team is valued and the business invests in its people. We regularly discuss and receive updates on culture as well as the results of the various tools we deploy to help monitor and assess culture, including a cultural mini survey and cultural health update.

Stakeholder engagement

Open and collaborative dialogue and interaction with all our stakeholders is in the best interests of the Company and helps us to make a positive contribution to society.

A detailed stakeholder engagement plan was agreed and followed over the year; see page 8 for more information. The plan was regularly reviewed during the year to ensure all of our key stakeholder groups were appropriately represented, and included a variety of direct and indirect engagement to provide meaningful insight into the views, priorities and issues facing our stakeholders.

2019 saw the Board increase its direct engagement with the Group's employees. This included employee 'town halls' and employee breakfasts and lunches, with participation from all members of the Board and all levels of seniority amongst colleagues. The Board views these as effective channels to gain a deeper understanding of the views of the workforce.

The Group's employees are key in delivering the Group's strategy and the Board values the time spent with them over the year. The Board will continue to seek opportunities to increase direct engagement with employees in 2020. The Board also looks forward to increased engagement with the Company's other stakeholders, particularly more direct engagement with shareholders, customers and regulators.

Communication with shareholders is extremely important to the Board. By maintaining dialogue with you, we aim to ensure that your views are considered, and our objectives are understood. Further information on the Board's engagement with its stakeholders can be found on pages 8 to 11.

Board composition, diversity and succession planning

There have been a number of changes to the Board in 2019. Firstly, Sonia Baxendale joined the Board on 1 March 2019 as an independent Non-Executive Director and member of the Group Audit and Group Investment Committees.

Having joined the Board as an independent Non-Executive Director in 2018, Charlotte Jones took up the role of Group Chief Financial Officer on 31 July 2019. Charlotte replaced Scott Egan who moved to become CEO of RSA's UK & International region in February 2019.

Isabel Hudson retired from the Board on 31 July 2019. The Board would like to thank Isabel for her significant contribution over her tenure and the advice and guidance she has given the Board and management. I was delighted that Martin Strobel agreed to succeed Isabel as the Company's Senior Independent Director and took up this position from 1 August 2019.

We were pleased to announce the appointment of Clare Bousfield as an independent Non-Executive Director and member of the Group Audit Committee with effect from 1 April 2020. Further information relating to the appointment process for Clare can be found on page 66.

Also, as reported last year, Joseph Streppel stepped down from the Board with effect from 9 May 2019. Alastair Barbour intends to step down from the Board in October 2020, being the ninth anniversary of his appointment as a Non-Executive Director. On behalf of the Board, I would like to thank Alastair for his outstanding contribution both as a Non-Executive Director and as Chair of the Group Audit Committee and wish him every success for the future.

The Board values the breadth of perspective that diversity brings and is committed to maintaining a board that is diverse (in its widest sense).

As at the date of this report, women make up 33% of the Board and, following Clare's appointment, women will make up 40% of the Board. We are also pleased to have met the Parker Review recommendation to have a director of black, Asian or minority ethnic background (BAME). RSA will continue to seek out opportunities to further improve diversity and inclusion on our Board and across the Group while always seeking to appoint the most appropriate candidates based on merit.

During the year, the Board approved a stand-alone Board Diversity Policy which outlines the importance of diversity of gender, social and ethnic backgrounds, and of cognitive and personal strengths to the Board. The Policy is available on our website www.rsagroup.com. For further information on our approach to succession planning, appointments and diversity, see pages 66 and 67.

Board effectiveness

This year, the performance and effectiveness evaluation of the Board and its committees was conducted externally by Lintstock, an independent external evaluation facilitator. The evaluation was conducted using online surveys completed by the Board and regular management attendees to Board and committee meetings, complemented by individual interviews with each director.

The performance of the Board over the last 12 months was very highly rated. The results evidenced that the Board is functioning effectively, with positive dynamics and a well-balanced composition. Further information can be found on pages 60 and 61.

Remuneration

Executive remuneration remains an important topic in the UK and is evaluated by the Board and the Remuneration Committee. Shareholders will be asked to vote on a resolution to approve the Directors' remuneration policy at the AGM in 2020. Further information on the work of the Remuneration Committee can be found on pages 72 and 73 and the proposed remuneration policy can be found on pages 76 to 84.

I would like to thank you for your support and look forward to discussing the Group's progress with you at our forthcoming Annual General Meeting (AGM) on 7 May 2020.

Martin Scicluna
Chairman

26 February 2020

Board of Directors

Martin Scicluna
Chairman

Appointment date: January 2013
Nationality: British
Committee membership: N I

Skills and experience

Martin has considerable knowledge and understanding of the financial services sector and how it operates. He brings valuable experience in developing strategy and evaluating business opportunities. He is an experienced Chair and leader and ensures the Board operates effectively, promoting constructive engagement with shareholders and other stakeholders. Previous roles include Chair of Great Portland Estates Limited, Senior Independent Director and Audit Committee Chair of Worldpay Group plc, non-executive director and Chair of the Audit Committee at Lloyds Banking Group plc, 34 years at Deloitte LLP, including as Chairman from 1995 to 2007, and member of the Financial Services Trade and Investment Board from 2013 to 2015.

External appointments

Chairman of J Sainsbury plc.

Stephen Hester
Group Chief Executive

Appointment date: February 2014
Nationality: British

Skills and experience

Stephen has over 35 years' experience in financial services and general management. He has been CEO of three FTSE 100 companies over the last 16 years. He is responsible for leadership of the executive management team, along with leading strategy and business plan development and execution for the Company and its major operating subsidiaries, having regard to the requirements of the Company's shareholders and other stakeholders.

Stephen was previously Chief Executive Officer of The Royal Bank of Scotland Group plc, 2008 to 2013, where he led the largest ever corporate restructuring and recovery programme. Prior to that, he held positions as Chief Executive at British Land plc from 2004 to 2008, Chief Operating Officer of Abbey National plc and a number of senior roles at Credit Suisse First Boston in London and New York.

External appointments

Senior Independent Director of Centrica plc.

Alastair Barbour FCA*
Independent Non-Executive Director

Appointment date: October 2011
Nationality: British
Committee membership: A B I N

Skills and experience

Alastair has extensive experience in advising on accounting and financial reporting, corporate governance and management issues in the financial sector. He brings in-depth knowledge and understanding of accounting and global governance. He is a Fellow of the Institute of Chartered Accountants in England and Wales. Alastair retired from KPMG in March 2011. In the last 20 years of his 36-year career with the firm, in the UK and overseas, he led its financial services team in Scotland with a primary focus on insurance and investment management.

External appointments

Chairman of Liontrust Asset Management plc, Senior Independent Director and Audit Committee Chairman of Phoenix Group Holdings and director of The Bank of N.T. Butterfield & Son Limited (a company listed in Bermuda and New York).

* Alastair intends to step down from the Board on or around 9 October 2020.

Kath Cates
Independent Non-Executive Director

Appointment date: September 2013
Nationality: British
Committee membership: R A B N

Skills and experience

Kath has spent over 25 years in a variety of roles in global financial services, both in the UK and overseas. She was previously Chief Operating Officer, Wholesale Banking, for Standard Chartered Bank and spent 22 years at UBS. Kath has gained a deep knowledge of control, governance and risk management, working in emerging markets and across different sectors and cultures.

External appointments

Non-executive director and Chair of the Board Risk Committee of Brewin Dolphin Holdings plc and non-executive director of Threadneedle Investment Services Limited, Threadneedle Pensions Limited and Threadneedle Asset Management Holdings Sàrl.

Enrico Cucchiani
Independent Non-Executive Director

Appointment date: December 2014
Nationality: Italian
Committee membership: B R

Skills and experience

Enrico has over 35 years' experience in the financial and insurance sector, in both global executive and non-executive positions. Previously, he was Group CEO at Intesa Sanpaolo and, prior to that, member of the Executive Board of Allianz where he was responsible for companies in Europe, Africa and Latin America and, globally, for property and casualty. Other previous Board appointments include Unicredit and Pirelli.

External appointments

Founding Partner of TGI-Think Global Investments, non-executive director of Piraeus Bank and Member of the Board and Executive Committee of Bocconi University.

Scott Egan
CEO, UK & International

Appointment date: October 2015
Nationality: British

Skills and experience

Scott has substantial financial services experience and understanding of the insurance sector, which he brings to the Board when setting the strategy and operations for the UK & International region. Scott held the position of Group Chief Financial Officer at RSA prior to his Chief Executive appointment. Before RSA, Scott was Interim Chief Executive Officer at Towergate Insurance, having previously held the post of Chief Financial Officer. Scott also held the post of Chief Financial Officer at Brit Insurance, after four years as Chief Financial Officer UK at Zurich Financial Services, and latterly as Group Financial Controller. He has also held various senior finance and non-finance roles at Aviva. Scott is a qualified accountant (ACMA) and has an MBA from Cranfield University.

External appointments

Board member of the Association of British Insurers.

Sonia Baxendale
Independent Non-Executive Director

Appointment date: March 2019
Nationality: British/Canadian
Committee membership: I A

Skills and experience

Sonia has over 25 years' experience in the banking and financial services industry in Canada. She is an experienced business leader and has run large global businesses and has served at operating board level at Canadian Imperial Bank of Commerce. Since stepping down from Canadian Imperial Bank of Commerce in 2011, Sonia has held a number of non-executive positions.

External appointments

Non-executive director, Chairman of the Risk Management Committee and member of the Audit and Corporate Governance Committee of Laurentian Bank of Canada, non-executive director, Chair of the Human Capital and Governance Committee and member of the Audit and Compliance Committee at Foresters Financial and President and Chief Executive Officer of the Global Risk Institute in Financial Services.

Charlotte Jones
Group Chief Financial Officer

Appointment date: April 2018
Nationality: British

Skills and experience

Charlotte has over 25 years' financial services experience in the banking and asset management sectors which she brings to the Board when overseeing the financial operations of the Group and setting the financial strategy. Before RSA, Charlotte held the position of Chief Financial Officer of Jupiter Fund Management plc since September 2016. Prior to Jupiter, Charlotte was Head of Group Finance and Chief Accounting Officer at Credit Suisse Group. From 2004 to 2013, she held various senior finance roles at Deutsche Bank and between 1990 and 2004 progressed from trainee accountant to partner in the financial services practice of Ernst & Young.

External appointments

None.

Clare Bousfield
Independent Non-Executive Director

Appointment date: 1 April 2020
Nationality: British
Committee membership: A

Skills and experience

Clare brings an in-depth understanding of life and health insurance, asset management and reinsurance to the Board. She has significant experience in the financial services sector, as well as a deep understanding of the UK regulatory environment. Clare previously held the position of UK Chief Financial Officer at Aegon and spent 10 years before that in a variety of senior positions at Swiss Reinsurance Co., including regional Chief Financial Officer for UK, Ireland and Africa and Head of Group Internal Audit.

External appointments

Chief Financial Officer of M&G plc, the international savings and investment company which recently demerged from Prudential plc, and Non-Executive Director and Chair of the Audit Committee at Pacific Life Re Limited, a role Clare will retire from before joining the RSA Board.

Martin Strobel
Senior Independent Non-Executive Director

Appointment date: May 2016
Nationality: Swiss
Committee membership: B A I N R

Skills and experience

Martin has over 25 years' experience in insurance and financial services. He was CEO of Baloise Group for seven years to 2015. Martin joined Baloise Group as the Head of IT at Basler Switzerland, responsible for major cross-functional insurance and finance projects. From 2003 to 2008, he was a member of the Corporate Executive Committee. From 1993 to 1999, Martin performed various roles at Boston Consulting Group, Düsseldorf, advising business in the banking and insurance sectors. Martin previously held a non-executive directorship at Anivo 360 AG for three years.

External appointments

Non-Executive Director of Partners Group Holding AG and member of the supervisory board of MSG Life AG.

Committee member key

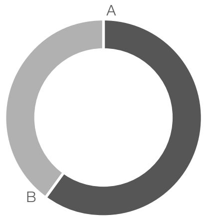
- **A** Group Audit Committee
- **B** Board Risk Committee
- **I** Group Investment Committee
- **N** Group Nomination and Governance Committee
- **R** Group Remuneration Committee
- ● Chair of Committee
- ● Member of Committee

Role summaries

For more role summaries, see **page 57** →

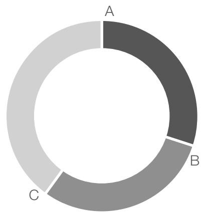
Diversity of the board*

A. Male	60%
B. Female	40%



Board tenure*

A. 0 to 3 years	30%
B. 3 to 6 years	30%
C. 6 to 9 years	40%



* Following Clare Bousfield's appointment.

Executive Committee

The Executive Committee comprises Stephen Hester, Scott Egan and Charlotte Jones, Executive Directors of the Group Board, as well as Chief Executive Officers of the Canadian and Scandinavian regional businesses and senior management in key functional roles.

Charlotte Heiss
Group Chief Legal Officer and Company Secretary

Charlotte was appointed Group Chief Legal Officer and Company Secretary and joined the Executive Committee in March 2016. Charlotte joined RSA in February 2010 as Legal Counsel, becoming Head of Group Legal in 2011.

Before joining RSA, Charlotte worked at law firm Linklaters LLP, specialising in corporate advisory, public and private M&A and equity capital market transactions.

Martin Thompson
President and CEO RSA Canada

Martin was appointed President and CEO of RSA Canada in July 2016.

Previously, Martin was Senior Vice President, commercial insurance and global specialty lines, with RSA Canada. Martin has held progressively senior roles at RSA across the three major regions since joining in 1997.

Karen Caddick
Group HR Director

Karen joined RSA as Group HR Director and member of the Executive Committee in June 2019. Karen worked in RSA's UK & International business from 1993 to 2001, latterly as HR Director for its Personal Lines brand, MORE TH>N.

Karen re-joined RSA from Saga plc where she served as Group Human Resources Director since 2015, leading the development and implementation of the company's HR strategy. Since September 2018, Karen has served as a Non-Executive Director on the board of Howdens plc.

William McDonnell
Group Chief Risk Officer

William was appointed Group Chief Risk Officer in 2014, responsible for Risk and Compliance groupwide. Since joining RSA in 2006, William has also held the roles of Group Financial Controller and Head of Corporate Finance.

Prior to RSA he held roles at HSBC Investment Bank, Aviva, the UK Financial Services Authority and Deloitte. He is a member of the ClimateWise Council and Bank of England Climate Financial Risk Forum.

Nathan Williams
Group Underwriting Director

Nathan was appointed Group Underwriting Director in June 2016. Since joining RSA in 2005, Nathan has held numerous senior roles, including Chief Underwriting Officer for Scandinavia and Group Pricing Director.

Before joining RSA in 2005, Nathan held underwriting and pricing posts at Norwich Union and Towers Watson.

Ralph Daals
Group Chief Auditor

Ralph was appointed Group Chief Auditor in June 2015 with responsibility for leading the Group Internal Audit Function. Previously, he held the post of Chief Auditor for the UK and Western Europe.

Before joining RSA, Ralph headed up Deloitte UK's Internal Audit services to the insurance industry. Prior to that, he held senior audit positions at Aviva.

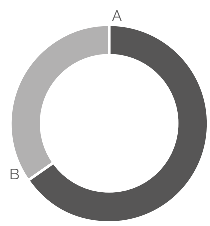
Ken Norgrove
CEO RSA Scandinavia

Ken was appointed CEO of RSA Scandinavia and joined the Executive Committee in August 2019. Ken joined RSA in 1986 and held several senior roles before becoming CEO of RSA Insurance Ireland in June 2014. Ken re-joined RSA in 2014 after three years as CEO of Zurich General Insurance (Ireland), before which he was Vice President of Travelers Insurance, responsible for International Strategic Development.

Ken is a fellow of the Chartered Insurance Institute (CII) and has held positions as President of the Insurance Institute of Ireland and the representative body for Insurance companies, Insurance Ireland.

Diversity of senior management*

A. Male	65.4%
B. Female	34.6%



* As at 31 December 2019. Senior management reflects the same group reported in Women in Finance Charter goals. Full workforce headcount by gender information is provided on page 50.

Biographical details of the individuals fulfilling these roles can be found at:
www.rsagroup.com/who-we-are/our-leadership/the-group-executive

Corporate Governance

The Board and its committees

Role of the Board

The primary responsibility of the Board is to provide effective leadership to ensure that it promotes the long-term sustainable success of the Company, generating value for our shareholders and other stakeholders, and contributing to wider society. The Board, supported by its committees, provides leadership within a framework of prudent and effective controls.

The Board sets annual objectives for the business in line with the current Group strategy and monitors achievement against these objectives through regular reports. Updates to the Board from the Group Chief Executive, the Group Chief Financial Officer and other members of senior management are scheduled in respect of all material business matters to ensure that progress against strategy is monitored.

Through regular review of the Board's rolling agenda and previews of each Board meeting's agenda, the Chairman ensures sufficient time is allowed for discussion and debate and ensures the provision of timely, accurate and clear information.

The division of responsibilities

No individual director or small group of directors is able to dominate the Board's decision-making. Role statements define the separation of responsibilities between the Chairman and Group Chief Executive and provide a mandate to independent non-executive directors to debate and challenge strategy, execution and performance and bring an independent, objective opinion. The role statements for the Chairman and Group Chief Executive are approved by the Board annually.

The Group Chief Executive is responsible for identifying and developing business opportunities, recommending actions to the Board with particular attention to strategic plans, risk appetite and risk exposure for the business, monitoring the performance of the Group and overseeing the delivery of objectives and business plans within agreed timescales and budget.

The Chairman is responsible for the leadership and effectiveness of the Board and its governance. He promotes a culture of openness and debate, and facilitates constructive Board relations and the effective contribution of all directors to support effective decision-making. He regularly meets with the non-executive directors, without management present, in advance of Board meetings to discuss the upcoming agenda and provide the opportunity for open dialogue.

The Senior Independent Director supports the Chairman in the delivery of his responsibilities as required, ensuring the views of each of the non-executive directors are given due consideration, and serves as an intermediary for the other directors and shareholders.

The role of the non-executive directors is to challenge and approve the Group's strategy and to assess and challenge performance against business plans, bringing an independent, objective view to the discussion.

Board committee structure and membership

In order that it can operate efficiently and give the right level of attention and consideration to relevant matters, the Board delegates authority to its Board committees, as set out below.

Formal minutes recording the decisions of all Board and committee meetings are prepared and circulated to the relevant members. If a director objects to a particular decision, this is recorded in the minutes of the relevant meeting. If a director is unable to attend a meeting, their views are canvassed by the Chairman of the Board or committee prior to the relevant meeting, and the Board or committee is informed of their opinions and observations.

Following each committee meeting, an update is provided to the Board ensuring that all directors are aware of the deliberations and challenges on relevant topics and specific matters.

The composition of each committee is reviewed by the Group Nomination and Governance Committee annually and whenever there is a change to the Board. All committees have some members in common to ensure cross-committee awareness of matters discussed. For example, the chair of the Group Audit Committee is a member of the Board Risk Committee and the chair of the Board Risk Committee is a member of the Group Audit Committee.

A Group Audit Committee (GAC)

The GAC plays an important role assisting the Board in its oversight and monitoring of the Company's financial statements and the robustness of the Group's systems of internal control, and oversees the effectiveness and objectivity of the internal and external auditors. It manages the relationship with the external auditor, including making recommendations to the Board and shareholders in relation to appointment, re-appointment and removal.

Read more on **page 62** →

B Board Risk Committee (BRC)

The BRC has a pivotal role in ensuring the key risks to the Group are identified and understood, are effectively managed within risk appetite with regard to the views and interests of stakeholders and are appropriately reflected in the Internal Model. It has oversight of customer and conduct risks.

Read more on **page 68** →

I Group Investment Committee (GIC)

The GIC manages all aspects of the investment policy and strategy for the Company and provides oversight of the operation of the Company's investment portfolios, including oversight of the defined benefit pension schemes, within established strategy and risk frameworks.

Read more on **page 70** →

N Group Nomination and Governance Committee (NomCo)

The NomCo considers the structure, size and composition of the Board and committees and identifies and proposes candidates to the Group Board. It ensures appropriate succession plans are in place for the Board and reviews executive succession planning. The NomCo also focuses on Board effectiveness and oversees the ongoing suitability of the governance framework.

Read more on **page 66** →

R Group Remuneration Committee (RemCo)

The RemCo is responsible for the oversight of remuneration policy and ensuring this promotes the long-term sustainable success of the Company. This includes reviewing and setting the remuneration of executive directors and the Chairman of the Board. The RemCo also reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture, and takes these into account when setting the policy for executive director remuneration.

Read more on **page 72** →

Executive Committee (ExCo)

ExCo is the Group management committee that assists the Group Chief Executive in discharging his responsibilities and delegated authority. It is not a committee of the Board. ExCo is collectively responsible for implementing strategy and delivering Group performance. The members have a broad range of skills and expertise that are updated through training and development.

Read more on **page 56** →

For Terms of Reference visit **www.rsagroup.com/termsofreference** →

System of **Governance**

The Board, supported by its committees, operates within a framework of prudent and effective controls in the interests of shareholders, customers and other stakeholders. The purpose of the System of Governance is to ensure the safety and soundness of the Group and its key entities. This is achieved through a robust governance structure designed to deliver a well-managed business with effective decision-making, good procedures and strong controls.

The System of Governance comprises three elements:

1. **The Board and its committees:** how the business is managed.
2. **Risk Management System:** how risks are identified, measured, managed, monitored and reported.
3. **Internal Control System:** the controls behind the Corporate Governance Framework and the Risk Management System.

The Board and its committees

The Board promotes high standards of corporate governance and conduct throughout the Group and is responsible for ensuring the effectiveness of the Group's System of Governance, which is approved on an annual basis.

The Board Risk Committee has responsibility for reviewing and recommending the System of Governance to the Board and has specific responsibilities for the Group's Risk Management System, including the Internal Model and Solvency II capital ratios, setting the Group's overall risk strategy and risk appetite, and for approving the risk management policies. For further details, refer to the Board Risk Committee Report on pages 68 and 69.

The Group Audit Committee reviews the effectiveness of the Internal Control System on an annual basis and carries out assurance on the Financial Control Framework on a quarterly basis.

The Board reviewed the effectiveness of the Company's risk management and internal control systems including financial, operational and compliance controls and concluded that they were appropriate and had operated effectively during the year.

Risk Management System

- A common framework through which risk management and control is embedded
- Consistent approach throughout the Group to identify, measure, manage, monitor and report risks
- Consistent and comprehensive set of policies are maintained
- Risk Management Policy establishes a framework of standard risk management processes
- Risk Management System is underpinned by the 'Three Lines of Defence' model.

Internal Control System

The Group's Internal Control System sets out the processes and frameworks required to ensure effective and efficient delivery of the Group's strategic objectives and is designed to identify and mitigate, rather than eliminate, the potential risk of failure to achieve business objectives and can only provide reasonable not absolute assurance against material financial misstatement or loss.

Implementation and maintenance of the Internal Control System is delegated to senior management.

The Group has an effective Internal Control System which contains administrative and accounting procedures, an internal control framework, with appropriate validation, assurance and reporting arrangements at all levels of the Group, a delegated authority framework, and a compliance framework. The internal control system is underpinned by the three lines of defence model.

The Internal Control System comprises three key elements:

1. Internal Control Framework

- Policies establish standard controls, which are implemented and operated by the business
- Supplemented by objective first-line validation and independent second-line assurance processes
- The internal control framework includes financial controllership which is subject to assurance through the Financial Control Framework and its independent Quality Assurance process. Financial controllership is designed and operated to provide reasonable, but not absolute, assurance against material financial reporting misstatement or loss
- The Financial Control Framework is an integral element of the Group's Internal Control System and aims to embed and promote a strong culture of financial control across the Group, delivering a consistent and robust approach to mitigate the risks of material financial misstatement through the design, operation and validation of key financial controls, thereby providing an acceptable degree of assurance around the financial control environment.

2. Delegated Authority Framework

- Authority is delegated from the Board to the Group Chief Executive through the Delegated Authority Framework
- Onward delegation to senior management through 'Executive Licences' which set out specific limits of authority to ensure all employees execute their responsibilities within clearly defined limits in compliance with relevant regulatory and statutory requirements
- Mitigates risk of the Group being exposed or committed to material financial, operational, legal, reputational, regulatory risk and/or loss and provides clarity on who can make what type and level of decisions.

3. Compliance Framework

- Sets out the standard control processes to minimise and/or prevent the risk of material loss, reputational damage or liability arising from the failure to comply with regulatory requirements
- The Compliance Framework is owned by the Compliance function
- It consists of a Compliance Mandate, Compliance Policy and related processes and tools.

Board activities during 2019

The Board seeks to ensure that the views of its stakeholders are considered during Board discussions and decision-making. The principal decisions of the Board during the year include:

- Setting our culture and people strategy
- Balancing competing demands for capital
- Building up the Board's expertise
- Taking a fresh approach to ESG.

Further information can be found in the s.172 statement on **page 12**

→

During the financial year, key activities of the Board included the following:

Customers

- Regular updates on customer metrics and quarterly updates from the Customer Committee were provided to the Board.
- Customer matters were discussed with management at every Board meeting. Further information on customer and conduct matters is available in the Board Risk Committee report on page 68.
- Further information on engagement with customers is available on page 8.

Strategy and execution

- The Board approved the Group's operational plan, which included regional operating plans and the strategic priorities to support achieving best-in-class status.
- At its annual two-day strategy meeting the Board discussed trends in the insurance market and the Group's strategy. Senior management attended to present on business issues and various innovations in support of the long-term strategy and vision of the Group. This year, the presentations included: climate risks; the underwriting framework; customers' demands and needs; technology and cyber; and our portfolio strategy.
- The Board met with management of each of the regional businesses to discuss business strategy, customers and people, progress towards our best-in-class ambitions, cyber and digital developments, developing market trends and emerging risks.
- The Board held deep dives on various topics, including IT, digital and cyber, and business process outsourcing.
- Improved underwriting capability was a key focus of the Board in 2019. A triage process was used to identify improvements and learnings that have supported the solid underwriting results for 2019. Further information can be found on page 22.
- The Board approved the Company's low-carbon policy position and carbon reduction targets of 37% by 2025 and 50% by 2030. See pages 47 to 49 for more information.

People and culture

- The Board reviewed the development of diversity, inclusion and equal opportunities within the business and is supportive of an agreed programme of actions that focus on improving Group-wide diversity.
- The Board also met with members of the Group's D&I Councils in the UK and in Scandinavia to understand the progress being made against this programme of actions as well as hosting various other events with different groups of employees.
- The Board reviewed and challenged the new corporate responsibility strategy, Confident Futures, see pages 44 to 46 for more information.
- The Board reviewed executive succession planning with a view to ensuring a strong pipeline of talent needed for the future development of the business.
- The Board received regular updates on culture and the results of the various mechanisms to monitor and assess culture, including a mini survey and cultural health update. Further information can be found on pages 50 and 51.

Finance, capital and investor relations

- At each meeting, the Board reviewed and challenged the monthly Group performance pack, which includes a discussion on capital.
- The Investor Relations team presented twice during the year on investor sentiment, competitor trends and comparisons.
- The Board recommended the 2018 final dividend and approved the 2019 interim dividend.
- The Board approved the Annual Report and Accounts 2018, as well as approving the preliminary results and trading updates in 2019.

Governance, controls, risk and regulatory

- The Board participated in the annual Board and committee performance evaluation, this year facilitated externally. See pages 60 and 61 for more information.
- The Board reviewed the results of the European Insurance and Occupational Pensions Authority stress-test exercise. Having challenged management on the risk to the Group's assets and the impact of certain scenarios in the exercise, it approved the results for submission to the PRA.
- The Board also reviewed and challenged the Own Risk and Solvency Assessment prior to submission to the PRA.
- The Board received updates on compliance with the Code and approved the system of governance for the Company.

Induction, training and development

The directors have attended training sessions and seminars during the course of the year on topics such as IFRS 17 and operational resilience, together with deep dives on business areas, and participated in direct stakeholder engagement to keep their knowledge current and enhance their experience.

Each year, the Board also undertakes site visits which provide the opportunity to meet with and challenge senior management, while also deepening the Board's knowledge of specific business areas. A directors' training plan and several site visits have been agreed for 2020.

Following her appointment to the Board, Sonia Baxendale undertook a tailored induction programme, receiving a broad range of information about the operational performance and business of the Group. This included information on the Group's approach to corporate responsibility, and details of Board procedures, corporate governance and directors' responsibilities. She also met with members of senior management from all aspects of the business, including capital, claims, company secretarial and legal, HR, internal audit, investments, IT and e-business, regulatory compliance, reserving, risk and underwriting. Additionally, as part of her induction and wider stakeholder engagement efforts overall, Sonia met with a major shareholder. Sonia was also invited to attend each Board committee as part of her induction programme to familiarise herself with the remit of each committee and the matters discussed.

Board evaluation

Each year, a formal and rigorous evaluation of the Board, its committees, the Chairman and each individual Director is conducted. As required by the Code, the 2019 Board evaluation was externally facilitated. Lintstock, an independent external evaluation facilitator with no other connection with the Group or any individual director, was appointed to facilitate the 2019 Board evaluation. The diagram below summarises the process undertaken.

Stage 1

Aim and scope of the review

After discussion at the Group Nomination and Governance Committee, it was agreed that the 2019 evaluation would assess the performance of the Board as a whole, its committees and the individual directors. The evaluation process was designed to include:

- Consideration of the balance of skills, experience and composition of the Board
- An assessment of how effectively the Board works together and other factors relevant to the continued effectiveness of the Board and its committees
- A focus on stakeholder engagement and
- A 360-degree evaluation of the individual performance of all the Directors.

Stage 2

The review

The review process was undertaken in two phases:

Phase 1 – surveys

All Board members were asked to complete an online survey covering the performance of the Board, its committees, the Chairman and fellow directors. The questions were developed by Lintstock in consultation with the Chairman and the Group Chief Legal Officer and Company Secretary and were designed to include consideration of the following themes:

- Board composition and dynamics
- The management and focus of meetings
- The quality of information and support
- The oversight of strategy, risk and people
- The understanding of stakeholder views and effectiveness of engagement mechanisms and
- Any priorities for change.

Regular management attendees at committee meetings were also asked to complete the online survey to provide an external view on the performance and effectiveness of the Board and relevant committees.

Phase 2 – interviews

In phase 2, Lintstock interviewed each of the Directors, focusing on matters of particular interest to the Director as identified by the survey, as well as emerging themes. Areas of note in relation to the committee surveys were also discussed with the committee chair.

Stage 3

Results

The anonymised responses to the surveys and feedback from the interviews were used to create reports on the performance of the Board and its committees, identifying themes, focus areas and key recommendations.

The results of the self-assessment element of the survey were shared with the Chairman and discussed at one-to-one discussions between the Chairman and individual Directors.

The results of the Chairman's review were shared with the Senior Independent Director, who facilitated a separate discussion of the Chairman's performance with the non-executive directors only.

Stage

4

Outcomes and action plan

The reports were presented by Lintstock to the Board in December 2019 for discussion and review. Recognising its strengths and potential development areas, the Board agreed actions for the coming year, as set out opposite.

Through the 2019 Board evaluation process, the Board confirmed it has the appropriate balance of skills, experience, independence and knowledge to enable it and its committees to discharge their duties and responsibilities effectively. Respondents unanimously concurred that the Board had performed well over the year and was operating effectively.

The Chairman confirmed that the individual Directors' performance continued to be effective and demonstrated commitment to the role.

Taking into consideration the Directors' time commitment and performance on the Board and its committees, the Board concluded that all the Directors continued to be effective, devoted sufficient time to discharging their duties and made valuable contributions to the Board. Therefore, the Board is proposing the election and re-elections as set out in the 2020 Notice of Annual General Meeting.

The committees also discussed the results of their respective evaluation reports and agreed actions where appropriate.

The Senior Independent Director met with the Chairman privately to discuss the anonymised results of the Chairman review section of the survey and the output from non-executive only discussion. The overall effectiveness of the Chairman was rated as excellent and he was said to have a genuine focus on the best outcomes for the Company in all aspects of his role.

Actions for 2019/20	Responsibility
Maintain the momentum established in relation to stakeholder engagement and look to further improve the Board's understanding of stakeholder views	Chairman and the Group Chief Legal Officer and Company Secretary
Continue to drive improvements to Board and committee papers and presentations	Chairman and the Group Chief Legal Officer and Company Secretary
Provide more context on the competitive environment	Group Chief Executive/Group Chief Financial Officer and the Group Chief Legal Officer and Company Secretary

Actions from 2018/19	Progress in 2019
Enhanced stakeholder engagement	There has been good progress in terms of the Board’s engagement with our shareholders, customers and employees; see pages 8 to 11 for further details.
Improvements to Board papers and presentations	A template for Board papers and accompanying ‘golden’ rules for good papers were provided to authors and presenters. Further work is required to support the production of quality papers. Group Secretariat will be leading workshops in 2020 for authors and presenters to support the introduction of revised paper templates.
IT and ability to execute ‘fast follower’ strategy	The Board received an update on the Group’s data strategy twice during the year.

Group **Audit** Committee Report

"I am confident that the Committee is well briefed and continues to fulfil its duties to shareholders and other stakeholders."

Alastair Barbour FCA
Non-Executive Director and Chairman of the Group Audit Committee

26 February 2020

Areas of activity in 2019

- Reserving
- Accounting judgements and estimates
- Internal financial controls
- Regulatory reporting
- New and emerging International Financial Reporting Standards (IFRS): IFRS 9 (Financial Instruments), 16 (Leases) and 17 (Insurance Contracts)

Review of the year

I am pleased to present the Group Audit Committee (the Committee) Report for 2019. The Committee oversees Group financial reporting and challenges the integrity of the Company's financial statements and the robustness of the Group's systems of internal control and financial and regulatory risk management.

The Committee is also responsible for the oversight and monitoring of the objectivity and operation of both the external auditor and the internal audit function.

The significant accounting and reporting issues the Committee considered during 2019 are set out later in this report, together with key activities during the year. The role and responsibilities of the Committee are set out in our terms of reference, which are available on the Company's website and summarised on page 57.

During the year, we received briefings and undertook deep dives on a number of matters, including long outstanding IT and underwriting matters raised by Internal Audit, our Scandinavian finance improvement programme and accounting developments, specifically IFRS 17. In December, we considered an externally commissioned assessment of substantially all of our UK reserves and assessed its recommendations.

The Group's IT infrastructure, its development, remediation where necessary and enhancements, continues to be an area of particular focus for both the Group Audit and Board Risk Committees. The Committee received regular updates on enhancing general IT controls and remediation of issues raised by internal and external audit, with an emphasis on difficult and overdue issues.

Individually, Committee members met with employees in our London and Liverpool offices from both Group Finance and UK Finance teams, receiving presentations on a variety of important topics, including finance systems infrastructure, finance operations, accounting regulatory change (i.e. IFRS 9, 16 and 17) and the operation and development of the Financial Control Framework (the Framework).

The Committee was very pleased to note that the Group and UK Finance Team received two awards in 2019: 'Finance Team of the Year' at the British Accountancy Awards and 'North West Shared Service Centre of the Year' at the Finance Awards North West.

In November, we held a meeting attended by all Committee members and the regional audit committee chairs on external audit. The session focused on the external audit market currently, the quality and effectiveness of our external audit and the approach to the audit tender which is required by 2023. The session also covered the effectiveness of the Group and regional audit committee operating and engagement model.

Committee composition, skills and experience

The Committee comprises four non-executive directors and the Board is satisfied that the Committee has competence relevant to the insurance sector, and at least one member has recent and relevant financial experience as required by the Code.

The members possess diverse experience, knowledge and skills, which enables them collectively to act as an effective committee.

Details of membership and attendance at committee meetings are shown on page 71 and biographies are available on pages 54 and 55.

I am confident that the Committee is well briefed and continues to fulfil its duties to shareholders and other stakeholders through an enquiring approach and high-quality management challenge throughout the year.

Significant issues

Management reports key accounting matters, financial controls assurance and financial results to the Committee at least quarterly.

The Committee considered and challenged the significant accounting and actuarial judgements and estimates that it believed could be material to the 2019 Annual Report and Accounts and Solvency II reporting.

In addition, the Committee and the external auditors have discussed the significant issues addressed by the Committee during the year. You can read the Independent Auditor's Report on pages 114 to 121.

The significant issues considered relating to financial reporting for the year ended 31 December 2019 are set out below.

Insurance liabilities valuation

The Committee ensured that management exercised appropriate judgement and control in estimating insurance contract liabilities. The key actuarial assumptions underpinning the valuation of insurance liabilities and associated risks and uncertainties were reviewed and challenged.

This included the impact of external factors such as Ogden rate change, the Ontario auto reform, the UK decision to leave the European Union and potential legislative increases in retirement age in Sweden.

The results of the internal reserving assurance programme which provide independent validation of reserves set at a regional level and which in 2019 covered Denmark, Ireland, Group Reinsurance and Canadian short-tail were reviewed by the Committee. In addition, the Committee commissioned an external review of UK business reserves and reserve adequacy, and concluded that the recorded reserves were within an acceptable range.

The Committee also received and considered detailed written and verbal reporting from KPMG setting out its observations and conclusions in respect of the reported insurance liabilities based on its audit procedures as further described in its report on pages 115 and 116.

The Committee was satisfied that management exercised appropriate judgement and control in estimating insurance liabilities, reflecting available and reliable information when setting the reserves and that an appropriate margin of 5% for uncertainties is maintained.

Deferred tax asset valuation

The Committee reviewed the key assumptions and valuation methodologies supporting the carrying value of the UK deferred tax asset. The profit projections presented by management and sensitivities to key assumptions were assessed and the Committee was satisfied that the reduced carrying value was reasonably stated. The Committee continues to monitor the UK deferred tax asset on a quarterly basis.

Pension and post-retirement obligations

The Committee reviewed reports on the valuation of the pension schemes. Management completed an assessment as to the appropriateness of the assumptions currently used compared with market practice and external expert reviews, and reported the findings to the Committee.

The Committee concluded that the changes proposed by management in relation to mortality assumptions, the assumed gap between RPI and CPI inflation updated for latest industry estimates and new commutation factors set by the Trustees were appropriate and the assumptions used overall were deemed reasonable and within acceptable benchmark ranges.

The Committee reviewed the valuation methodology supporting the value of the pension scheme assets, specifically plan assets relating to the longevity swap. The Committee was satisfied with managements' procedures to assess the independent asset valuations received from valuation specialists.

Goodwill and intangible asset valuation

The Committee reviewed management's assessment of the carrying value of goodwill and intangibles. This included the key assumptions, in particular the reasonableness of future cash flow and profit projections and the appropriateness of the discount rate used.

No impairments to goodwill were identified during the year. The Committee considered and approved the carrying value of other intangible assets and small impairments of software no longer in use.

The Committee reviews the carrying value assessments on an annual basis with a review for any indications of impairment performed on a quarterly basis.

IT systems and controls

The Group's IT infrastructure, including retained legacy systems, is complex and financial reporting is dependent on the operational and financial IT systems operating effectively and the control environment in which they operate. This is a key area of focus for both Group Audit and Board Risk Committees and during the year they received updates from accountable management, both in Finance and Technology, on progress to enhance IT general controls, the oversight of IT testing processes and improvements in documentation and standards, together with regular reporting from Internal Audit on the results of its reviews and testing.

Financial controls assurance reported to the Committee provided comfort that the financial results were free from material misstatement and additional financial controls were operated in areas where IT controls require strengthening.

The Committee received updates from KPMG on their assessment of general IT controls, including information on areas where additional controls or substantive testing was required and the conclusions reached in support of the audit. After consideration and discussion with management and KPMG, the Committee concluded that the financial results as prepared were appropriate and reliable.

Alternative Performance Measures (APMs)

The Committee discussed and challenged management on the presentation of APMs in the half- and full-year results announcements and Annual Report and Accounts in line with external guidance and FRC expectations.

The Committee reviewed the additional disclosure included in the 2019 full-year results announcement to provide a number of APMs relating to the impacts of the UK&I exited portfolios, in line with those provided at the half year 2019.

After due consideration, the Committee agreed with management's use of APMs, which aim to provide clear information of the Group's performance, including and excluding the impact of the exited UK&I portfolios in 2019, to enable users to understand and assess the performance of the continuing business and evaluate future performance potential.

The Committee also considered KPMG's observations in respect of the presentation of APMs.

Solvency II reporting

Solvency II reporting is a key focus for the Committee. We received quarterly reports on the Solvency II Technical Provisions, Balance Sheets and Own Funds, including the reconciliation to IFRS results as well as quarterly and annual movements. The Committee satisfied itself that the calculations had been conducted according to the Group's Basis of Preparation. The Committee reviewed management's proposals and basis of preparation for the Solvency and Financial Condition Report (SFCR) and the Regular Supervisory Report (RSR) for the year ended 31 December 2019.

Key activities during the year

In addition to the significant issues set out above, the Committee undertook the following key activities during the year:

- Considered whether it was appropriate to adopt the 'going concern' basis of accounting for the 2019 Annual Report and Accounts and the basis on which the viability statement is made, recommending to the Board that both were appropriate. The viability statement, on page 111, helps demonstrate how the Group's prospects and viability have been assessed.
- The Committee considered whether the 2019 Annual Report and Accounts were fair, balanced and understandable, and whether the disclosures were appropriate. Taken as a whole, the Committee is satisfied that the 2019 Annual Report and Accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
- Received quarterly updates on relevant accounting standards that could impact the financial statements to ensure that new accounting standards were understood and appropriately reflected in the financial

statements. The Group did not make any significant changes to its accounting policies during 2019.

- Received quarterly updates on the assessment and testing of financial processes and controls as part of the Financial Control Framework (FCF), including any deficiencies and the actions taken to address. See page 58 for more information. The FCF was enhanced during 2019, developing the risk-based approach to process and controls assessment and further improving the robustness of key controls and assurances given. This will bring greater levels of insight to the Committee. The Group operates an external Quality Assurance (QA) programme, providing independent assurance over the FCF and its operation as well as bringing industry insight and benchmarking to support continual process improvement and control optimisation. An external review of the UK FCF operations was conducted in 2019 and reported satisfactory results.
- At the half year and year end, considered and discussed KPMG's findings and opinions in relation to the key risk areas, judgements, changes to the audit plan and materiality, and discussed the underlying reasons.
- Considered KPMG's wider comments on governance, financial reporting processes and efficiencies as well as comments on information systems and controls and separately their reporting on Solvency II returns and observations on key areas of judgement in relation to Solvency II.
- Received regular updates from the Group Chief Compliance Officer and Group Chief Legal Officer and Company Secretary on legal and regulatory developments and critical conduct risks issues. The Committee reviewed and approved the 2020 Group Compliance Plan which sets out the work to be undertaken in the upcoming year to ensure compliance with regulatory requirements and areas of legal risk, that critical conduct risk areas are managed and the maintenance of an open, constructive and cooperative relationship with the Group's regulators.
- Monitored compliance with the Group's reserving policy by each business to ensure that the Group's reserve margin remained adequate and that the uncertainty considerations were appropriate.
- Received quarterly reports from Group Internal Audit on audits conducted, progress made in dealing with the issues raised as well as any thematic issues arising and the underlying causes. Delays in closing any actions arising were given particular scrutiny.
- Considered the semi-annual assessment of the effectiveness of the governance, risk and control framework in each region from the Group Chief Auditor.
- Reviewed and approved the Group Internal Audit Charter which sets out the function's role, mandate and authority, and includes independence and objectivity criteria. The Charter included changes to reflect new Solvency II related guidance for internal audit functions.
- Reviewed and considered the arrangements for monitoring and reporting of whistleblowing activities. Alastair Barbour has oversight of whistleblowing arrangements in accordance with the PRA's Senior Insurance Managers Regime and has also been appointed as the FCA Whistleblowing Champion.
- Reviewed the procedures for detecting fraud and the systems and controls for the prevention of bribery and received reports on any non-compliance.
- Held private meetings with the Group Chief Auditor, the Group Chief Compliance Officer, the Group Chief Financial Officer, the external auditor and the Group Chief Actuary without other members of management being present.
- Held regular private Committee meetings without management present to discuss which items to focus on in the subsequent meeting and any other issues.
- Amended the Committee Terms of Reference, available at www.rsagroup.com.
- The Committee was subject to an external effectiveness evaluation as part of the wider review of the Board and its committees during 2019, see page 60. The overall performance of the Committee was very highly rated.

Internal Control

The Internal Control System forms part of the System of Governance as set out on page 58. To continually assess the effectiveness of the Internal Control System, the Committee received regular reports from the Group Chief Auditor, external auditor and the Group Chief Risk Officer on the integrity of the control environment and Regulatory Compliance Framework and discussed and challenged the findings, recommendations and proposed control improvements set out in the reports. The Committee reviewed the effectiveness of the Internal Control System during 2019 and concluded that it was appropriate and operated effectively during the year.

The Committee considers that an effective and appropriate ongoing process for identifying, evaluating and managing the significant risks faced by the Group was in place during 2019 and for the purposes of approving the Annual Report and Accounts.

See pages 40 to 43 for more information on the Group's Risk Management Framework.

Group Internal Audit

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

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

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

GIA operates a six-monthly rolling risk-based audit plan, allowing for a frequent and dynamic risk assessment that includes emerging and systemic risks. The Committee may request additional audits as required. Rolling audit plans were approved by the Committee in May and December 2019 and their input was included in the plans.

In December 2019, the Group Chief Auditor also provided the Committee with an assessment of the skills and capabilities required to conduct the audit work for 2020, and whether the budget is sufficient to recruit and retain staff with the expertise and experience necessary to provide effective challenge throughout the Group and to executive management.

GIA operates an ongoing QA programme that is performed by external specialists. A summary of the QA results is reported annually to the Committee. In addition, Deloitte performed an External Quality Assessment of GIA, evaluating the function's conformance with all applicable professional standards, Group and local regulatory requirements, and adherence to relevant codes, including: the International

Standards for the Professional Practice of Internal Audit, UK CIIA Guidance on Effective Internal Audit in Financial Services and the Solvency II requirements. Deloitte concluded that GIA generally conformed (the highest rating attainable) with all relevant standards, guidelines and regulatory requirements. The Committee remained satisfied that GIA was operating effectively, sufficiently resourced and that the risk to their independence and objectivity was low.

External auditor

Auditor tenure

The Committee is responsible for overseeing relations with the external auditor, including the proposed external audit plan and the approval of fees, and makes recommendations to the Board on their appointment or re-appointment. KPMG was appointed as the Group's external auditor in 2013 and has been re-appointed at each subsequent AGM.

During the year, the Committee considered its position on the external audit services contract and examined a number of options regarding the timing of tendering for the external audit, mindful of the mandatory tender of the Group's audit firm which is required by 31 December 2023. When considering the timing of the external audit tender, the Committee took into account the quality and effectiveness of KPMG's service currently, the Group's ongoing change programmes, the services provided by other auditing firms and audit partner rotation. The Committee concluded that it was not appropriate to tender the audit at this time and will continue to review the position on an annual basis.

The Company has complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Uses of Competitive Tender Process and Audit Committee Responsibilities) Order 2014 for the year ended 31 December 2019. It is the intention of the Committee that the Company will tender the external auditor appointment at least every ten years.

Auditor independence and objectivity

The Committee attaches considerable importance to the work, opinions and findings of KPMG, which participate in all Committee meetings. The Committee has provided clear guidance to KPMG on the expectations of it as auditor: that the Committee on behalf of shareholders, not management, is KPMG's client; that as a team they are expected to challenge appropriately; to raise issues and concerns with the Committee as soon as is appropriate; and, on material matters, indicate its agreement to the position taken by management, or to explain why it does not, and the implications.

Auditor independence and objectivity are safeguarded by a number of control measures, including:

- Limiting the nature and value of non-audit services performed by the external auditor as set out in the non-audit services policy
- Ensuring that employees of the external auditor that have recently worked on the audit are not appointed to senior roles within the Group
- The rotation of the lead engagement partner at least every five years. Daniel Cazeaux, the lead audit partner from the 2019 year end, will be required to rotate off after the conclusion of the 2023 year-end process
- Private meetings with KPMG without management present to provide the opportunity for open dialogue and to raise any matters in confidence.

Audit quality

To maintain audit quality, the Committee reviews the strategy and plan for the audit of the financial statements prior to approval, to make sure that KPMG has identified all key risks and developed robust audit procedures and communication plans.

This includes discussion and challenge in relation to materiality levels set, the scope of the proposed coverage by business unit, determination and approach to the audit of key areas of risk, understanding the oversight by the group audit team of subsidiary business unit audit teams and visits by the group external audit team to business units.

KPMG presented to the Committee on the FRC's inspection findings report on the KPMG 2018/19 audit cycle. The Committee discussed the actions taken by KPMG in response and how they impact the RSA audit.

Auditor performance

The Committee undertakes a thorough review of the perceived quality, effectiveness, objectivity and independence of the external auditor on an annual basis. The views and opinions of the Committee, senior management and members of the Group Finance team were sought via a questionnaire.

In assessing the mindset, professional scepticism and degree of challenge to management, the Committee took into account the observations, recommendations and conclusions drawn by KPMG at the half year and year end and considered their findings and opinions in relation to the key risk areas, judgements made, any changes to the plan and to materiality and discussion of the underlying reason. In addition, the Committee considered the performance of the external auditor in meetings during which the Committee questioned the auditor's planning, strategy, risk identification process and conclusions.

On the basis of the review, the Committee is satisfied with the work of KPMG; that their performance reflected the relevant skills, rigour, perseverance and robustness expected and that it is objective and independent. Accordingly, resolutions to re-appoint KPMG LLP and giving authority to the directors to determine their remuneration will be submitted to shareholders at the 2020 AGM.

There are no contractual obligations restricting the Company's choice of external auditor nor limitation of liability in the terms of their appointment.

Fees and non-audit services

The audit fee for 2019 was discussed and considered before being approved by the Committee on behalf of the Board.

All permitted non-audit services must be authorised in advance and must be approved by the Committee. The Committee has delegated the approval of smaller pre-approved engagements up to the value of £50,000 to the Group Financial Controller (or alternatively the Group Chief Financial Officer). These engagements are then noted and ratified by the Committee at the following meeting.

If an engagement requires Committee approval but work needs to commence before the next meeting at which approval could be sought, the Chairman of the Committee and the Group Financial Controller may approve the engagements (up to £50,000 and £20,000 respectively). These are then reported to the following committee meeting for ratification.

In line with FRC guidance, the non-audit services policy caps such fees at 70% of the average total audit fee paid in the previous three years calculated. The Committee is satisfied that the auditor's independence and objectivity was not compromised by providing non-audit services.

The non-audit fees for 2019 were £1.4m, £1.3m of which related to audit-related assurance services including £0.9m in respect of Solvency II reporting. The Committee considered that KPMG is best placed to complete the Solvency II assurance work given its knowledge and understanding of the business and IFRS reported position. Full details of the remuneration paid to KPMG during 2019, including for non-audit services and the ratio to audit fees, is provided in the notes to the financial statements on page 150.

Group **Nomination and Governance** Committee Report

"The Committee, and Board as a whole, believe that meaningful engagement with our workforce is crucial to the success of our business."

Martin Scicluna
Chairman and Chair of Group Nomination and Governance Committee

26 February 2020

Key areas of activity in 2019

- Board and committee composition
- Succession planning
- Implementation of a Board Diversity Policy
- Compliance with the new UK Corporate Governance Code (the Code)
- Externally facilitated Board evaluation

Review of the year

2019 has been another busy year for the Committee. Activities included:

- The search and appointment process for our new non-executive director, Clare Bousfield
- Our continued work on executive development and succession planning
- Considering and implementing changes required to support our compliance with the Code
- Implementation of a Board Diversity Policy, which aligns with the existing Group policy and
- Participating in an externally facilitated Board evaluation.

Appointments and role changes during the year

The Committee oversaw a number of changes to the Board this year. As previously reported in the Company's 2018 annual report, Charlotte Jones replaced Scott Egan as Group CFO on 31 July 2019. Scott moved into the role of Chief Executive of our UK & International division on 5 February 2019. We were delighted to be able to appoint internal candidates to these key executive roles and that our succession plans worked effectively to support this.

Sonia Baxendale was appointed as a Non-Executive Director to the Board on 1 March 2019, and, following a recommendation by the Committee, the Board approved Sonia's appointment as Chair of the Group Investment Committee with effect from 9 May 2019.

Following a recommendation from the Committee, Clare Bousfield was also appointed as a Non-Executive Director to the Board and as a member of the Group Audit Committee with effect from 1 April 2020.

Formal and rigorous selection procedures were undertaken for these appointments.

The process for Clare's appointment took place during 2019. Based on a candidate profile agreed by the Committee, the executive search firm, Russell Reynolds Associates, produced a long list of potential candidates.

The long list was reviewed by the Committee, and, after a thorough analysis, the Committee identified four prospective candidates to be shortlisted. Martin Strobel and I interviewed each shortlisted candidate. Interviews were subsequently conducted with Stephen Hester and Charlotte Jones which identified Clare as the preferred candidate. Clare had a final interview with Alastair Barbour and Kath Cates and also met with Scott Egan prior to her formal appointment.

Clare brings extensive experience in audit and finance to the Board, along with a considerable, technical knowledge of the insurance industry. She has significant experience in the financial services sector, as well as a deep understanding of the UK regulatory environment and customers from her previous executive positions.

Isabel Hudson retired from the Board on 31 July 2019 for personal reasons. Following a recommendation from the Committee, the Board appointed Martin Strobel to replace Isabel as Senior Independent Director with effect from 1 August 2019. Martin has proven to be a strong chair of the BRC and has an excellent understanding of the Company from his membership on each of the Board's other committees.

As reported last year, we saw Joseph Streppel retire from the Board before the Company's Annual General Meeting on 9 May 2019.

Russell Reynolds Associates is accredited by the Davies Review under the Enhanced Code of Conduct for Executive Search Firms and does not have any other connection with the Group or any individual director.

Succession planning

Succession planning has remained a key area of focus for the Committee during the year. The Committee is dedicated to ensuring that an effective succession plan is maintained for both Board and senior management positions.

The non-executive directors participated in a self-assessment survey to determine the overall range and level of skills, knowledge and experience on the Board. The survey highlighted insurance, financial services, compliance and regulatory, risk management and remuneration experience as being key strengths of the current Board. The Committee considered the results of the skills review and the areas for strengthening together with the tenure of Directors, diversity of members and the size and combination of the Board and its committees as part of succession planning discussions.

Executive and senior management succession planning is also regularly reviewed by the Committee to ensure that a pipeline of high-performing, talented individuals across the Group is being maintained. Individuals identified as possible future candidates to join the Executive Committee team have tailored development plans and the Committee also seeks to ensure they are given appropriate opportunities to meet with Board members. Development themes and activities for possible future candidates to join the Executive Committee are reviewed annually by the Committee with input from the executive directors and an assessment of the strength of the succession pipeline is conducted to highlight areas where action may be required.

Diversity and inclusion

The Board recognises the importance and beneficial impact of diversity of gender, social and ethnic backgrounds and cognitive and personal strengths on Board effectiveness and values the breadth of perspective that such diversity can bring.

The Board and Committee has continued its focus on diversity and inclusion this year:

- The Committee considered and recommended to the Board the adoption of a separate Board Diversity Policy. The Board Diversity Policy codifies previous commitments to diversity and incorporates a commitment in relation to the Parker Review to have at least one BAME board member. The Committee is pleased to confirm that the Board is currently compliant with this recommendation.
- Group-wide gender data was provided to the Hampton Alexander Review for a consecutive year, demonstrating our continued commitment to good governance and transparent reporting. The Board aspires to meet the recommendations of the Hampton Alexander Review and can report that, as at the date of this report, women make up 33% of the Board (at the date of the 2020 AGM this figure will be 40%).
- The Company remains a signatory to the 'Women in Finance Charter' through which the Group is committed to achieving a 33% representation of women in our management group by 2020, a target we exceed by achieving 34.6%.
- Across each region we continue to invest in strengthening the pipeline of female employees for senior leadership positions and have developed a framework of initiatives designed to help retain, develop and promote female employees and improve diversity and inclusion more broadly, including targets for senior management in each key region.

Stakeholder engagement

In response to the Code and reporting requirements under section 172 of the Companies Act 2006, the Committee has reviewed the Board's direct and indirect engagement with the Company's key stakeholders and discussed the Board's stakeholder engagement plan for 2020.

We welcome the external focus on stakeholder engagement and have considered at length the different workforce engagement models proposed in the Code. The Committee and Board as a whole believe that meaningful engagement with our workforce is crucial to the success of our business and best owned by all Board members. Equally we have determined that we want to hear from as many of our workforce as possible both across our regions and at different levels of seniority and role type, and have designed our engagement plans to facilitate this.

During the course of 2019, the Board met with a range of employees and other members of the workforce to understand their roles within the business and their priorities through events such as town halls and site visits. Members of the Committee were pleased to meet with our regional D&I Councils to discuss initiatives and progress to date.

The Board's engagement activities in 2019 also included shareholder meetings, face-to-face meetings with customers and meetings with the Company's regulators (the PRA and the FCA); see pages 8 to 11 for further details.

The Committee was satisfied the stakeholder engagement undertaken by the Board during the year was appropriate and agreed that there had been substantive and constructive two-way dialogue with the Group's employees through a variety of employee meetings, breakfasts and town halls.

The Committee agreed that the key priorities for stakeholder engagement in 2020 are customers, employees, shareholders and regulators. The Committee is committed to maintaining meaningful engagement with all its key stakeholders and intends to keep stakeholder engagement high on its corporate agenda in the new year. The Committee will review the stakeholder engagement plan on a quarterly basis to ensure additional opportunities for further direct engagement with stakeholders are incorporated as appropriate.

Other activities

- The Committee reviewed compliance against the Code and concluded that the Company has complied with the Principles and Provisions of the 2018 Code throughout the year.
- The Committee considered the non-executive directors' external appointments and in each case was satisfied that the external appointments could be approved on the basis that they did not give rise to a conflict of interest and would not impact the director's time commitment to the Company.
- The Committee reviewed and discussed the results of the Board and committee evaluations, with particular emphasis on how the results will influence Board composition and succession planning. Further information relating to the Board evaluation process and results is included on pages 60 and 61.
- The Committee also has responsibility for the oversight of regulated subsidiaries. The Committee receives updates periodically from the regions on matters including board composition, governance, people matters and strategic priorities and met with each of the regulated subsidiary chairs during the year.

Board **Risk** Committee Report

"The Committee has a pivotal role in ensuring the key risks to the Group are identified, understood and effectively managed."

Martin Strobel
Non-Executive Director and Chairman of the Board Risk Committee

26 February 2020

Areas of activity in 2019

- Customer risk oversight
- Cyber risk oversight
- Operational resilience
- 2019 Internal Model change application
- Climate change risk

Review of the year

Following on from our effectiveness review at the start of 2018, a number of enhancements were undertaken in 2019 to maintain momentum and progress.

Key enhancements during the year were: continued oversight of UK customer and conduct matters; increased prioritisation of and time spent on key topics, including risks and threats to the most profitable business areas in the Group; improvements to the horizon scanning processes, particularly in relation to customers, reserving and regulatory risk; IT and cyber; outputs and forward view from the newly created strategic portfolio tool; and management being engaged more directly and held accountable.

During 2019, the Board visited Scandinavia to spend time with the local first, second and third line teams and engage directly with key local stakeholders. The Committee used this visit to gain greater insight into the region's business lines, its activities, and local risk and governance matters. During this visit, we focused on the structure and resource of the risk function in our Scandinavian operations, the risks associated with the main insurance portfolios and major transformation initiatives, and the IT assurance framework.

The Committee undertook two specific training sessions during the year: on 'why insurers fail' and operational resilience. The purpose of the 'why insures fail' session was to explore how firms get into crisis and to identify any particular risk or scenarios; the learnings included the importance of operational resilience, 'speaking up' and 'listening up' and encouraging the culture to make this happen, and the significance of early warning indicators. The objective of the operational resilience training was to equip Committee members with knowledge and insight to challenge how the Group and UK businesses were adapting to the opportunities and challenges of implementing a more holistic operational resilience approach focused on end-to-end business services, which is central to the Group's vision of delivering great customer outcomes and is an area of growing regulatory focus.

I, as the Chair of the Committee, attended a number of management and regional forums including the Customer Committee. I also attended the Scandinavian Risk Committee in May to further improve the knowledge exchange and collaboration within the Group. Topics discussed included the performance of the different insurance portfolios, the capital situation and the capital models, the status of IT risks and the project to improve our data management.

Key areas of focus

The Committee has a pivotal role in ensuring the key risks to the Group are identified and understood, are effectively managed within risk appetite and appropriately reflected in the Internal Model. The key risk areas facing the Group are reflected in the rolling agenda and specific areas of concern and/or risk are subject to deep dives during the year. The risk management section of the Strategic Report includes the key risk areas on page 43.

As for every insurer, the continuing development of the regulatory landscape, market studies and regular engagement means regulatory risk and compliance matters remain a key area of focus. Conduct regulation received more attention this year with the Committee focusing on customer outcomes, conduct risks, pricing, and compliance with the demands and needs aspects of the Insurance Distribution Directive, together with increased and improved monitoring, challenge and reporting from the Compliance function.

Customer and conduct risks in the UK have continued to be a substantial focus of the Committee in 2019. The Committee has devoted significant time to considering, challenging and supporting management on this. Committee members were informed about the topics covered by the Customer Committee during the year in order to understand and oversee the measures taken to further improve customer outcomes. This included case studies on our pricing in Pet Insurance and how we handle complaints in this area. We also had a deep dive into the organisational structure of our UK business and how customer and conduct risk management is embedded in the day-to-day operations, including how identified issues are investigated and resolved in a sustainable way.

IT and cyber security have been a key area of focus over the last few years for businesses and RSA, and will continue to be, given the pace and nature of technological change, and the evolving cyber threat landscape. These are extremely complex areas and have received significant attention from the Committee during the year. We received reports on our cyber improvement programmes and how we compare to industry standards and how we can achieve best practice. We also conducted mock 'ethical hacking' attacks on our systems to assure that our cyber capabilities also work in practice. The outcome of these exercises was used to validate and inform the remediation plans and they will also be a regular feature of our security testing programme going forwards.

The Committee has also continued to oversee data management strategy and actions as a core driver for multiple risks and received regular updates on the implementation of a new data management policy. The Committee also received regular updates on data protection for regions subject to the General Data Protection Regulation.

Effective management of insurance risk is key to the Group's performance and longer-term success. In 2019, the focus was on the monitoring and review of control oversight activity across the Group, as well as continued review and challenge on progress in enhancing underwriting quality and pricing sophistication. The Committee receives quarterly technical capability updates as appropriate, alongside regular insurance risk reporting. A deep dive on external delegation of authority was also undertaken to ensure risks were being managed and controls were operating appropriately. Other insurance risk deep dives covered large losses, construction and engineering risk (including renewable energy) and climate change liability, as well as considering the high-risk business lines written by the Group.

The Internal Capital Model (the model) and regulatory capital requirements of the Group are key topics at each meeting, with regular updates on current solvency position, including against risk appetite and consideration of model sensitivities. A major model change application was submitted to the PRA, and RSA received approval in December.

This model change focused mainly on changes to the insurance risk modelling, as well as updates to the Model Change Policy, and was informed by external review conducted in 2018. As part of the Committee's review and challenge of the model change application, a separate and targeted briefing session was held in April.

In parallel, Scandinavia sought and received model approval from the Danish regulator in respect of our Scandinavian entities to mitigate the risk of moving to Standard Formula in the event of 'hard Brexit', which the Committee was regularly updated on.

The Committee considered and approved a climate change action plan for the effective management of financial and other risks from climate change. The action plan is structured around governance, management of risk and strategic implications. Climate change has also been integrated into existing risk plans and the System of Governance and the risk management framework. The risk appetite for underwriting and investments was revised accordingly. An ESG Committee was also established with responsibility for monitoring progress of the agreed action plan and will report on this to the Executive Committee and Board.

The Committee has continued to oversee the evolution of the Brexit scenario and will continue to do so to ensure that the necessary measures are taken to mitigate any risks during this period of transition.

Other activities during 2019

- The Committee received quarterly updates from the Group Chief Risk Officer on the key risks that potentially impact the Group, including an assessment of whether risks are within appetite and whether any mitigating actions are necessary. Horizon scanning reporting has been enhanced through a number of deliverables, including the introduction of a forward-looking regulatory risk radar.
- The model validation plan was agreed, and the final report approved, on completion. Model governance updates have been discussed and agreed during the year.
- The Group's risk strategy and appetite was reviewed and recommended to the Board for approval as part of the annual refresh.
- Emerging risk analysis is used to anticipate future risk issues that might arise and to support development of stress and scenario testing plans. Each year several risks are selected for more detailed analysis. Two new emerging risks were added to the risk radar: the UK political landscape post-Brexit and the changing use of consumer data.
- The Committee considered and approved the annual stress and scenario testing process which this year focused on market themed events and critical infrastructure and included a reverse stress test.
- The Committee reviews the reinsurance strategy each year ahead of renewal, and at the start of the year a debrief is provided on completion of the renewal process.
- The Committee discussed a draft of the Chief Risk Officer's annual risk and governance review, which is conducted to support the Group Remuneration Committee's consideration of risk matters when agreeing executive variable pay awards. This process is a key link between the two committees and helps the Committee consider the effectiveness of the risk framework and the strength of risk culture within the Group.
- The Group Capital Report and the Group ORSA were presented and approved for recommendation to the Board. No material changes to the process were proposed but a number of enhancements were approved.
- Actuarial Function Reports were provided by Group Actuarial in relation to Reinsurance, Underwriting and an outline of the actuarial function's contribution to the risk management system.
- Group Risk Policies are reviewed on an annual cycle and any major changes are communicated to the Committee for its comment and approval. The Committee considered and approved a number of major changes to existing policies as well as new policies for operational resilience, pension risk and cloud. A number of enhancements were made to the policy management framework, including the refresh of control framework design principles and new policy templates to strengthen policy requirements. The suite of policies was also reviewed to ensure that the policy framework provided sufficient coverage of the key risk areas of the Group.
- The Terms of Reference for the Committee, available at www.rsagroup.com, were amended during the year.

Looking forward

Building on the progress made in 2019, we will continue to enhance the Committee while continuing to focus on the main risk categories such as insurance, financial, capital and operational risks with specific attention to risks and dependencies arising from the operational plan and the risks facing our key business areas. Customers will also remain high on our agenda. The Committee will monitor the embedding of new capabilities and will receive a deep dive on customer conduct. We also have deep dives planned on asset liability management, pensions risk and the internal model.

Our focus on IT and cyber will continue in 2020, including monitoring the progress and results of control validation and assurance and understanding the insights from the mock attacks.

The Committee will also continue to oversee the evolution of Brexit and ensure that the necessary measures are taken to mitigate any risks during this period of transition.

Group **Investment** Committee Report

"The Group's investment portfolios continued to concentrate on high-quality assets focused on delivering income while maintaining a low risk structure."

Sonia Baxendale
Non-Executive Director and Chairman of the Group Investment Committee

26 February 2020

Areas of activity in 2019

- Review of global investment strategy framework and implications for portfolio structure
- Focus on additional allocations to illiquid credit investments
- Review of investment strategy of the Group's main defined benefit pension schemes
- Review of Environmental, Social and Governance (ESG) developments

Review of the year

Market review

Global economies continued to expand during 2019 although at a declining rate compared with the previous year. Domestic demand in most western economies remained resilient, underpinned by strong labour markets with unemployment levels close to record lows in many countries. Growing trade tensions largely driven by US tariff actions did, however, negatively impact activity. This was most visible within more export-oriented economies, including Germany and China. Uncertainty created by Brexit was also seen as negatively impacting activity within Europe and more significantly within the UK.

The weakening growth environment lowered expectations of future inflation and interest rate increases, which in turn drove further declines in the level of bond yields.

Despite the weakening global growth environment and the general uncertainty created by the political environment, both corporate bond and equity markets remained well supported with growth rates generally still seen as sufficiently robust to underpin credit conditions. The continuation of the very low level of interest rate environment was more generally seen as encouraging investors to maintain exposure to equity and credit assets to support the returns generated by their investment portfolios.

Activity and performance

During the year, the Committee managed all aspects of investment policy and strategy for the Group and provided oversight of the operation of the Group's investment portfolios within established strategy and risk frameworks.

The Committee reviewed the overall asset allocation framework for the schemes and the associated implications for investment strategy and reaffirmed the Group's core strategy, including the continued focus on high-quality cash and debt investments.

Bonds and cash continued to represent the substantial majority of assets (c.90%) while equities and property represent just 4%. Bond investments continue to be managed and monitored to ensure that they provide an appropriate match against both the currency and term of the underlying insurance liabilities. The commitment to high-quality assets has been maintained with c.69% of bonds having credit ratings of AA or higher and just 2% rated lower than BBB. The Group has continued to monitor its investment exposures in relation to Brexit developments and has taken actions viewed as appropriate to mitigate risks.

As with previous years, there has been a focus on development of exposure to investments within illiquid credit instruments. These investments, which include infrastructure loans, loans backed by property and trade receivables, have been targeted to take advantage of the additional yield offered for illiquidity relative to traditional quoted bonds. The total Group commitments to these assets now stand at c.£1.35bn of investments deployed. All investment into illiquid credit instruments continues to be very carefully managed and has been targeted so that it maintains the strong underlying credit quality of the Group's investment portfolios. Performance of these investments continues to be in line with expectations, providing a valuable uplift to the Group's investment income.

ESG factors continue to be a growing area of focus within the Committee. The Committee discussed ESG ratings of the Group's assets and considered future developments in the integration of ESG considerations in the operation of the Group's portfolios.

The Committee continued to also review the investment activity and strategy of the defined benefit pension schemes. While pension investment strategy is ultimately the responsibility of the scheme trustees, the Group actively monitors and inputs to the strategy process. Post completion of the triennial funding valuation in 2018, the Group has actively engaged with the schemes to consider longer-term strategy themes, including potential paths to future de-risking.

Looking forward

The core, high-quality, low-risk investment structure of the Group is set to remain in place going forward, with asset allocation focused on debt investments. Within this framework the Group will continue to look for opportunities to enhance returns, with the allocation to illiquid credit assets likely to remain a particular area of focus over the coming year.

The Committee will, however, continue to monitor developments in market conditions and adjust strategy in light of the associated risks and opportunities that arise.

More broadly, the Committee will continue to review the governance framework for the portfolios and monitor developments in ESG issues and their implications for portfolio construction.

Board and committee composition and meeting attendance 2019

As at the date of this report, the Board is composed of 9 members: the Chairman, 5 non-executive directors and 3 executive directors. The table below shows the attendance at the Board and Committee meetings. The Chairman also met with the non-executive directors without management present four times during the year. Biographical information of the current directors can be found on pages 54 and 55.

	Board	A Audit	B Risk	N Nom	R Rem	I Invest
Chairman Martin Scicluna	9/9			4/4		2/2
Group Chief Executive Stephen Hester	9/9					
CEO, UK & International Scott Egan	9/9					
Group Chief Financial Officer Charlotte Jones[1]	9/9					
Independent non-executive directors						
Senior Independent non-executive director[2] Martin Strobel	9/9	6/6	4/4	4/4	5/5	2/2
Alastair Barbour	9/9	6/6	4/4	4/4		2/2
Sonia Baxendale[3]	7/7	4/4				2/2
Kath Cates	9/9	6/6	4/4	4/4	5/5	
Enrico Cucchiani	9/9		4/4		5/5	
Isabel Hudson[4]	4/6		0/2	1/2	3/3	
Joseph Streppel[5]	4/4	3/3			3/3	1/1

NOTES:
1. Charlotte Jones ceased to be independent in February 2019 when she agreed to assume the role of Group CFO.
2. Martin Strobel succeeded Isabel Hudson as the Senior Independent non-executive director on 1 August 2019.
3. Sonia Baxendale joined the Board, GAC and GIC on 1 March 2019. Sonia was appointed as Chair of GIC on 9 May 2019, when Joseph Streppel stepped down.
4. Isabel Hudson resigned as director with effect from 31 July 2019. Isabel was unable to attend the BRC meetings in March and June and the June and July Board meetings, as well as the June NomCo meeting due to extenuating personal circumstances.
5. Joseph Streppel resigned as director with effect 9 May 2019.

Remuneration Committee Chairman's Letter

Kath Cates
Independent Non-Executive Director

Index to the report

On behalf of the Group Remuneration Committee, I am pleased to introduce this year's report.

Renewing our Policy

The Committee has undertaken a careful review of our Directors' Remuneration Policy during the past year, ahead of its renewal at the AGM in May. In doing so, we actively sought views from the Group's largest shareholders and proxy agencies, and I would like to thank everyone who provided feedback for their time and constructive comments.

We have concluded that the Policy continues to align well to our long-term business strategy and no major overhaul is needed. This is consistent with the feedback received. However, some updates are appropriate to take account of evolving corporate governance standards and best practice.

As a result, the proposed 2020 Policy contains the following amendments linked to the UK Corporate Governance Code:

- The maximum pension contribution rate for new executive directors will be aligned to the offering for new RSA employees. We have already put this into practice in the case of Charlotte Jones' Group CFO appointment in 2019. Details of the steps being voluntarily taken by the other current directors on pension rates are set out below,
- The two-year retention period on Executive Directors' Performance Shares will continue post-employment within the framework outlined on page 79, and
- The required shareholding level (currently 300% for the Group CEO and 200% for other Executive Directors) will continue to apply in full for two years post-employment, with shareholdings calculated on shares owned outright, and share awards without performance conditions on a post-tax basis.

The Committee is satisfied with the processes in place to ensure the implementation of the Policy.

Aligning our executive pension rates

Stephen Hester and Scott Egan have voluntarily committed to reduce their pension contribution rates to 10% of salary by the end of 2022, aligning to the offering for new UK-based colleagues and recent developments in UK corporate governance expectations. Last year it was announced Stephen would voluntarily reduce by 3% of salary from 1 April 2020, to 24% of salary. Further reductions will be to 21% from 1 April 2021, 18% from 1 April 2022 and 10% from 31 December 2022. Scott will reduce from 15% to 14% from 1 April 2020, 13% from 1 April 2021, 12% from 1 April 2022 and 10% from 31 December 2022.

"Our Remuneration Policy is designed to support a strong linkage between sustained business performance, customer service, risk management and reward."

Applying pay-for-performance

RSA delivered a strong performance in 2019, with profits up, dividends up and a very good return on tangible equity. Underwriting profits and combined ratio were very strong. The key performance indicators focus on RSA Group's results excluding exits and include:

- Dividends 23.1p per share, up 10%,
- Statutory EPS 32.6p, up 3%, underlying EPS 44.5p,
- Underlying pre-tax profit £624 million,
- Group underlying Return on Tangible Equity at 16.0%,
- Combined operating ratio at 93.6%,
- Solvency II coverage ratio at 168%.

Driving these improvements were a range of underlying actions that went well, as detailed in this Annual Report and the incentive scorecard narratives on pages 87 to 93. RSA's total shareholder return for 2019 was 15%, well ahead of the average of other UK listed general insurers.

The total 2019 remuneration for the Group CEO and CEO UK & International is similar to 2018. Reflecting the achievements noted above, the Group CEO, CFO, and CEO UK&I will receive awards under the 2019 Annual Bonus Plan of 93%, 83% and 88% respectively. However, the long-term incentive vesting is lower due to 2018's performance and will vest at 50% of the maximum. The Committee was satisfied that, overall, these outcomes fairly reflected performance over the period, taking account of both financial performance and the experience of shareholders.

In determining these incentive outcomes, the Committee considered the awards for other RSA employees, the external context in which the business is operating, customer and ESG factors, and a risk report prepared for the Committee by the Group Chief Risk Officer. Half of the bonus awards are deferred into shares for three years, and are therefore linked to the RSA

16.0%
Group underlying Return on Tangible Equity (ROTE)
2018: 12.6%

£624m
Group underlying Profit before tax (PBT)
2018: £492m

168%
Solvency II coverage ratio

93.6%
Combined operating ratio (COR)

+1.6%
Group CEO total remuneration vs last year

share price. Downwards discretion was applied to the Business Scorecard element of the bonus as the Committee took account of the impact of portfolio exits (albeit that the Group's 2019 operating plans and targets were set on an excluding exits basis), as set out on page 88. While the Committee considered whether any issues warranted the application of malus or clawback, it concluded this was not the case.

Supporting business strategy in 2020

Similar to 2019, our 2020 Annual Bonus Plan and 2020-22 long-term incentive will focus on shareholder returns and profit performance, with targets consistent with the Group's operating plan. The scorecard assessment will also take into account risk and capital management, controllable expenses, attritional loss ratios, strategic improvement, the customer franchise, ESG and people. Long-term incentive grants to Executive Directors have been agreed in principle at the same levels as 2019, as set out on page 100.

Salaries for Executive Directors and the Chairman's fee will increase by 2% from 1 April 2020, which is below the average salary increase levels for our UK based employees.

Shareholding and appointment terms

Stephen Hester has exceeded his required shareholding level (508% of salary vs 300% target). Scott Egan is at 193% and set to meet the 200% target in March 2020 when the share award vests. Charlotte Jones will progressively build her holding within the five year build-up period, and all vested awards must be retained post-tax until the required level is reached.

As noted in last year's report, Charlotte forfeited a number of incentive awards from her previous employer on appointment. The Committee has applied the Policy in determining compensatory awards, which are predominantly share awards, as described on page 94. These are subject to clawback should Charlotte resign within two years.

Considering workforce remuneration

The Committee considered RSA's workforce remuneration throughout its activity in the year. For example, we reviewed the employee salary increase budgets, bonus funding levels and internal pay relativities ahead of determining the incentive awards for the executives.

Committee members have dialogue with employees across the Group through our wider Board engagement program, including on pay-related topics. I have shared information about the Committee's role and the alignment of executive and employee reward on our internal social media network, which gives individuals a chance to feedback their views directly to me.

We continue to keep the pay ratios shown on page 98 under close review. These are calculated on the required basis and so reflect the range of job roles in our UK-based business. Similar factors are used in setting pay for all employees including executives, including performance, market positioning, job size and content, and individual experience. The Committee is satisfied the Directors' remuneration in this report properly reflects these factors and is therefore appropriate.

Lastly, our progress in reducing our gender pay gap is reported at www.rsagroup.com/responsibility.

Shareholder engagement

We remain committed to listening to investor feedback, and I welcome any comments you may have. I trust you find this report useful, and hope to receive your support for it at the AGM.

Kath Cates
Non-Executive Director and Chairman of Group Remuneration Committee

26 February 2020

Employee reward across the Group

2019 highlights

- Review of bonus communications to explain the performance-reward link more clearly.
- New peer-to-peer recognition platform in the UK, with 4,000+ recognitions in six months.
- Canada bonus award timing brought forward to align with annual results.
- Ireland flexible benefits program launched, with medical, dental, health screening and pension augmentation options.
- Scandi HR app upgraded, enabling colleagues to view payslips and book leave on personal mobile devices.
- New back-up care benefit piloted with UK management to support balancing work and family commitments.

Reward approach

Competitiveness and cost effectiveness
- We design pay and benefits to be competitive in the local talent market, tailored by job family.
- If possible we offer employees the chance to customise their reward package.

Fair minded
- We strive to ensure all employees receive a living wage or equivalent.
- We take care to avoid unconscious bias, allowing appropriate judgements in pay decisions.

Pay for performance
- We recognise what and how everyone contributes to RSA and provide opportunities to share in its success, in line with our long-term strategy and risk management.

Open and transparent
- We aim to explain our pay framework clearly and ask leaders to dedicate time to communicating their decisions to their team members.

Note:
Financial measures, including ROTE, PBT and COR relate to the Group's underlying performance which is the basis on which the Group's plans and targets were set by the Board, in common with practice in prior years and which excludes exits for 2019.

Remuneration Snapshot

RSA purpose, strategy and remuneration approach

Our purpose

Why we exist

RSA exists to help protect customers against risk and thereby to serve shareholders. In so doing, we contribute to society at large.

Our strategy

How we will get there

RSA's strategy is to:

- Concentrate on the complementary regional insurance markets where we are strongest
- Sustain a platform of financial strength that enables our purpose
- Focus on continuously improving operational delivery, through better customer service, underwriting and cost efficiency
- Consistently develop the capabilities of our people and our use of data, technology and capital resources.

Our business values

What will help us win

We aim to fulfil our purpose and strategy by consistently building our core business values:

- Strong customer service
- Great technical know-how
- Focus and determination
- A culture of openness and transparency
- The power of teamwork.

Executive Director Remuneration

Simplicity
Policy consists of fixed remuneration, annual and long-term incentive components only.

Alignment to culture
Financial and non-financial incentive goals reflect and support business strategy. Assessment considers both what is delivered and how.

Clarity
Transparent Director pay decisions, with incentive targets and outcomes published in detail.

Predictability
Defined threshold and maximum pay scenarios.

Proportionality
No variable remuneration for below threshold performance.

Risk
Risk management is built into the Policy, e.g. potential override of formulaic incentive outcomes, malus and clawback provisions, bonus deferral, length of LTIP (5 years in total), shareholding requirements. Multiple risk lenses in incentive scorecards.

Stakeholders
Policy considers investor feedback and alignment. Remuneration Committee oversees consistent workforce reward principles. Key customer KPIs and shareholder returns measured in performance scorecards.

Pay-for-performance

Assess performance against formulaic financial targets > **Judge Scorecard achievement in the round** > **Consider risk factors, workforce remuneration, customer and shareholder experience – adjust if needed** > **Incentive outcomes**

2019 Bonus

Strategic priorities	Measures	Scott Egan[1]	Scott Egan[2]	Stephen Hester	Charlotte Jones
· Shareholder returns & profitability	Group underlying ROTE, PBT, COR	38.0/40%	–	38.0/40%	38.0/40%
	Group underlying ROTE, UK & Intl Underwriting Result, UK & Intl COR	–	38.1/40%	–	–
· Underlying Performance · Risk & Resilience · Business Sustainability	Business Scorecard	25/30%	22.5/30%	25/30%	25/30%
Personal Scorecard (Strategy, Financial, Risk, Customer & People)		27/30%	27/30%	30/30%	20/30%
Total (% of maximum)		**90%**	**87.6%**	**93%**	**83%**

2017-19 Long-term incentive

Strategic priorities	Measures	Vesting
· Shareholder returns	Relative TSR	0/33.3%
	Group underlying ROTE	17.0/33.3%
· Underlying Performance · Risk & Resilience · Business Sustainability	Business Scorecard	33.3/33.3%
Total (% of maximum)		**50.3%**

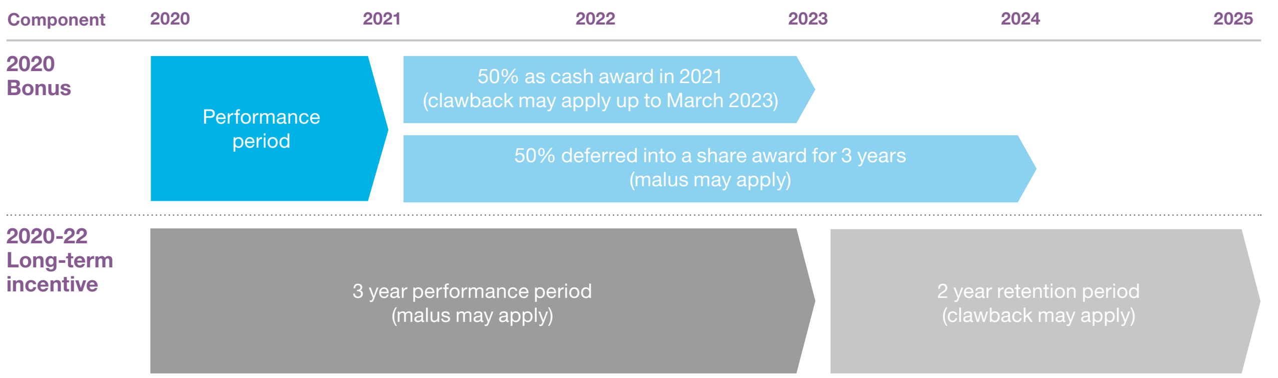
Performance targets, results and full remuneration tables on pages 86 to 93

Notes:
1. For the period 1 Jan – 4 Feb 2019 as Group CFO.
2. For the period 5 Feb – 31 Dec 2019 as CEO UK & International.

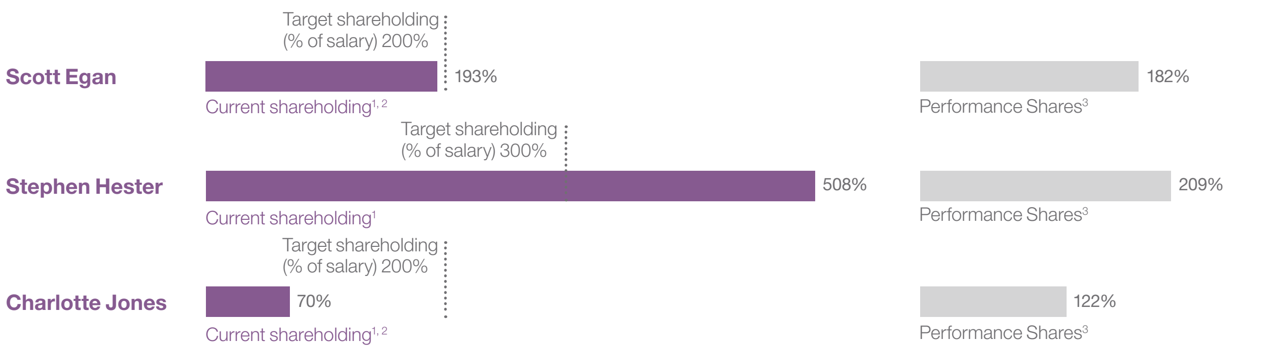
Remuneration outcomes

		Fixed remuneration (salary, benefits and pension)	Short-term variable remuneration (annual bonus)	Long-term variable remuneration (long-term incentive earned)	Other remuneration (compensatory awards)	Total £'000
Scott Egan	19	£664	£786	£537		£1,987
	18	£651	£281	£990		£1,922
Stephen Hester	19	£1,382	£1,538	£1,140		£4,060
	18	£1,374	£519	£2,103		£3,996
Charlotte Jones	19	£244	£280	£200	£754	£1,478

Incentive plan periods



Shareholding



Notes:

1. Includes shares owned outright, and awards not subject to performance conditions excluding estimated tax/statutory deductions.
2. Scott Egan is set to reach the target holding with the March 2020 Performance Shares vesting. Charlotte Jones was appointed in 2019 and is due to reach the target in the five-year build up period. Directors must retain all vesting shares post-tax until the holding level is met.
3. Estimated additional shareholding that could result assuming existing Performance Share awards vest at on-target (62.5% vesting), after tax and statutory deductions, not including dividend equivalents.
4. Valuation uses the 2019 average RSA share price and each individual's salary at 31 December 2019.

Directors' Remuneration Policy

1. Introduction

This Policy describes the framework that will be used to set and manage the Directors' remuneration with effect from 7 May 2020, subject to shareholder approval at the AGM on that date.

It is intended that the Policy will apply for the next three years.

There are limited changes compared to the existing Policy, which has been in place since it was approved by shareholders in May 2017, to further enhance alignment with shareholders and to adopt emerging best practice in a small number of areas:

- The maximum pension contribution rate for new Executive Directors will be aligned to other new RSA employees (for pension details of existing Executive Directors please see page 78, note 1).
- Executive shareholding requirements will be extended such that they apply in full for two years post-employment. In line with Investment Association guidance, future shareholding calculations will include unvested awards without performance conditions, on a post-tax basis.
- The long-term incentive retention period will apply post-employment, such that shares that vest from our three-year long-term incentive plan (LTIP) will need to be retained for a further two years whilst a Director is employed, or for up to two years post-employment if no longer employed by RSA.

On the following pages 76 to 84 the Policy covers:

- How decisions on Directors' remuneration will be made at RSA, and the philosophy and strategy which underpin these decisions;
- How remuneration packages will be structured for current, newly appointed and departing directors;
- What impact business and individual performance will have on the potential value of Executive Directors' remuneration;
- What key contractual terms will apply to current and newly appointed directors; and
- RSA's engagement with its shareholders and employees on the subject of executive remuneration.

2. Determining and reviewing the Policy

The Policy has been determined by the Group Remuneration Committee ('the Committee') on behalf of the Board after reviewing the impact of the existing Policy, key governance factors, and taking account of stakeholder feedback. To ensure conflicts of interest are managed, the Committee ensures no Director determines the policy regarding their own remuneration. The factors considered are set out below:

Clarity

The Committee has reviewed stakeholder feedback since the 2017 Policy was put in place and concluded the Policy is clear and well understood, it facilitates transparent Director pay decisions, and allows incentive targets and outcomes to be published in detail.

Simplicity

The Committee believes the five remuneration components (base salary, benefits, pension, annual bonus and long-term incentive) offer appropriate simplicity. It believes it is important to have both an annual incentive (supporting the delivery of short-term goals) and an LTIP (supporting the long-term strategy), as this provides better scope to align reward to different aspects of performance.

Risk

Risk management is built into the Policy, in line with good practice. Formulaic award outcomes can be overridden (e.g. if the outcome would be excessive beyond management's influence) and/or adjusted down for risk. Malus and clawback provisions are in place. Half of the bonus is deferred. The LTIP is three years plus a two-year retention period. There is a significant shareholding requirement, which is now extended to apply post-employment.

Predictability

The Executive Directors' remuneration potential in threshold, target and maximum performance scenarios (including with a 50% share price increase) is noted on page 80. The Policy states the maximum bonus and LTIP grant values.

Proportionality

The Committee is satisfied the reward opportunities of the Executive Directors remain within market norms, and are considered to appropriately balance the desire not to pay unnecessarily with the need to attract, retain and incentivise appropriately for the delivery of stretching performance targets. No variable remuneration will be delivered for below threshold performance.

Alignment to culture

The Committee reviewed the balance of financial and non-financial incentive measures, and the approach to assessing individual performance (which places emphasis on both 'what' is delivered, and 'how' goals are met in the context of RSA's values). It concluded the Policy is aligned to RSA's business values and desired culture. Page 50 of the Annual Report discusses culture more fully.

Shareholder engagement

The Committee maintains an open dialogue with shareholders. In the course of reviewing the Policy in 2019, the Committee Chair wrote to RSA's leading investors and proxy agencies. The resulting comments (from both written feedback and in person discussions) were taken on board when assessing whether any changes were needed to the Policy, and supported the conclusion that no major changes were needed. They also helped shape the Committee's approach regarding key Corporate Governance Code provisions on pensions and shareholding.

Director and workforce remuneration

The Committee Chair engaged with RSA employees during the year on executive remuneration, via the internal social network site and invited feedback. While employees are not specifically consulted on the Directors' Remuneration Policy, this activity, as part of wider workforce engagement forums such as employee surveys and town halls, enables an ongoing dialogue between the Committee and RSA's employees.

To provide the Committee with context when considering Executive Directors' remuneration, and when developing the Policy, it considered the remuneration arrangements for the Group's employees in general (for example, salary increases and pension and incentive opportunities) as well as pay relativities. In 2016, the Company was accredited by the UK's Living Wage Foundation as a Living Wage Employer.

Similar factors are used in setting both employee and executive pay, including market positioning, job size and content, and individual experience. All permanent UK-based employees are eligible to receive a bonus award, and have the opportunity to participate in RSA's all-employee share plans. At senior levels, remuneration is increasingly long-term and at risk, with an increased emphasis on share-based remuneration. For example, bonus deferral is only operated for senior leaders (and where required by Solvency II), as is participation in the long-term incentive plan.

Implementing the Policy

The Committee refers to the Policy in its decisions throughout the year. It considers its impact in determining how to implement it in the following year. Each year's Remuneration Report notes how the Policy has been implemented over the previous year and how it will be implemented the following year.

3. RSA's remuneration principles

The remuneration philosophy and strategy is aligned to the long-term interests of the Company, its business strategy and performance. The remuneration framework is designed to promote sound and effective risk management in line with the Company's risk profile. The remuneration principles, applied consistently across the Group, that the Committee follows are:

Competitiveness and cost effectiveness

- Competitive remuneration packages are offered in order to attract, retain and reward the levels of high calibre talent which are essential to RSA's success in today's competitive global insurance market.

Fair-minded

- The remuneration framework is reviewed regularly to ensure that it continues to appropriately reward executives, while protecting shareholders' interests and complying with principles of good risk management and reward governance and avoiding conflicts of interest.

Pay for performance

- Pay is linked to performance, with variable remuneration fully contingent on the achievement of stretching short- and long-term objectives which directly support the achievement of strategic priorities and are aligned to shareholders' interests.
- Executive Directors and other executives are required to hold a significant number of shares in the Company; they are encouraged to act in shareholders' best interests by having a personal investment in RSA.

Open and transparent

- Each component of the total remuneration package is simple and transparent, so as to be effective and understood by executives, shareholders and regulators.

4. Remuneration Policy for Executive Directors

The following table sets out the components of the Executive Directors' remuneration package and how they operate.

Purpose and Strategic Link	Operation	Maximum opportunity	Performance measures
Base salary (fixed remuneration) This element is designed to attract and retain high calibre executives, essential for ensuring RSA's ongoing success.	Salaries are reviewed annually considering factors including: market positioning, internal pay relativities, levels of pay for other RSA employees, inflation, affordability, job scale and content, individual's experience and expertise. Salaries are benchmarked referencing peer group companies of comparable size and complexity. There is no automatic right for any Director to receive a salary increase. Only annual base salary is pensionable. An existing Executive Director's salary may be increased outside of the normal review cycle for material role changes.	Other than exceptional circumstances such as a role change, salary increases will not exceed the level of increases applied to other RSA employees.	Performance conditions do not apply, but business and individual performance may be considered when conducting the review process.
Benefits (fixed remuneration) This element forms part of a market competitive package and supports the executive.	Benefits typically cover the areas of: health and well-being, leave of absence, car and business travel, sickness benefit, insurances, professional subscriptions, external advice and employee discounts on certain insurance products. Home to work travel may be covered where appropriate. Some benefits are delivered as taxable cash-in-lieu allowances. Tax changes are not compensated. Assistance would be available under RSA's relocation policy or global mobility policy should this be required. Expenses can be claimed according to RSA's business and travel policies, including tax thereon where such expenses do not qualify for tax relief. Executive Directors in participating countries can acquire shares in RSA's all-employee share plans (Sharesave and Sharebuild), and those in the UK can participate in RSA's flexible benefits programme. Benefits are determined with reference to market practice within the same peer group companies referred to in respect of salaries. The Committee can also source information from bespoke benefit surveys to aid decision-making. The Committee can amend any benefit or introduce new ones to ensure the remuneration package remains market competitive or to respond to regulatory, legal or best practice changes.	Benefits are valued and determined with reference to the benchmarking peer groups and other surveys reviewed by the Committee. Benefits are fixed remuneration, however the cost to provide them can vary from year to year in line with market conditions, which therefore determine the maximum value.	None.
Pension (fixed remuneration) This element forms part of a market competitive package and enables executives to save for retirement.	Pension benefits take the form of employer contributions to a pension plan, or a full/partial cash allowance in lieu. The RSA UK defined benefit pension schemes are closed to all new entrants and future accrual. Pension cash allowances are paid monthly and are subject to statutory deductions. The Committee can adjust contribution or allowance levels (within the maximum provided by the Policy) to ensure these remain appropriate and market aligned. It can also agree changes to the terms of the Directors' pension plan(s), as appropriate.	The maximum pension contribution rate for newly appointed Executive Directors will be aligned to the offering for new RSA employees in their country (currently 10% of salary for UK new hires and the majority of UK employees). The pension contribution rates for existing Directors will reach 10% of salary by the end of 2022, through voluntary reductions[1].	None.

Note:

1. Stephen Hester's rate will reduce from 27% of salary to 24% from 1 April 2020, 21% from 1 April 2021, 18% from 1 April 2022 and 10% from 31 December 2022. Scott Egan's rate will reduce from 15% of salary to 14% from 1 April 2020, 13% from 1 April 2021, 12% from 1 April 2022 and 10% from 31 December 2022. Charlotte Jones currently receives 10% of salary.

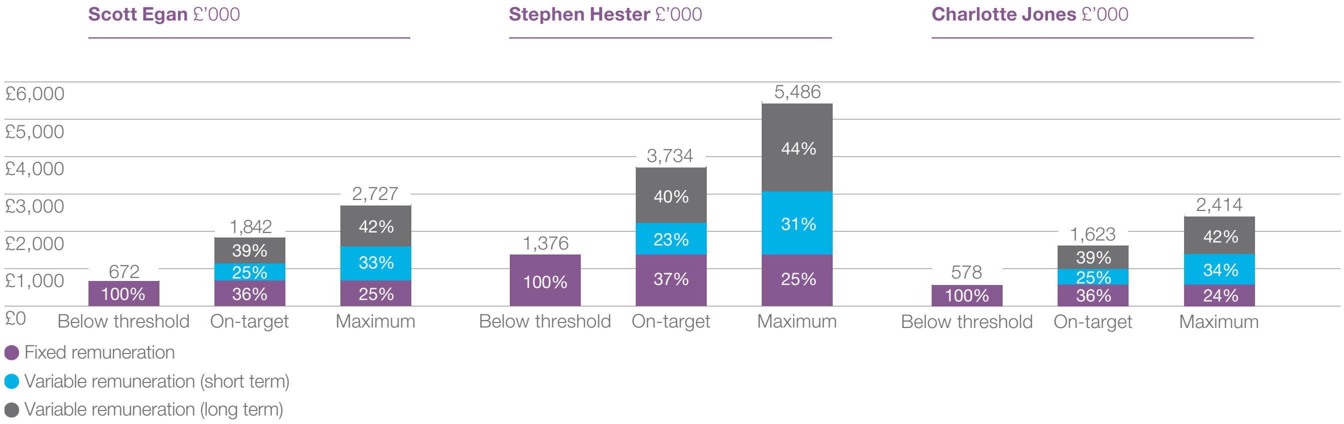
Purpose and Strategic Link	Operation	Maximum opportunity	Performance measures
Annual Bonus Plan (variable remuneration) This element incentivises the achievement of short-term financial and non-financial goals in line with RSA's risk profile. Deferral into shares enhances shareholder alignment.	Bonus awards are calculated against stretching annual financial and non-financial targets, as well as the performance of the individual executive. 50% of the bonus is deferred into a share award for a period of three years, and 50% is awarded in cash. Vested shares must be retained until the relevant shareholding level is reached, excluding any sold to satisfy statutory deductions. The applicable shareholding levels are detailed on page 84. Awards are subject to the Group's malus and clawback provisions, noted on page 83. Dividend equivalents accrue on the deferred shares, and are awarded at the end of the deferral period. The Committee can exercise discretion to change the bonus measures, how they are weighted, calculated and targeted. It can adjust bonus outcomes to reflect broader performance considerations if considered appropriate and in shareholders' interests, including adjustment downwards for current or future risk exposure, and make such amendments as are necessary to respond to regulatory, legal or accounting requirements. Shareholders will be notified if this has been carried out by disclosure in the relevant Directors' Remuneration Report.	The normal maximum bonus opportunity is 160% of salary. An additional bonus opportunity of up to a further 40% of salary may be available, at the Committee's discretion, to recognise highly exceptional circumstances. Full disclosure will be given if an increased bonus opportunity is applied. Actual bonus awards are linked to achievement as follows: · Below threshold – no bonus · Threshold – 10% of maximum opportunity · Target – 50% of maximum opportunity · Maximum – 100% of maximum opportunity	Performance measures and weightings are set each year considering the Company's strategy and shareholder interests, and will vary based on each Directors' area of responsibility where appropriate. Measures typically cover profit, underwriting performance, risk management, expenses, capital and balance sheet strength, customer and business sustainability, and objectives personal to the executive. A majority weighting is given to financial metrics. Measures can be assessed on a Scorecard basis. Performance is measured over one financial year. Targets are set with reference to the Group's operational plan. The performance measures and targets used to inform the 2019 bonus awards are on pages 87 to 91.
Long-term incentive Plan (LTIP) (variable remuneration) This element supports RSA's long-term strategy, performance and priority to create shareholder value through sustained earnings and share price growth. The share-based nature of the plan enhances shareholder alignment.	Conditional long-term incentive awards are granted annually in the form of Performance Shares, and may vest wholly or partially subject to company performance conditions. The performance period will normally be at least three years for all measures, with no re-testing. A two-year retention period applies to vested Performance Shares, excluding any sold to satisfy statutory deductions. Such periods continue on awards retained on leaving RSA, ending on the earlier of: (i) the usual end of the retention period, or (ii) two years after employment cessation, unless waived by Committee discretion (e.g. on death or change of control).[1] Vested shares must be retained until the relevant shareholding level is reached, excluding any sold to satisfy statutory deductions, as detailed on page 84. Awards are subject to the Group's malus and clawback provisions, noted on page 83. Dividend equivalents accrue during the performance period and are added to the shares that vest. The Committee can act within the parameters of the Plan's rules as approved by shareholders and its performance conditions, enabling the LTIP to be appropriately administered under both normal and exceptional circumstances.[2] The Committee can make such amendments as may be necessary to respond to legal, accounting or regulatory changes. Awards can be reduced or otherwise amended, provided the action is fair and justifiable, for example, to guard against a windfall award or the converse generated by an accounting treatment. Vesting can be adjusted downwards to reflect broader performance considerations if considered appropriate and in shareholders' interests, including for current or future risk exposure.	The normal maximum LTIP opportunity is 230% of salary. For recruitment purposes, or in highly exceptional circumstances, such as for retention, the Committee may agree to a conditional performance-related award being made up to an additional 170% of salary. This would be considered a 'one-off' award. Where an exceptional award is made, full disclosure will be given of the rationale. Award vesting is linked to achievement against the performance conditions as follows: · Below threshold – 0% vesting · Threshold – 25% vesting · Target – 62.5% of vesting · Maximum – 100% vesting	Performance conditions are reviewed for each new cycle and set in line with the Company's operational plan, long-term strategy and considering shareholder interests. Measures are typically linked to value creation through performance of the Group's share price, profit, capital and balance sheet strength and underlying performance. The LTIP will include at least two measures. A majority weighting is given to financial metrics. Metrics can be assessed through a Scorecard. Shareholders will be consulted if material changes to the measures are proposed by the Committee. The measures and targets for the 2020-22 cycle are on page 100.

Notes:

1. Post-employment retention periods apply to awards granted from 2019 onwards.
2. The current LTIP, referred to as the Performance Share Plan 2014 (PSP), was approved by shareholders at the 2014 AGM. It is also used as a vehicle for granting deferred bonus shares, and restricted shares where these are awarded as part of an Executive Director buy-out as noted on page 81. The LTIP policy provisions are the same for all other participants who receive performance-based awards, with the exception of the two-year post-vesting retention period which only covers Executive Directors, and local regulatory requirements. LTIP award opportunities vary for individuals below the Board. Members of the Executive Team and selected senior leaders across the Group are also required to hold shares in RSA.
3. To ensure the Policy remains risk aligned, the use of hedging or insurance contracts in connection with variable remuneration is not permitted.

5. Illustrations of the Remuneration Policy's application

The remuneration structure is intended to promote the long-term interests of the Company and its shareholders, and the following charts illustrate how the Executive Directors' remuneration potential changes according to varying levels of performance achievement. The Committee's aim is that superior levels of remuneration will only be paid in return for delivering superior levels of performance. The variable element is fully flexible such that no award is guaranteed. Additionally, the charts show the balance between fixed and variable remuneration. The assumptions used in the chart calculations are noted in the table underneath.



Basis of calculation	Below threshold scenario	On-target scenario	Maximum scenario
Scott Egan and Charlotte Jones	Minimum remuneration receivable: · Fixed remuneration[1] · Annual Bonus 0% of salary · LTIP 0% of salary	· Fixed remuneration[1] · Annual Bonus 80% of salary · LTIP 125% of salary[2]	· Fixed remuneration[1] · Annual Bonus 160% of salary · LTIP 200% of salary[3]
Stephen Hester		· Fixed remuneration[1] · Annual Bonus 80% of salary · LTIP 144% of salary[2]	· Fixed remuneration[1] · Annual Bonus 160% of salary · LTIP 230% of salary[3]

Notes:

1. Based on the value of base salary and pension for 2020, and benefits in the 2019 total remuneration single figure (for Charlotte Jones, a full-year benefits estimate is used).
2. Assumes 62.5% vesting of the award in the 2020-22 grant, i.e. half-way between the 25% threshold vesting and 100% maximum vesting.
3. Assumes 100% vesting of the award in the 2020-22 grant.
4. There are no assumptions relating to share price growth or dividend equivalents included in the above scenarios. In the event of 50% share price growth during the LTIP performance period, the maximum outcome from the 2020-22 LTIP would be £1.7m (Scott Egan), £3.6m (Stephen Hester) and £1.5m (Charlotte Jones). This is based on 100% of the granted awards vesting multiplied by 1.5. If this was coupled with a maximum bonus award as in the Maximum scenarios above, the total remuneration receivable would be £3.3m (Scott Egan), £6.7m (Stephen Hester) and £2.9m (Charlotte Jones).

6. Approach to recruitment remuneration

The Committee ensures a consistent and transparent approach is taken when appointing Executive Directors to the Board, as shown in the following table. When a new Executive Director is recruited, the Committee will provide details of how the Policy has been implemented in respect of their appointment terms in the relevant Directors' Remuneration Report.

Remuneration components	Notes on approach
Base salary	· Set using the same approach as for existing Directors' salary reviews. The Committee can exercise discretion on the timing and level of salary reviews for newly appointed Directors reflecting the individual's development and performance in the role.
Benefits and contractual terms	· Benefits and contractual terms will be the same as those offered to current Executive Directors, however the Committee will have close regard for the benefits and contractual terms offered to other new RSA employees, and may exercise judgement to flex the package to accommodate any specific terms bespoke to the individual, e.g. related to health, annual leave, relocation or insurance benefits. · Where the Director is an internal appointee to the Board, or appointed following a corporate transaction, he/she may be permitted to retain any legacy benefits or terms at the Committee's discretion, or a buy-out may be made depending on the benefit type and circumstance. Continuity of service with the Group will be maintained.
Incentive awards	· Under normal circumstances, a new Executive Director will be eligible for incentive awards in line with the usual policy as detailed on page 79. However, in exceptional circumstances, a higher bonus opportunity of up to 200% of salary may be agreed and a performance-related LTIP award may be approved by the Committee in the Director's first year of service up to the limit of 400% of salary. · If the director is entered into an RSA LTIP and made an award of Performance Shares, these will be subject to the same performance conditions and vesting terms as applies to other plan participants. · Where the Director is an internal appointee to the Board, any outstanding legacy awards granted under current or previous incentive schemes may continue and remain eligible to vest on the basis of their original award terms.
Buy-outs	· Where the Director is an external appointment, the Committee may agree to a compensatory package reflecting the value and terms of incentives or benefits forfeited upon resignation. - This will only be permitted on receipt of reasonable evidence of loss. - Typically, the form of award that is being forfeited (e.g. cash or shares) will be replaced by the same form of award at RSA. - Performance-linked awards will normally only be compensated with Restricted Shares where a performance condition has been achieved or is nearing testing and there is a reasonable expectation of the vesting level. - Cash bonuses may be bought out with Restricted Shares in order to give the Director an early 'stake' in RSA. - The Committee may agree to reduce the value of the compensatory award below the anticipated or actual loss value if the compensation is paid at an advanced date (i.e. early settlement). - Any compensatory award using cash or restricted shares will always carry a service condition and an appropriate repayment schedule to protect shareholders' interests.

7. Service contracts and policy for payments on loss of office

Each of the Executive Directors is employed under a service agreement, which contains a variety of contractual terms and conditions. Contracts are available for inspection by shareholders at the Company's registered office. Terms are designed to ensure fair treatment for departing executives while avoiding reward for failure.

Key terms	Notes on approach
Notice period	· No Director will be appointed on a notice period exceeding 12 months. The current Executive Directors' employment contracts have no fixed term, and can be terminated by the Company or the individual, by the serving of 12 months' notice. · In the case of summary dismissal, no notice will be served by the Company and no compensation will be paid in lieu of it. · Notice periods are approved by the Committee, and at its discretion, can be reduced in the event an Executive Director resigns and wishes to leave prior to the end of his or her contractual notice period. · The Company can require accrued annual leave related to the year of termination to be used during a notice period or garden leave, although payment of untaken days can alternatively be made in lieu.
Garden leave	· The Company has the contractual right to place the Executive Directors on garden leave for part, or all, of their notice period. · Salary, benefits and pension contributions continue during garden leave, but this time will not count towards the calculation of any Annual Bonus award that may subsequently be due.
Payment in lieu of notice (PILON)	· A Director may be paid in lieu of an unexpired portion of their notice period, covering base salary, pension and benefits, regardless of which party has served notice. · Generally, in the event of termination and in all cases of termination on performance grounds, PILON would be made on a phased basis subject to mitigation, and would be reduced or ceased if the Director starts to receive payment or remuneration from alternative employment.
Termination payment	· There are no pre-determined special provisions for Directors with regard to compensation for loss of office. · If a loss of office were to occur giving rise to a redundancy payment under prevailing employment legislation, the payment will be calculated taking account of the Director's length of service with the Group and his/her annual gross basic salary as at their employment termination date. · In the normal course of events, reasonable professional fees may be paid in relation to a Director's employment termination. · No payment or compensation for loss of office made to any departing Director will be disclosed if it is less than £10,000 gross. · Executive Directors do not have terms which provide additional rights or payments to them in the event of a change of control, reconstruction or amalgamation of the Company.
Restrictive covenants	· Restrictive covenants are in place to help protect RSA's interests should the individual leave the Company for any reason.
External appointments	· Executive Directors may hold one external non-executive position provided this does not give rise to any conflict of interest, with the approval of the Group Nomination and Governance Committee. If there is any remuneration arising from this role, the individual can retain it.

The Committee's approach to incentive treatment for Executive Director leavers is set out in the following table. Based on the leaving circumstances and having regard of shareholders' interests, the Committee can exercise discretion to reduce or lapse awards or enable a proportion of awards to be received but only in highly exceptional circumstances and where appropriate. Shareholders will be informed if discretion is applied, and details will be provided wherever possible.

Leaving circumstances	Approach to Annual Bonus	Approach to Deferred Bonus Shares	Approach to unvested LTIPs
Resignation or dismissal for cause	· Not eligible if left or under notice at the date of payment.	· Forfeited if dismissed for cause. · Normally vest in line with the normal timetable if resignation.	· Forfeited.
Good leavers · At the Committee's discretion, and normally including such circumstances as planned retirement, death, disability/medical severance, transfers outside of the Group and redundancy[1]	· Eligible for the proportion of the bonus year served. · Performance is tested in line with the normal performance timetable. · In cases of death and, with Committee discretion, medical severance, performance can be tested and awards made sooner than the scheduled date. · The Committee has the discretion to make the final bonus award in cash and so waive deferral, subject to any regulatory requirements.	· Normally vest in line with the normal timetable. · In cases of death and, with Committee discretion, medical severance, awards can vest sooner than the scheduled date.	· Performance is tested in line with the normal timetable. · In cases of death and, with Committee discretion, medical severance, performance conditions can be tested early and awards vest sooner than the scheduled date. · Awards vest subject to performance and time pro-rating.
Change of control	· Normally good leaver treatment applies as above. · Where this is the case, performance can be tested and awards made sooner than the scheduled date.	· Awards can vest sooner than the scheduled date. · The Committee can determine whether a pro-ration for time is applied to these awards.	· Performance conditions are tested early and awards can vest sooner than the scheduled date. · Vesting level determined with regard to performance and time served.

Note:
1. The Committee will make reasonable judgement on determining whether a Director qualifies for good leaver status by reason of retirement, by understanding the individual's intentions post employment termination and taking account of the context of his/her departure from the Group.

8. Malus and clawback

The Group operates malus and clawback provisions. In summary, the Committee has the ability to reduce or forfeit awards that have yet to be paid or vest in the case of shares, to delay the payment or vesting date or to amend another form of award or benefit which has yet to be received (malus adjustment). The Committee may also recover sums already paid to Executive Committee members if it considers it appropriate to do so (clawback). This can be applied during a two-year period after receipt (in the case of cash bonuses) or vesting (in the case of long-term incentives).

The circumstances in which malus and clawback may apply are outlined in the table below:

Malus adjustment	Clawback
· Material financial misstatement of results for any financial year or the material financial loss/under-performance of a business unit that could have been reasonably risk-managed · Error or material misstatement leading to an overpayment · Employee misconduct, including regulatory or other breaches · Legitimate concerns regarding an employee's conduct, capability or performance · Actions leading to reputational damage · Deterioration in the financial health of the Company leading to severe financial constraint · Any other situation as the Committee may reasonably determine.	· Material financial loss of a business unit as a result of circumstances that should reasonably have been risk-managed by the individual · Material error or financial misstatement of results which has resulted in an overpayment · Gross or serious employee misconduct.

9. Legacy incentive plans

The Policy provides for any outstanding awards granted under legacy incentive plans to continue in place, although the current Executive Directors do not hold any such awards.

Existing incentive awards granted under the Remuneration Policy approved by shareholders in 2017 will continue in place.

10. Required shareholding

RSA believes it is in shareholders' interests for its executives to hold shares in the Company and build a stake in the business. They are expected to retain vested shares arising from the Company's share plans to build and maintain a minimum shareholding level.

Shareholding provisions

- Executive Directors must build up a shareholding in RSA according to specified levels, expressed as a salary multiple.
- The shareholding levels to be reached are
  - Group Chief Executive: 300% of salary
  - Other Executive Directors: 200% of salary
- Executives have a targeted five years in which to build up their holding, commencing from the first date an unconditional share award is made to them as a Director. No shares are to be sold until the holding level is reached, except where required to cover statutory deductions.
- The shareholding level (or the actual holding at termination, if lower) must be maintained for two years post-employment.
- The shares which count towards the holding level are those held either in the executive's own right or that of immediate family members. Outstanding RSA share awards which are not, or cease to be, bound by any performance conditions are also included on a post-tax basis (i.e. a deduction is made for those awards that would be sold to cover tax and other statutory deductions at vesting).
- The Committee can exercise discretion to temporarily waive or reduce the holding requirement or allow shares to be sold in exceptional business or personal circumstances (e.g. ill health, death, change of control, divorce, financial hardship).
- The shareholding levels were determined with reference to the practice across the Company's benchmark peer groups.

11. Policy for Non-Executive Directors

The following table outlines the components of Non-Executive Directors' remuneration:

Purpose and Strategic Link	Operation and maximum level of remuneration
Fees This element ensures competitive remuneration is paid to attract high calibre non-executives and recognise their time commitment on the Board.	· Non-Executive Directors (aside from the Chairman) receive a base fee, further fees are then paid to reflect membership of a committee, and for chairing a committee. A separate fee is paid to the Senior Independent Director. · The Chairman receives a fee for his role and this is set by the Committee. · Director fees will not exceed the limit stated in the Company's Articles of Association, as approved by shareholders. · Fees are paid in cash, subject to any required statutory deductions. · Fees are reviewed annually but an annual increase may not always be applied. · When assessing fee levels, account is taken of the required time commitment and the degree of expertise necessary to fulfil the particular role (such as chairing a committee). · The fees are benchmarked using the same peer groups as for the Executive Directors' remuneration, and will have regard to the market median. · The Company has the discretion to introduce new fees or change the Non-Executive Directors' terms. · Details of the Chairman's fee and the Non-Executive Directors' fees earned for 2019 are noted on pages 101 to 102.
Other key terms of office Reflects current good governance.	· Non-Executive Directors may claim expenses in accordance with RSA's business and travel policies, including tax thereon where such expenses do not qualify for tax relief. · They receive no other benefits, but they can have RSA insurance products at a discount. · As the Non-Executive Directors are not employed by the Company, they are not eligible to receive a bonus award or participate in any of RSA's share plans. · Non-Executive Directors may hold shares in RSA but this is a personal matter and is not mandatory.

Non-Executive Directors are not employed by RSA, but they are engaged on a contract for services basis. They are issued with an appointment letter with no fixed term, but are subject to annual re-election by shareholders at the Annual General Meeting and will not usually serve for more than nine years from the date of their first appointment. The term of office can end with either the individual or the Company serving one month's notice, or three months in respect of the Chairman. No notice will be served by the Company in the event of gross misconduct. Appointment letters are available for inspection by shareholders at the Company's registered office.

Non-Executive Directors are expected to disclose any conflicts of interest prior to, and during, the course of their tenure. They will not participate in making a decision if any conflict is considered to impact their independence or limit their ability to discharge their duties to shareholders. Since Non-Executive Directors and the Chairman receive only fees and expenses, no individual can have a loss of office payment, although payment in lieu of notice can be made.

Annual Report on Remuneration

1. Introduction

This Annual Report on Remuneration details how the approved Remuneration Policy has been implemented for Directors in the financial year ended 31 December 2019, and how the Group intends to implement its Policy in 2020.

At the 2020 AGM, this report on pages 85 to 103, together with the Committee Chairman's letter on pages 72 to 73, will be put to an advisory vote.

2. The Group Remuneration Committee

Purpose

The Committee determines the remuneration and contractual terms for the Executive Directors, Executive Committee and the Chairman (who are detailed on pages 54 to 56).

The decisions the Committee makes are intended to promote the ongoing success of the Group, whilst upholding the interests of shareholders, regulators, customers, employees and other stakeholders. Consequently, it pays close attention to the Group's risk management policies, ensuring that these are considered alongside other relevant information so that its actions are balanced, appropriate and support the Group's strategy.

The Committee reviews the Group's employee remuneration arrangements overall, and the alignment of incentives with culture, and takes these into account in its decision-making.

The Committee operates within an agreed set of terms of reference, which it reviews annually. A copy of these terms can be viewed on the Group's website at: www.rsagroup.com/termsofreference or alternatively a paper copy can be requested in writing from the Group Company Secretary.

Members

The Committee comprises a number of independent Non-Executive Directors. The Committee's members in 2019 were: Kath Cates (Chair), Enrico Cucchiani, Isabel Hudson (to 31 July 2019), Joseph Streppel (to 9 May 2019) and Martin Strobel. The number of meetings attended by each Director is shown on page 71.

Attendees

At the invitation of the Committee, the Chairman, Group Chief Executive and designated representatives from functions within the business attend meetings where relevant to advise on Group strategy, risk, performance, and HR policies and practices, and support the Committee's work. These Committee attendees during 2019 included the Group HR Director, Group Chief Legal Officer & Company Secretary and Group Reward Director. Additional written input was provided by the Group Chief Risk Officer.

None of the above individuals are present if their own remuneration is being discussed.

Advisers

PricewaterhouseCoopers (PwC) is appointed by the Committee as its independent adviser. It was selected following a market tender exercise. During 2019, PwC also provided advice and consultancy services across the Group globally on matters including data and analytics technologies, regulatory risk and compliance, financial reporting in preparation for IFRS 17, operations strategy, IT risk and governance, direct and indirect tax and compliance. PwC is a member of the Remuneration Consultants' Group and a signatory to its Code of Conduct. In addition, the Committee has satisfied itself that the advice it receives is objective and independent as PwC has confirmed there are no conflicts of interest arising between it, its advisers and RSA. The fee paid for services to the Committee in the year was £80,000 excluding VAT, based on a fixed fee for a defined scope of work.

Meetings held in 2019

In 2019, the Committee met on five occasions and the table below summarises the matters it discussed.

Item	Jan	Feb	May	Sep	Dec
· Testing of Annual Bonus Plan 2018 and LTIP cycle 2016-18 performance conditions; and determination of outcomes	•	•			
· Approval of 2019 incentive plan performance conditions, and long-term incentive grant 2019-21		•			
· Review of executives' personal goals for 2019, base salaries and Chairman's fee	•	•			
· Approval to operate all-employee share plans (Sharesave and Sharebuild) and off-cycle long-term incentive grant			•		
· Review of Directors' Remuneration Policy and incentive performance measures for 2020 onwards			•	•	•
· Review of wider workforce engagement and remuneration framework, including gender pay gap and pay ratios	•	•	•		•
· Review of Committee terms of reference, meeting planner and effectiveness				•	•
· Review of share grants made, all-employee share plan participation, and dilution levels			•		•
· Review of Directors' Remuneration Report and Solvency II disclosures	•	•			•
· Update on the performance of the Annual Bonus Plan 2019 and current long-term incentive cycles				•	•
· Update on corporate governance developments			•	•	•
· Update on shareholder engagement	•		•		•

3. Executive Director total remuneration 2019 (audited)

The table below sets out the Executive Directors' total remuneration single figures. Non-Executive Director fees are detailed on pages 101 to 102.

	Salary		Taxable benefits[1]		Bonus[2]		LTIP		Pension related benefits		Other remuneration		Total		Total fixed remuneration		Total variable remuneration	
(£'000)	**2019**	2018	**2019**	2018	**2019**	2018	**2019[3]**	2018[4]	**2019[5]**	2018	**2019[6]**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Scott Egan[7]	557	546	23	23	786	281	537	990	84	82	–	–	1,987	1,922	664	651	1,323	1,271
Stephen Hester[8]	1,028	1,008	69	64	1,538	519	1,140	2,103	285	302	–	–	4,060	3,996	1,382	1,374	2,678	2,622
Charlotte Jones[9]	210	–	13	–	280	–	200	–	21	–	754	–	1,478	–	244	–	1,234	–
Total	**1,795**	**1,554**	**105**	**87**	**2,604**	**800**	**1,877**	**3,093**	**390**	**384**	**754**	–	**7,525**	**5,918**	**2,290**	**2,025**	**5,235**	**3,893**

Notes:

1. Taxable benefits: Stephen Hester received a car allowance and the use of a car and driver service which totalled £43,904 (2018: £40,460), Scott Egan received a car allowance of £15,000 (2018: £15,000), Charlotte Jones received a car allowance of £6,304, and each of the Executive Directors were provided with medical benefits and life cover.
2. Bonus: Awards in respect of performance measures relating to the financial year shown, as described on pages 87 to 91. Half of the bonus shown is awarded in Deferred Bonus Shares which vest three years from the date of grant, and are subject to malus adjustment as detailed on page 83.
3. LTIP 2019: Estimated value of Performance Shares and accrued dividend equivalents under the 2017-19 LTIP cycle due to vest on 3 March 2020. Estimate reflects the performance conditions having been met to the extent noted on pages 92 to 93, and uses an average share price over the last quarter of 2019 of £5.385.
4. LTIP 2018: Actual value of Performance Shares and accrued dividend equivalents under the 2016-18 LTIP cycle that vested on 4 March 2019. The vesting was as disclosed in the 2018 Annual Report and Accounts on pages 73 to 74. Valuation has been restated using the vesting date share price of £5.194.
5. Pension 2019: Scott Egan received a taxable cash allowance of 15% of base salary. This will be voluntarily reduced to 14% from 1 April 2020, 13% from 1 April 2021, 12% from 1 April 2022 and 10% from 31 December 2022. Stephen Hester's pension contribution has been voluntarily reduced from 30% of salary to 27% of salary from 1 April 2019, and will voluntarily reduce to 24% of base salary from 1 April 2020, 21% from 1 April 2021, 18% from 1 April 2022 and 10% from 31 December 2022. Charlotte Jones received a pension benefit of 10% of salary, which is aligned to that for other new UK-based employees. The aggregate value paid by the Company into the RSA Pension Scheme (a defined contribution plan) for the Executive Directors in 2019 was £3,479 (2018: £0). No Executive Director has a prospective entitlement to a defined benefit pension in respect of their service with RSA.
6. Other remuneration 2019: The figure for Charlotte Jones reflects compensatory awards made to replace those forfeited on leaving her previous employer, as referenced in last year's report and detailed on page 94.
7. Scott Egan was appointed as an Executive Director effective 1 October 2015. In 2019 he received an annual base salary of £548,888 from 1 January to 31 March. His salary increased by 2% effective 1 April to £559,866. There was no change to the level of his remuneration as a result of his role change from Group CFO to CEO UK & International effective 5 February 2019.
8. Stephen Hester was appointed as an Executive Director effective 5 February 2014. In 2019 he received an annual base salary of £1,013,090 from 1 January to 31 March. This increased by 2% effective 1 April to £1,033,352.
9. Charlotte Jones was appointed as an Executive Director effective 31 July 2019 on an annual base salary of £500,000. Remuneration for her period as a Non-Executive Director of RSA prior to this is shown in the table on page 101.

4. Components of variable remuneration (audited)

Annual Bonus Plan 2019

The Executive Directors' 2019 Annual Bonus Plan consisted of financial and business targets aligned to the Group's operational plans, with 2019 financial targets set materially higher than the 2018 results. In the case of the Group CEO and CFO these included: Group underlying Return on Tangible Equity (ROTE), Group underlying profit before tax (PBT), Group combined operating ratio (COR), a Business Scorecard and role-specific personal objectives. The measures for the CEO UK & International emphasised the performance of his region as well as the Group. The maximum bonus opportunity was 160% of salary, of which half of any award is deferred into RSA shares for three years. Bonus awards are subject to malus and clawback provisions, as detailed on page 83. In determining 2019 bonus awards under this Plan, the Committee considered how goals had been met and took account of key risk factors.

Financial Performance (40% weighting)

The measures applicable to the Group CEO and CFO for this component of the bonus plan are shown in the following table:

Bonus Financials: Group CEO and CFO	2018 Actual	2019 Target[1]	2019 Actual[1]	Weighting (% of maximum)	Achievement (% of maximum)
Group underlying ROTE	12.6%	Threshold: 11.9% Target: 14.0% Maximum: 16.1%	16.0%	20%	19.5%
Group underlying PBT	£492m	Threshold: £473m Target: £557m Maximum: £640m	£624m	10%	9.0%
Group COR	96.2%	Threshold: 95.5% Target: 94.5% Maximum: 93.5%	93.6%	10%	9.5%
Total (% of maximum)				**40%**	**38.0%**

The measures applicable to the CEO UK & International for this component of the bonus plan are shown in the following table:

Bonus Financials: CEO UK & International	2018 Actual	2019 Target[1]	2019 Actual[1]	Weighting (% of maximum)	Achievement (% of maximum)
Group underlying ROTE	12.6%	Threshold: 11.9% Target: 14.0% Maximum: 16.1%	16.0%	20%	19.5%
UK & International Underwriting Result	–£43m	Threshold: £87m Target: £116m Maximum: £144m	£144m	10%	9.9%
UK & International COR	101.4%	Threshold: 97.6% Target: 96.1% Maximum: 94.6%	95.0%	10%	8.7%
Total (% of maximum)				**40%**	**38.1%**

Note:
1. 2019 financial measures in these tables relate to the Group's underlying performance which is the basis on which the Group's plans and targets were set by the Board, in common with practice in prior years and which excludes exits for 2019. It is also the primary basis on which the Group was managed in 2019 and its activities reported to shareholders. The Committee also considers all other financial measures to determine whether they should give rise to any discretionary adjustments to pay outcomes and has applied a downward adjustment to the Business Scorecard component of the bonus plan, as set out in the following section.

Business Scorecard (30% weighting)

The Business Scorecard focuses on key areas of management activity essential to the success of the Company spanning underlying financial performance, risk and resilience (including capital) and business sustainability (including customer franchise). Achievement is measured against a range of objective measures, with the overall outcome being determined using judgement in the round. Absent unusual results, the highest Scorecard weightings are accorded to the Underlying Performance financial measures and as a result the majority of annual bonus awards overall are driven by financial measures. The Scorecard outcome will vary from the headline financial metrics' outcome if these are over or underrepresentative of the underlying actions of management and their results.

The Scorecard applicable to the Group CEO and CFO is shown in the following table. Achievement was assessed to have been very good reflecting particularly the very strong underwriting profits which were driven by fundamental underlying improvements to the business.

As the table shows, Underlying Performance on each of costs, cost ratio, and attritional loss ratio was materially better than target. Strategic plan initiatives are discussed at length in the body of the Annual Report, and support the progress achieved on the underlying financials. In particular, the repositioning of the UK & International business and the execution of the planned portfolio exits was seen as a strong positive.

In terms of Risk and Resilience, performance was again strong. Capital ratios were sustained above target levels despite higher dividends. The UK legacy sale was completed and good progress made on various internal capital initiatives. New reinsurance programmes proved their value in Canada and Scandinavia. Good work was done in changing the UK business to meet new regulatory requirements.

On Business Sustainability, the emphasis in 2019 was on adjusting the Group's underwriting to address the market challenges evident from the previous year. While in selected segments this gave rise to a price/volume tradeoff, the Group overall operated at or above targeted levels. Further commentary is presented elsewhere in the Annual Report. Also relevant to Business Sustainability were the Group's progress on diversity and inclusion, as well as new Corporate Responsibility/ESG initiatives including those related to climate change.

The Committee assessed the Scorecard achievement, driven by its financial measures, to have been at the maximum. Taking account of the impact of portfolio exits on some metrics in the year however, discretion was used to adjust downwards the Business Scorecard outcome by 5% from 30/30 to 25/30.

Bonus Business Scorecard: Group CEO and CFO	2018 Actual	2019 Target[1]	2019 Actual[1]	Weighting (% of maximum)	Achievement (% of maximum)
Underlying Performance:					
Group controllable expense ratio	20.8%	22.4%	21.3%		
Group controllable expenses	£1,366m	£1,426m	£1,354m		
Group attritional loss ratio[2]	50.0%	49.7%	49.4%		
Strategic plan initiatives	–	See narrative	See narrative		
Risk and Resilience:					
Solvency II coverage ratio	170%	130–160%	168%		
TNAV:NWP	44%	≥35%	45%	**30%**	**25%**
S&P credit rating	A stable	≥A– stable	A stable		
Capital actions	–	See narrative	See narrative		
Broader risk management	–	See narrative	See narrative		
Business Sustainability:					
Group policy/premium retention	80%	Broadly in line with 2018	80%		
Group top line growth	£6,470m	£6,339m	£6,400m		
Customer franchise	–	See narrative	See narrative		

Notes:
1. As note 1 of table on page 87.
2. Defined excluding Claims Handling Expenses (which are part of the expense measure).

The Scorecard applicable to the CEO UK & International is shown in the following table. The assessment methodology and items given weight were substantially similar to the Group commentary given above. A higher weighting was put on strategic initiatives as the UK & International Region bore the brunt of implementation of portfolio exits, management restructuring and formulation of further cost programmes. It also saw the greatest level of activity adapting to new regulatory standards. All were considered to have been progressed better than expected and to significant benefit for RSA. For the same reason as the Group adjustment described above, discretion was used to adjust downwards the Business Scorecard outcome by 5% from 27.5/30 to 22.5/30.

Bonus Business Scorecard: CEO UK & International	2018 Actual	2019 Target[1]	2019 Actual[1]	Weighting (% of maximum)	Achievement (% of maximum)
Underlying Performance:					
UK & Intl controllable expense ratio	21.4%	22.9%	22.5%		
UK & Intl controllable expenses	£668m	£680m	£650m		
UK & Intl attritional loss ratio[2]	44.8%	43.6%	43.5%		
Strategic plan initiatives	–	See narrative	See narrative		
Risk and Resilience:					
Solvency II coverage ratio	170%	130–160%	168%		
TNAV:NWP	44%	≥35%	45%	**30%**	**22.5%**
S&P credit rating	A stable	≥A– stable	A stable		
Capital actions	–	See narrative	See narrative		
Broader risk management	–	See narrative	See narrative		
Business Sustainability:					
UK policy/premium retention	74%	Broadly in line with 2018	76%		
UK & Intl top line growth	£3,100m	£2,981m	£2,864m		
UK & Intl customer franchise and conduct	–	See narrative	See narrative		

Notes:
1. As note 1 of table on page 87.
2. Defined excluding Claims Handling Expenses (which are part of the expense measure).

Personal Scorecard (30% weighting)

This component focuses on personal performance vs the priorities set by the Board for the Executive Directors in 2019. The Remuneration Committee considers their performance holistically in relation to the development and driving of strategy, financial performance, appropriate risk management, customer and people initiatives (both what was delivered and how). The Committee's assessment for each Executive Director was as shown in the following tables:

Bonus Personal Scorecard: Scott Egan	Progress	Weighting (% of maximum)	Achievement (% of maximum)
Scott's objectives included: · **Strategy:** Develop updated UK & International plans, responding to Best in Class challenge and competitor benchmarks.	· Drove restructuring of UK Commercial Lines and the leadership teams to enhance efficiency and customer experience and deliver more sustainable earnings. UK Cost programme targeted at removing >£50m costs annually by 2021 is well advanced. · Progressed major capability improvement programs in line with plan, with emphasis on re-platforming in Personal Lines, Commercial Lines pricing & underwriting, as well as IS resilience and other regulatory related improvements. · Managed the exit of underperforming lines of business and ensured smooth execution of the separation plan to manage costs. · Reviewed the Group's ExPo program in the Middle East.		
· **Financial delivery:** Drive achievement of financial plans, focused on large loss underwriting, productivity and operational efficiency.	· Financials significantly improved, e.g. UK&I Underwriting Result of £144m and UK&I COR of 95.0% (excluding exits). · Significant enhancements to pricing and underwriting grip achieved through regular Portfolio Review Groups and streamlining of pricing tools.		
· **Risk profile:** Operate to good standards of risk/regulatory control, with focus on IT risk and audit outcomes.	· Positive actions taken in respect of risk items. · Regulatory engagement continued to build positively, with inclusion of a Compliance role on the restructured UK executive team and strong progress made on regulatory matters.	**30%**	**27%**
· **Stakeholders/Customer:** Create strong stakeholder relations and advance initiatives to elevate customer service in the Region.	· Overall increases in UK customer trust: NPS increases across the UK and sustained levels of overall customer retention. · Strong customer focus, leading the response to the Whaley Bridge dam collapse and heading the UK Customer committee. Strengthened product advocacy among RSA employees with the launch of MORE TH>N Rewards. · Good feedback from brokers on streamlining of the commercial business.		
· **Leadership:** Drive accentuated performance culture, embed new people proposition, support for ESG and Diversity & Inclusion policies.	· Reviewed the leadership of the business through restructuring and key appointments (CEOs in Ireland, Luxembourg and Middle East; new management line-up in the UK business). · Ensured embedding of the new people proposition, including the launch of the 'Spotlight' recognition platform. Review of 12 UK HR policies, including the launch and implementation of the new menopause policy (receiving positive feedback from employees). · Chaired the Group Corporate Responsibility Committee including the launch of the Confident Futures strategy. Enhanced female representation on UK leadership team. Launched inclusive culture training for UK leaders. Over 150 mental health first aiders trained.		

Directors' Remuneration Report continued

Bonus Personal Scorecard: Stephen Hester	Progress	Weighting (% of maximum)	Achievement (% of maximum)
Stephen's objectives included: · **Strategy:** Drive implementation of Strategic Plan and its further evolution, continue buildout of best in class capabilities and performance culture, refine plans for digital/data and further customer initiatives.	· New 2019-21 Plan, signed off by Board consistent with progress and ambition. · Defined and implemented the exit of underperforming lines of business, a decision validated by exit losses and competitor results in comparable portfolios. · Progress on digital, enhancing our customer service through policy re-platforming. Major upgrades in process or completed (Unity platform in the UK, tia in Scandinavia and GuideWire claims in Canada). · Re-insurance strategy continued to provide good protection from super-large losses and natural catastrophes. New regional aggregate covers added to protect from more mid-size losses, which generated £32m in recoveries across Canada and Scandinavia.		
· **Financial delivery:** Manage company to meet planned targets within the context of market conditions and with particular regard to controllable and qualitative factors: P&L targets; capital and balance sheet; costs; and underwriting improvements.	· Financials significantly improved as set out above, e.g. Group underlying PBT of £624m and Group underwriting result of £405m (excluding exits). · Continued focus on cost efficiency to meet <20% controllable cost ratios for each region plus initiated a new >£50m UK programme.		
· **Risk profile:** Set and deliver good standards of risk/regulatory control and capital resilience.	· Ensured capital and other policies maintained to sustain "A stable" S&P credit rating. Core Tier 1 capital remained strong at 106%. · Successful pricing of £350m of Senior Notes to ensure liquidity pre-Brexit. · Completed Part VII transfer of c.£800m of liabilities in Legacy Book. · Drove re-balancing of portfolio to divest where exceeding risk appetite, maintained focus on regulatory practices.	**30%**	**30%**
· **Stakeholders/Customer:** Sustain strong stakeholder relations and drive initiatives to improve customer service.	· Led the importance of customer across RSA with 80% retention, enhanced Board reporting on customer KPIs, driving key initiatives. · Continued to proactively manage stakeholder relationships, e.g. >150 investor meetings in the year.		
· **Leadership:** Develop people structures and culture to achieve Group performance plans and build succession bench, provide effective leadership of Group executive, and advocacy for Environmental, Social & Governance (ESG) initiatives across the Group including Diversity & Inclusion.	· Strengthened the leadership of the business with key appointments (including two new CEOs in Scandinavia and UK & International and new Group CFO). · Assumed direct accountability for the Group Finance function and the Group CFO role during the first half of the year, ahead of the arrival of a new Group CFO. · Pro-active on ESG/Corporate Responsibility. New policy on fossil fuels agreed by the Board, carbon emissions reduced by 16.5% per FTE (2018: 8.1% per FTE reduction). 34.6% representation of women in the Management Group by 2020 (above the 33% minimum targeted), with 40% of CEO direct reports now female.		

Bonus Personal Scorecard: Charlotte Jones[1]	Progress	Weighting (% of maximum)	Achievement (% of maximum)
Charlotte's objectives included: · **Strategy:** Ensure the Group's three-year plan is monitored to a high standard, with detailed strategy and performance benchmarking. Enhancements to corporate structure.	· Oversaw regular, high quality, detailed strategy and performance benchmarking vs. competitors. · Continued optimisation of Group corporate structure and internal capitalisations around regulatory, tax and FX hedging.	**30%**	**20%**
· **Financial delivery:** Strong driver of Group performance vs plan, and investment returns. Embed zero-based budgeting and delivery of IFRS 17.	· Capital and other policies maintained to sustain "A stable" S&P credit rating. · Finance function operated slightly below budget. · Investment returns outperformed benchmarks, within sensible risk policy.		
· **Risk profile:** Operate to a high standard of financial control, in terms of judgement, reporting and compliance.	· Strong and effective risk framework for Investment function. · Drove a high standard of financial analysis and reporting, across accounting, reconciliations, capital and balance sheets etc. · Actuarial early warnings and judgements enhanced to deliver better and faster understanding of loss picks and trends.		
· **Stakeholders/Customer:** High satisfaction from internal users of Finance. Strong contribution to key customer relationships (e.g. investors, regulators, key brokers).	· Successfully immersed into the business, visiting six sites in first five months. · Maintained market leading investor relations, attending two investor conferences and attending 45 investor meetings. · Good early feedback from Audit Committee, Board and executives for service quality, timeliness, analysis and control effectiveness.		
· **Leadership:** Embody key leadership attributes, contribute to ESG goals, drive to achieve world class Finance function in terms of cost, service quality and control effectiveness.	· Increased Finance function proactivity on identifying and solving business issues and opportunities. · Strong leadership of Finance Leadership Team, managing succession in core roles with a strong focus to onward development.		

Note:
1. Charlotte began her CFO role on 31 July 2019 and hence personal achievements relate to the last 5 months of the year.

Overall achievement

The resulting overall bonus calculations are shown in the following table.

		Scott Egan		Stephen Hester	Charlotte Jones
Bonus 2019 performance measures	Weighting (% of maximum)	Group CFO[1] (% of maximum)	CEO UK & Intl[2] (% of maximum)	Group CEO (% of maximum)	Group CFO[3] (% of maximum)
Group underlying ROTE, Group underlying PBT, Group COR	40%	38%	–	38%	38%
Group underlying ROTE, UK & Intl Underwriting Result, UK & Intl COR		–	38.1%	–	–
Business Scorecard	30%	25%	22.5%	25%	25%
Personal Scorecard	30%	27%	27%	30%	20%
Total %	**100%**	**90%**	**87.6%**	**93%**	**83%**
Total % of maximum			**88%**	**93%**	**83%**
Total (% of annual base salary)			**140%**	**149%**	**56%**
Bonus receivable[4]			**£786,430**	**£1,538,349**	**£280,301**

Notes:
1. For the period 1 Jan – 4 Feb 2019.
2. For the period 5 Feb – 31 Dec 2019.
3. For the period 31 Jul – 31 Dec 2019.
4. Half of the bonus is awarded in Deferred Bonus Shares which vest three years from the grant date, and are subject to malus adjustment as noted on page 83.

Long-term incentive awards vesting from 2017-19 cycle

In 2020, these conditional Performance Share awards will partially vest at 50.3% of the maximum, based on the achievement of the three performance conditions described below. The long-term incentive plan provides incentives aligned with, but different from, the annual bonus plan. The one-third Business Scorecard component has similar measures to the bonus Business Scorecard focusing on key underlying performance indicators relevant to RSA's business (in order to avoid conflicting signals), however in the case of the long-term incentive targets these are set for a three year period at the start of the LTIP as opposed to being set annually for bonus targets. Therefore the assessment outcome will be different and more geared to the medium term.

Relative Total Shareholder Return (33.3% weighting – achieved 0%)

RSA's Relative TSR (which combines share price and dividend returns) underperformed the index of comparators over the period primarily due to the impact of RSA's 2018 drop in performance together with the general underperformance of the UK listed insurance sector versus international competitors which constitute much of the LTIP index.

Group underlying ROTE (33.3% weighting – achieved 17.0%)

The Group underlying ROTE three-year average achieved was 14.7%. The 12-18% target range was set 1% point wider either side of RSA's stated mid term goal of 13-17%, as communicated at the start of 2017. The average required for an on-target vesting (62.5% vesting) was 15.9%, a level significantly in excess of the Group's cost of equity. This average was set based on RSA's original operating plan for the period, and therefore was not automatically the mid-point of the range.

Long-term incentive performance measures 2017-19	Threshold target: 25% vesting	Maximum target: 100% vesting	Actual	Weighting	Vesting (% of maximum)
Relative TSR[1]	RSA's TSR is equal to the unweighted index of comparators	RSA's TSR outperforms the unweighted index of comparators by 22.5% compound over three years (i.e. at least 7% per annum) or exceeds the TSR of the highest performing company in the index	Below index	33.3%	0%
Group underlying ROTE[2]	12%	18%	14.7%	33.3%	17.0%
Business Scorecard	See narrative	See narrative	See narrative	33.3%	33.3%
Total				**100%**	**50.3%**

Notes:
1. Relative TSR index of comparators includes: Admiral, Allianz, Aviva, Chubb, Direct Line, Gjensidige Forsikring, Hiscox, Intact, Mapfre, QBE, Topdanmark, Tryg and Zurich. A straight-line calculation is applied to determine the portion of awards that vest for performance between the threshold and maximum targets.
2. Group underlying ROTE is calculated on a three-year average basis. A straight-line calculation was applied to determine the portion of awards that vest for performance between threshold and on-target, and between on-target and maximum. The average required for on-target vesting (62.5% vesting) in this cycle was 15.9%.

Business Scorecard (33.3% weighting – achieved 33.3%)

The vesting outcome on this element was determined by the Committee assessing RSA's progress during the three years in the round. The 2017-19 Scorecard targets were updated versus the 2016-18 Scorecard reflecting more ambitious targets in some areas plus an alignment with the Annual Bonus Plan KPIs. The Scorecard differs from that applied to the Annual Bonus Plan in timescale (three years vs one year), and reflects targets set at the beginning of the three-year period rather than set annually.

Within the Business Scorecard indicators, performance overall was assessed to have been excellent. The Scorecard's indicators shown in the following table form the basis of this judgement. In every case, the delivery has exceeded the targets set in 2017 where financially quantifiable. The qualitative judgements in each category are more fully recorded in the Annual Report commentary for each relevant period. The overall judgement is that RSA has continued to progress towards its "best in class" ambition. In the last three years covered by this award, RSA has produced two of its best underwriting results this century[1]. The strategy and business initiatives have been well thought through and executed. While industry-wide loss challenges hit results in 2017 and 2018 particularly, RSA's risk and capital resilience coped well, allowing dividend growth to continue uninterrupted. The determined reaction of management, exiting relevant portfolios, restructuring senior leadership and UK costs was also considered a distinctive positive.

Note:
1. 'Best' refers to the highest underwriting result when comparing underwriting performance on a like for like basis (with central costs consistently allocated to the underwriting result pre 2013 back to 2000).

The vesting awarded in this category reflects the above considerations, and is consistent with the methodology applied in past years.

Long-term incentive Business Scorecard	Key performance indicators	Target[1]	Actual[1]		
Strategic priorities:			2017	2018	2019
· **Underlying Performance**	Group controllable expense ratio	21.7% average	21.5%	20.8%	21.3%
	Attritional loss ratio[2]	≤ 50.0% each year	49.6%	50.0%	49.4%
				2017-19	
	Total Group controllable expenses	£4,363m		£4,145m	
	Strategic plan initiatives	See narrative		See narrative	
· **Risk and Resilience**			2017	2018	2019
	Solvency II coverage ratio	130-160%	163%	170%	168%
	TNAV:NWP	≥35%	41%	44%	45%
	S&P credit rating	≥A- stable	A stable	A stable	A stable
	Capital actions	See narrative		See narrative	
	Broader risk management	See narrative		See narrative	
· **Business Sustainability**				2017-19	
	Policy/premium retention	80%		≥80% each year	
	Top line growth[3]	Improvement vs 2016 base year of £6,281m		£6,400m[4]	
	Customer franchise	See narrative		See narrative	

Notes:
1. As note 1 of table on page 87.
2. Defined excluding Claims Handling Expenses (which are part of the expense measure) and adjusted for reinsurance changes.
3. Excludes discontinued operations of Latin America and Russia, and non-core operations of UK Legacy.
4. Final year result.

Vesting overview

2017-19 Long-term incentive vesting	Granted number of shares	Vesting number of shares	Estimated value (including dividend equivalents)
Scott Egan	180,216	90,685	£537,192[1]
Stephen Hester	382,521	192,486	£1,140,241[2]

Notes:
1. Estimate includes the vesting 90,685 Performance Shares valued at £488,295 (of which none is attributable to share price appreciation), and accrued dividend equivalents valued at £48,897 that will be added to the awards that vest. Valued using an average share price over the last quarter of 2019 of £5.385 and compared to a grant share price of £5.972.
2. Estimate includes the vesting 192,486 Performance Shares valued at £1,036,444 (of which none is attributable to share price appreciation), and accrued dividend equivalents valued at £103,797 that will be added to the awards that vest. Valued as in note 1.
3. Details of Charlotte Jones' compensatory buyout award are set out on page 94.
4. The Committee considered whether any discretionary adjustments in respect of the vesting were appropriate and concluded that none were required.

Long-term incentive awards granted in 2019

Conditional long-term incentive awards were made to Scott Egan and Stephen Hester on 8 March 2019, and to Charlotte Jones on 2 September 2019. These Performance Share awards will vest in 2022, subject to the satisfaction of the plan's performance conditions based on Relative Total Shareholder Return, Group underlying ROTE, and a Business Scorecard.

The Relative TSR target requires RSA's performance to be equal to or better than the index of comparator companies. The Group underlying ROTE target is set in line with the Group's operating plan for the three year period.

The Business Scorecard measures a range of indicators on an underlying basis, and includes: regulatory capital ratios, credit rating, capital actions, risk management, attritional loss ratio, total controllable costs/cost ratios, key business improvement projects, customer franchise and other relevant actions related to the Company's long-term success. Achievement will be evaluated using a performance framework whereby metrics will be reviewed against their targets, together with any other aspects connected to the business performance including material risk items. Judgement in the round will be used by the Committee to determine the level of vesting. The specific targets cannot be disclosed prospectively for commercial reasons, including price sensitivity. A performance narrative will be given regarding the level of Scorecard vesting once the performance conditions have been tested.

Long-term incentive performance measures 2019-21	Weighting	Threshold target: 25% vesting	Maximum target: 100% vesting
Relative TSR[1]	1/3	RSA's TSR is equal to the unweighted index of comparators	RSA's TSR outperforms the unweighted index of comparators by 22.5% compound over three years (i.e. at least 7% per annum) or exceeds the TSR of the highest performing company in the index
Group underlying ROTE[2]	1/3	12%	18%
Business Scorecard	1/3	Commercially sensitive	Commercially sensitive

Notes:
1. Relative TSR index of comparators includes: Admiral, Allianz, Aviva, Chubb, Direct Line, Gjensidige Forsikring, Hiscox, Intact, Mapfre, QBE, Topdanmark, Tryg and Zurich. A straight-line calculation is applied to determine the portion of awards that vest for performance between the threshold and maximum targets.
2. Group underlying ROTE will be calculated on a three-year average basis. A straight-line calculation is applied to determine the portion of awards that vest for performance between threshold and on-target, and between on-target and maximum. The average required for on-target vesting (62.5% vesting) is considered commercially sensitive because it is set in line with, and therefore signals, the Group's forward plan for the period. Disclosure will be provided retrospectively following the end of the performance period.

The awards granted are set out in the table below:

	Performance Shares[1]		
Director	Basis of award	Number of shares[2]	Face value[3]
Scott Egan	200% of salary	215,415	£1,119,732
Stephen Hester	230% of salary	457,235	£2,376,710
Charlotte Jones	200% of salary	190,360	£1,000,000

Notes:
1. The performance period is three years and ends on 31 December 2021. Performance measures are Group underlying ROTE, Relative TSR and a Business Scorecard (one-third weighting each).
2. If threshold performance is achieved, 25% of the number of shares shown will vest.
3. The face value of the award is calculated as the maximum number of shares that would vest if all performance measures and targets are met at maximum, multiplied by the mid-market closing price of an RSA ordinary share averaged over the five business days preceding the date of grant (in Scott Egan and Stephen Hester's case, 8 March 2019, averaged share price £5.198; and in Charlotte Jones' case, 2 September 2019, averaged share price £5.2532).

Group CFO compensatory awards

As noted in last year's report, Charlotte Jones forfeited a number of incentive awards from her previous employer on her appointment as Group CFO. In line with the Policy, a compensatory package has been constructed, to match the timing and nature of awards forfeited. The Committee ensured the buyouts were a fair reflection of awards forfeited, and no more than necessary, by:

- Obtaining evidence of the amount of bonus and LTIP forfeited;
- Conducting a detailed assessment of the award terms, and compensating with RSA equivalents (e.g. performance shares compensated with performance shares on similar vesting timelines); and
- Valuing the share awards using the former employer's share price at the time and converting them to RSA awards, to provide Charlotte early linkage to the RSA share price.

The following awards, which consist of a combination of cash and share-based awards (with emphasis on the latter), have been granted. The share award face values shown below are the maximum number of shares that can vest, multiplied by the mid-market five day average closing share price preceding the 2 September 2019 grant date of £5.2532:

- 72,778 Performance Shares in the RSA 2017-19 cycle, in line with the value and schedule of her forfeited award (face value £382,317). 36,622 of these shares will vest on 3 March 2020, given the vesting outcome described on page 92. The rest will lapse. The estimated value of the Performance Shares vesting is £197,192, of which £4,809 is attributable to share price appreciation, using an average share price over the last quarter of 2019 of £5.385 compared to a grant share price of £5.2532. Accrued dividend equivalents valued at £2,816 will be added to the awards that vest, giving a total estimated value at vesting of £200,008. Following vesting, a two year retention period applies.
- 77,504 Performance Shares in the RSA 2018-20 cycle, in line with the value and schedule of her forfeited award (face value £407,144). These awards will vest subject to the satisfaction of this cycle's performance conditions, disclosed on page 75 of the 2018 Remuneration Report. If threshold performance is achieved, 25% of the award will vest. Following vesting on 2 March 2021, a two year retention period applies.
- 122,090 Restricted Shares to replace forfeited deferred bonus shares (face value £641,363). These awards vest in tranches between 2019 and September 2022 subject to continued employment as detailed on page 96, with 75% (91,980) of the shares subject to additional six-month retention periods following vesting.
- A cash payment of £112,500 to replace a cash bonus payment forfeited upon her resignation in respect of 2018 performance.

In addition to the rules governing RSA share awards, the buyout awards are subject to repayment terms in the event of resignation or termination for gross misconduct within two years of appointment. Charlotte must build her RSA shareholding to the required 200% of salary level prior to the sale of any shares, excluding those sold to cover statutory deductions.

5. Executive Director Shareholding (audited)

The table below shows the interests of Executive Directors in Ordinary Shares of £1.00 each of the Company, including those of closely associated persons. Non-Executive Director holdings are shown on page 102.

Director	Shares held at 1 January 2019	Shares held at 31 December 2019[1]
Scott Egan	29,956	130,738
Stephen Hester	544,127	833,664
Charlotte Jones[2]	–	11,319

Notes:
1. As at 26 February 2020, the interests in Ordinary Shares of the current Directors have not changed since 31 December 2019.
2. Charlotte Jones was appointed as an Executive Director effective 31 July 2019. The table above shows her holding as at that date and not 1 January 2019. Her holding as a Non-Executive Director up to 31 July 2019 is shown on page 102.
3. Full details of all Directors' shareholdings and options to subscribe for shares are recorded in the Group's Register of Directors' Interests which is open to inspection by shareholders at the AGM and at the Company's registered office during standard business hours. The Directors had no share options that vested and remained unexercised, or were exercised in the year.

Required Shareholding

The left-hand side of table below shows the Executive Directors' Shareholding level as at 31 December 2019, calculated based on the shares they own outright, and an after tax value of share awards that are not subject to performance conditions.

In addition, Executive Directors hold unvested Performance Share interests in the Company's long-term incentive plan, which are shown on the right-hand side of the table. These provide further exposure to the RSA share price ensuring Executive Directors have significant 'skin in the game.' These awards must be retained on vesting (aside from any sold to satisfy statutory deductions) until the required Shareholding level is reached. Any awards which vest and are retained count towards the Shareholding level from that point.

Charlotte Jones commenced her role as Group CFO in July 2019 and is building her Shareholding to the target level shown below within the targeted five-year period.

	Shares counting towards required shareholding								Other unvested scheme interests	
Director	Number of shares owned outright as at 31 Dec 2019	Valuation[1]	Number of share awards not subject to performance conditions[2]	Valuation after tax[3]	Total Valuation	Shareholding level at 31 Dec 2019 (% of salary)[4]	Shareholding level to be reached (% of salary)	Has target shareholding level been reached?	Number of share awards subject to performance conditions[5]	Estimated potential additional Shareholding post-vesting (% of salary)[6]
Scott Egan	130,738	£706,229	130,381	£373,279	£1,079,508	193%	200%	Set to reach on 3 March 2020 when Performance Share award vests[7]	569,241	182%
Stephen Hester	833,664	£4,503,338	258,819	£740,995	£5,244,333	508%	300%	Yes	1,208,257	209%
Charlotte Jones	11,319	£61,144	100,675	£288,231	£349,375	70%	200%	Building holding in targeted five–year period	340,642	122%

Notes:
1. The valuation is against an average mid-market closing price of an RSA ordinary share during 2019 of £5.402.
2. Includes Deferred Bonus Shares and Restricted Shares (awarded as part of a buyout).
3. Estimates the potential additional Shareholding that could result from these awards at vesting, after statutory deductions.
4. Calculated using the gross annual base salary as at 31 December 2019.
5. Includes Performance Shares as detailed in the following table.
6. Estimates the potential additional Shareholding that could result from these awards at vesting, after statutory deductions. Assumes an on-target (62.5%) vesting level of Performance Shares. For simplicity, the dividend equivalents that are added to vesting share awards are not included here. Valued as in notes 1 and 4 above.
7. Scott Egan is set to reach the target level on 3 March 2020 when the Performance Share awards vest from the 2017-19 cycle as shown on pages 92 to 93, which is within the targeted five-year build up period. Calculation is based on the average 2019 share price as in note 1. (If the mid-market closing share price on 31 Dec 2019 of £5.656 were used in the valuation, Scott's holding at 31 December 2019 would be 202% of salary as opposed to the 193% shown.)

Scheme interests

Details of Executive Directors' existing awards in the Company's share plans are set out in the following table. The interests shown were granted under the long-term incentive plan approved by shareholders at the 2014 AGM, the Performance Share Plan (PSP).

Director	Share awards held at 1 January 2019	Share awards granted during the year[1]	Share awards vested during the year	Share awards lapsed during the year	Share awards held at 31 December 2019	Grant share price	Vesting date	Retention period end date
Scott Egan								
Deferred Bonus Shares[2]	60,482	–	–	–	60,482	£5.972	3 Mar 2020	–
Deferred Bonus Shares[2]	42,867	–	–	–	42,867	£6.3232	2 Mar 2021	–
Deferred Bonus Shares[2]	–	27,032	–	–	27,032	£5.198	8 Mar 2022	–
Performance Shares 2016-18[4]	238,030	–	175,665	62,365	–	£4.4112	4 Mar 2019	4 Mar 2021
Performance Shares 2017-19[6]	180,216	–	–	–	180,216	£5.972	3 Mar 2020	3 Mar 2022
Performance Shares 2018-20[6]	173,610	–	–	–	173,610	£6.3232	2 Mar 2021	2 Mar 2023
Performance Shares 2019-21[6]	–	215,415	–	–	215,415	£5.198	8 Mar 2022	8 Mar 2024
Total	**695,205**	**242,447**	**175,665**	**62,365**	**699,622**			
Stephen Hester								
Deferred Bonus Shares[2 3]	131,800	–	131,800	–	–	£4.4112	4 Mar 2019	–
Deferred Bonus Shares[2]	129,805	–	–	–	129,805	£5.972	3 Mar 2020	–
Deferred Bonus Shares[2]	79,120	–	–	–	79,120	£6.3232	2 Mar 2021	–
Deferred Bonus Shares[2]	–	49,894	–	–	49,894	£5.198	8 Mar 2022	–
Performance Shares 2016-18[5]	505,236	–	372,863	132,373	–	£4.4112	4 Mar 2019	4 Mar 2021
Performance Shares 2017-19[6]	382,521	–	–	–	382,521	£5.972	3 Mar 2020	3 Mar 2022
Performance Shares 2018-20[6]	368,501	–	–	–	368,501	£6.3232	2 Mar 2021	2 Mar 2023
Performance Shares 2019-21[6]	–	457,235	–	–	457,235	£5.198	8 Mar 2022	8 Mar 2024
Total	**1,596,983**	**507,129**	**504,663**	**132,373**	**1,467,076**			
Charlotte Jones[7]								
Restricted Shares	–	21,415	21,415	–	–	£5.2532	3 Sep 2019	–
Restricted Shares	–	22,972	–	–	22,972	£5.2532	3 Mar 2020	3 Sep 2020[8]
Restricted Shares	–	63,426	–	–	63,426	£5.2532	2 Mar 2021	2 Sep 2021
Restricted Shares	–	14,277	–	–	14,277	£5.2532	8 Mar 2022	8 Sep 2022
Performance Shares 2017-19[6]	–	72,778	–	–	72,778	£5.2532	3 Mar 2020	3 Mar 2022
Performance Shares 2018-20[6]	–	77,504	–	–	77,504	£5.2532	2 Mar 2021	2 Mar 2023
Performance Shares 2019-21[6]	–	190,360	–	–	190,360	£5.2532	2 Sep 2022	2 Sep 2024
Total	–	**462,732**	**21,415**	–	**441,317**			

Notes:

1. The Company granted conditional awards over Ordinary Shares under the PSP during the year at nil cost. The number of shares was calculated based on the mid-market closing price averaged over the five business days preceding the grant dates (8 March 2019 for Stephen Hester and Scott Egan, averaged share price of £5.198; and 2 September 2019 for Charlotte Jones, averaged share price £5.2532).
2. Deferred Bonus Shares vest three years from the date of grant, and are subject to malus adjustment as detailed on page 83. Those granted during the year reflect the 50% of the 2018 annual bonus deferred, with a face value at grant of £259,351 and £140,516 for Stephen Hester and Scott Egan respectively.
3. Deferred Bonus Shares granted to Stephen Hester in 2016 vested during the year and 11,261 accrued dividend equivalent shares were added to the number of vesting awards shown above. A portion of the shares were sold to cover statutory deductions, the rest were retained.
4. Performance Shares granted to Scott Egan in 2016 partially vested during the year and 15,008 accrued dividend equivalent shares were added to the number of vesting awards shown above. A portion of the shares were sold to cover statutory deductions, the rest were retained.
5. Performance Shares granted to Stephen Hester in 2016 partially vested during the year and 31,857 accrued dividend equivalent shares were added to the number of vesting awards shown above. A portion of the shares were sold to cover statutory deductions, the rest were retained.
6. Performance Shares granted in 2017, 2018 and 2019 have performance conditions of Group underlying ROTE, Relative TSR and a Business Scorecard (one-third weighting each). The date by which performance conditions are to be met is as follows: 2017 awards by 31 December 2019, 2018 awards by 31 December 2020, 2019 awards by 31 December 2021.
7. Restricted Shares and Performance Shares in the 2017-19 and 2018-20 cycles were granted to Charlotte Jones to replace awards forfeited on leaving her previous employer, as detailed on page 94. Restricted Shares are subject to continued service with RSA and malus adjustment. A portion of the shares vesting in 2019 were sold to cover statutory deductions, the rest were retained.
8. Retention period applicable to 14,277 of the 22,972 share awards shown.
9. No other Directors of the Company held long-term incentive scheme interests during the year.
10. Details of the employee benefit trusts used to satisfy grants under the Group's share incentive schemes are on pages 110 and 170.

6. External directorships

Stephen Hester received fees of £92,500 during the year in respect of his non-executive role at Centrica plc, where he is Senior Independent Director. As permitted under the Remuneration Policy, he retained these fees. Scott Egan and Charlotte Jones do not hold outside directorships of FTSE 100 (or any other listed) companies but would be allowed to have one such appointment, subject to the approval of the Group Nomination and Governance Committee.

7. Loss of office and former director payments (audited)

There were no payments to Directors for loss of office in 2019.

No payments were made to former Directors in 2019.

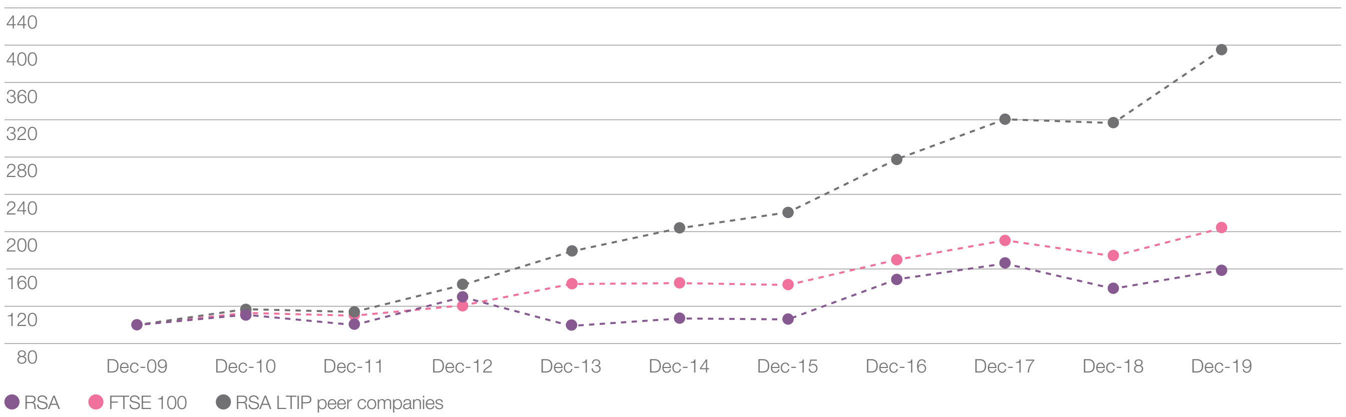
8. Contextual figures

Historical TSR and executive remuneration

The following graph shows the TSR of the Group over the ten years from 31 December 2009 to 31 December 2019, with reference to the FTSE 100 Index and a peer group comprised of those companies included in the LTIP's Relative TSR component (which are noted on pages 94 and 100). The FTSE 100 Index is included as it comprises the 100 most highly capitalised companies in the UK market, of which RSA was a member in 2019.

The graph reflects the change in value of Ordinary Shares in a company over time, as represented by a hypothetical £100 holding in the shares. Any distribution of dividends is included.

Value of hypothetical £100 holding



The table below shows the total remuneration for the incumbents appointed as the most senior Executive Director. The annual bonus award rates include both cash and deferred shares components.

	2010	2011		2012	2013		2014		2015	2016	2017	2018	2019
Director	Andy Haste	Andy Haste	Simon Lee	Simon Lee	Simon Lee	Martin Scicluna[1]	Martin Scicluna[1]	Stephen Hester[2]	Stephen Hester[2]	Stephen Hester	Stephen Hester	Stephen Hester[3]	Stephen Hester[3]
Single figure of total remuneration (£'000)	4,024	2,488	311	2,164	1,011	21	39	2,118	2,469	4,478	5,077	3,996	4,060
Annual bonus award rates (% of maximum)	73%	58%	59%	50%	0%	n/a	n/a	68%	77%	100%	63%	32%	93%
LTIP vesting rates (% of maximum)	66%	31%	34%	34%	0%	n/a	n/a	n/a	n/a	43%	58%	74%	50%

Notes:
1. Martin Scicluna was appointed Executive Chairman effective 13 December 2013 until 4 February 2014.
2. Stephen Hester was appointed Group Chief Executive effective 5 February 2014 and did not have any long-term incentive awards in the 2012-14 and 2013-15 cycles.
3. Details of the 2018 and 2019 figures are given on pages 86 to 93.

Percentage change in remuneration

The table below sets out the percentage change in salary, benefits and bonus for Executive Directors compared with Group employees on average on a full time equivalent basis. A similar comparison for Non-Executive Directors is on page 101.

	Year	Salary	Taxable benefits	Bonus
All employees (excluding directors)[1]	2018 to 2019	2.3%	2%	100%
Scott Egan	2018 to 2019	2.0%	-2%	180%
Stephen Hester	2018 to 2019	2.0%	5%	197%

Notes:
1. A comparison to parent company employees is not possible, as the parent company RSA Insurance Group plc employs only Directors.
2. Charlotte Jones was appointed as an Executive Director effective 31 July 2019 and had no executive remuneration in 2018, so it is not possible to calculate a percentage change in her case.

Relative importance of spend on pay

The table below shows the all-employee pay spend and returns to shareholders by way of dividends for 2019. Figures from 2018 are provided for comparison. The employee pay data covers the Group's employees globally, and therefore includes the impact of exchange rate changes.

(£m)	2018	2019	% difference from prior year
Total Spend on Employee Pay[1]	747	731	-2%
Total Distributions to Shareholders[2]	231	242	5%

Notes:
1. Includes wages and salaries, social security costs, pension costs and share-based payments as shown in the notes to the Financial Statements on page 149.
2. Includes the figures as shown in the notes to the Financial Statements on page 153.

Pay ratios

The Group aims to treat all employees fairly in the markets in which we operate and provide competitive, performance-linked remuneration. RSA is accredited by the UK's Living Wage Foundation as a Living Wage Employer.

The following table compares the 2019 total remuneration single figure for the Group Chief Executive with the Group's UK-based employees at the 25th percentile, median and 75th percentile.

A range of factors are taken into account in setting pay across the organisation, such as market positioning, inflation, job scale and content, and individual experience. The Group Chief Executive's remuneration is weighted relatively more towards variable pay due to the responsibility of the role, and therefore the ratio for any given year will shift according to incentive plan outcomes for that year, including multi-year long-term incentive awards. Further, since the majority of profits, revenues and employees of RSA lie outside the UK, the Group Chief Executive total remuneration will move in line with the total Group performance which may differ from UK employee averages that will primarily reflect UK performance. Nevertheless, the Committee is mindful of the importance of monitoring and assessing pay relativities, and ratios will be kept under review. Given the factors described above, the Committee is satisfied that the pay ratios for 2019 are consistent with the relevant UK HR policies. While there was a slight increase in the Group CEO's total remuneration from 2018 to 2019 (+1.6%), this was relatively smaller than that of the employees at the relevant percentiles, and due to this the 2019 pay ratios show a slight decrease compared to 2018.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019[1,3]	Option B[2]	175:1	120:1	68:1
2018[4]	Option B	180:1	122:1	69:1

Notes:
1. The Company determined the remuneration figures for the employee at each quartile with reference to a date of 31 December of the year shown.
2. This calculation method was used as it provides a fair representation of the pay ratios given RSA's remuneration structures. In the business context where multiple HR information systems are operated, it is relatively time-efficient to calculate while remaining appropriately specific, and therefore is used in preference to Options A or C. Under this option, gender pay gap data as at April 2019 is used to identify the best equivalents for the three RSA UK employees paid at the 25th percentile, median and 75th percentile. A 2019 total remuneration figure is then calculated for each of these employees, and for a sample of employees with hourly remuneration rates either side to ensure that a representative employee is selected. Each of the three identified individuals was a full-time employee during the year.
3. The total pay and benefits for the individuals identified at the 25th percentile, median and 75th percentile was £23,152, £33,754 and £59,663 respectively. The base salary for the individuals identified at the 25th percentile, median and 75th percentile was: £20,212, £29,520 and £48,747 respectively.
4. The 2018 ratio figures are restated to reflect the actual value of the Group CEO's 2016-18 Performance Shares vesting, as detailed on page 86.

Dilution

RSA monitors its dilution levels on a regular basis to ensure that they remain within the headroom limits set by the Investment Association. As at 31 December 2019, the dilution levels were as follows:

Limit	RSA dilution %
10% over 10 years for all share schemes	3.63%
5% over 10 years for discretionary schemes, including long-term incentives	2.33%

9. Implementation of Policy in 2020

This section outlines how the Committee intends to implement the Directors' Remuneration Policy during 2020.

Fixed remuneration

The Policy will be implemented consistently with the approach used in 2019. The Committee reviewed the Executive Director salary levels, taking into account the average reviews applied elsewhere in the Group, including those for employees subject to collective bargaining agreements, and UK inflation figures. It referenced a range of information including market data from two benchmarking peer groups of listed international insurers and FTSE companies of a broadly comparable market capitalisation to RSA, excluding banks and heavy industries.

The table below shows the salaries that will apply from 1 April 2020. The level of increase is below the average increase levels for other UK-based employees this year:

Director	Annual base salary effective 1 April 2019	Annual base salary effective 1 April 2020	% change
Scott Egan	£559,866	£571,063	2%
Stephen Hester	£1,033,352	£1,054,019	2%
Charlotte Jones	£500,000[1]	£510,000	2%

Note:
1. As at appointment effective date of 31 July 2019.

Stephen Hester's voluntary pension contribution rate reduction will continue, with payments from 1 April 2020 to reduce by 3% of salary, to 24% of salary (as announced last year), and to 21% of salary from 1 April 2021, 18% from 1 April 2022 and 10% from 31 December 2022. Scott Egan will voluntarily reduce his current 15% of salary rate to 14% from 1 April 2020, 13% from 1 April 2021, 12% from 1 April 2022 and 10% from 31 December 2022. This will align them to the rate offered to new UK-based employees, reflecting recent developments in UK corporate governance.

Aligning strategy and incentive measures in 2020

The table below shows how the business strategy, and the key performance indicators which underpin it, are reflected in the Annual Bonus Plan and long-term incentive performance measures for Executive Directors in 2020:

Strategic priorities	Annual Bonus Plan 2020	Long-term incentive cycle 2020-22
· Shareholder returns · Profitability	Group underlying ROTE, Group underlying PBT, Group/Region COR, Region Underwriting Result	Relative TSR Group underlying ROTE
· Underlying Performance · Risk and Resilience · Business Sustainability	Business Scorecard · Underlying Performance: Attritional loss ratio, total controllable costs/cost ratios, key business improvement projects; · Risk and Resilience: Regulatory capital ratios, credit rating, capital actions, risk management; · Business Sustainability: Customer franchise and other relevant actions related to the Company's long-term success including People and Corporate Responsibility	

Annual Bonus Plan 2020

The Annual Bonus Plan is aligned with the core priorities for focus in 2020. The Executive Directors will be expected to deliver against stretching targets, which are geared towards making continued performance improvement. The Group Chief Executive and CFO are targeted against the performance of the entire Group, taking into account their contribution thereto. The CEO UK & International will be targeted against a combination of the performance of his region and the Group, taking into account his contribution thereto.

The Business Scorecard component focuses on key areas of management activity essential to the success of the Company including Underlying Performance, Risk and Resilience and Business Sustainability including Customer franchise and ESG. For the CEO UK & International, divisional performance indicators are included. The Personal Scorecard consists of SMART objectives bespoke to each Director, with a focus on both what is achieved and how goals are delivered. Half of the total bonus will be awarded in cash where clawback can apply; the balance is deferred into shares for a three-year period where malus adjustment can apply.

The Committee will assess performance for 2020 once the financial year has ended, taking into account material risk factors. All of the bonus targets are considered to be commercially sensitive because they signal the Group's forward plan for the year, and therefore they are not provided in this document. Disclosure will be provided in the 2020 Directors' Remuneration Report, to the extent that the targets do not remain commercially sensitive. The table below sets out the structure of the Executive Directors' bonus plan for 2020.

	CEO, UK & International		Group Chief Executive and CFO	
Bonus performance measures 2020	Weighting (% of bonus)	Maximum opportunity (% of salary)	Weighting (% of bonus)	Maximum opportunity (% of salary)
Group underlying Return on Tangible Equity (ROTE)	20%	32%	20%	32%
Group underlying Profit before Tax (PBT)	–	–	10%	16%
Group COR	–	–	10%	16%
UK & International COR and Underwriting Result	20%	32%	–	–
Business Scorecard	30%	48%	30%	48%
Personal Scorecard	30%	48%	30%	48%
Total	**100%**	**160%**	**100%**	**160%**

Long-term incentive 2020-22

The plan directly supports the building of shareholder value by targeting Group underlying ROTE, relative Total Shareholder Return (TSR) and a Business Scorecard.

For the 2020 grant, performance measures will be assessed against a performance period of 1 January 2020 to 31 December 2022, taking into account underlying business performance and material risk factors.

The Relative TSR target requires RSA's performance to be equal to or better than the index of comparator companies. The Group underlying ROTE target is set in line with the Group's operating plan for the three year period.

The Business Scorecard measures and assessment will be operated similarly to the 2019-21 LTIP cycle, as described on pages 93 to 94. In contrast to the Business Scorecard in the 2020 Annual Bonus, which will capture calendar year actions and outcomes relative to RSA's business plan, the long-term incentive Scorecard will capture progress over three years vs the Company's strategy and three-year Operating Plans. Its specific targets cannot be disclosed prospectively for commercial reasons, including price sensitivity. A performance narrative will be given regarding the level of vesting on the Scorecard once the performance conditions have been tested.

The Committee has approved in principle that Stephen Hester's Performance Share opportunity in the 2020-22 LTIP grant will be 230% of salary at maximum vesting, which is the usual level of award for the Group Chief Executive; and the opportunity for other Executive Directors will be 200% of salary at maximum vesting.

Executive Directors must retain all vested shares arising from this incentive plan for two years post-vesting (except those sold to cover statutory deductions), and they are subject to clawback provisions as set out on page 83. The table below summarises the LTIP's structure.

Long-term incentive performance measures 2020-22	Weighting	Threshold target: 25% vesting	Maximum target: 100% vesting
Relative TSR[1]	1/3	RSA's TSR is equal to the unweighted index of comparators	RSA's TSR outperforms the unweighted index of comparators by 22.5% compound over three years (i.e. at least 7% per annum) or exceeds the TSR of the highest performing company in the index
Group underlying ROTE[2]	1/3	12%	18%
Business Scorecard	1/3	Commercially sensitive	Commercially sensitive

Notes:
1. The TSR index of comparators for this cycle includes: Admiral, Allianz, Aviva, Chubb, Direct Line, Gjensidige Forsikring, Hiscox, Intact, Mapfre, QBE, Topdanmark, Tryg and Zurich. A straight-line calculation is applied to determine the portion of awards that vest for performance between the threshold and maximum targets.
2. Group underlying ROTE will be calculated on a three-year average basis. A straight-line calculation is applied to determine the portion of awards that vest for performance between threshold and on-target, and between on-target and maximum. The average required for on-target vesting (62.5% vesting) is set in line with, and therefore signals, the Group's forward plan for the period and for this reason is considered commercially sensitive. Disclosure will be provided retrospectively following the end of the performance period.

10. Non-Executive Directors (audited)

Total remuneration 2019

The table below sets out the Non-Executive Directors' total remuneration single figures for the financial year ended 31 December 2019. Non-Executive Directors do not receive variable remuneration.

	Fees		Taxable benefits[1]		Total		Total fixed remuneration	
(£'000)	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Alastair Barbour	100	99	21	16	121	115	121	115
Sonia Baxendale[2]	68	–	5	–	73	–	73	–
Kath Cates	101	98	1	1	102	99	102	99
Enrico Cucchiani	76	72	11	6	87	78	87	78
Isabel Hudson[3]	58	99	1	2	59	101	59	101
Charlotte Jones[4]	40	56	–	–	40	56	40	56
Hugh Mitchell[5]	–	28	–	3	–	31	–	31
Martin Scicluna	435	427	–	–	435	427	435	427
Joseph Streppel[6]	31	86	6	8	37	94	37	94
Martin Strobel	114	104	8	6	122	110	122	110
Total	**1,023**	**1,069**	**53**	**42**	**1,076**	**1,111**	**1,076**	**1,111**

Notes:
1. Taxable benefits: This includes reimbursement in respect of travel and accommodation related to the director's role. Alastair Barbour received benefits of £20,763 and Enrico Cucchiani £11,470 for taxable travel and subsistence where relief under HMRC rules is not available. The corresponding 2018 figure for Enrico Cucchiani in the table has been restated for travel expenses incurred in the year.
2. Sonia Baxendale was appointed as a Non-Executive Director effective 1 March 2019.
3. Isabel Hudson resigned as a Non-Executive Director effective 31 July 2019.
4. Charlotte Jones was appointed as a Non-Executive Director effective 1 April 2018 until 30 July 2019. She became an Executive Director on 31 July 2019 at the effective date of her appointment as Group CFO. Figures shown here relate to her Non-Executive appointment only. Remuneration related to her executive role is on page 86.
5. Hugh Mitchell resigned as a Non-Executive Director effective 11 May 2018.
6. Joseph Streppel resigned as a Non-Executive Director effective 9 May 2019.

Percentage change in remuneration

The table below sets out the percentage change in fees and benefits for Non-Executive Directors compared with salary and benefits for Group employees on average on a full time equivalent basis.

	Year	Salary/Fees	Taxable benefits
All employees (excluding directors)[1]	2018 to 2019	2.3%	2%
Alastair Barbour	2018 to 2019	1.5%	28%
Kath Cates	2018 to 2019	1.5%	0%
Enrico Cucchiani[2]	2018 to 2019	5.0%	75%
Isabel Hudson[3]	2018 to 2019	1.5%	-12%
Charlotte Jones[4]	2018 to 2019	-8.1%	–
Martin Scicluna	2018 to 2019	2.0%	–
Joseph Streppel[3]	2018 to 2019	1.7%	113%
Martin Strobel[5]	2018 to 2019	9.5%	38%

Notes:
1. A comparison to parent company employees is not possible, as the parent company RSA Insurance Group plc employs only Directors.
2. Enrico Cucchiani's % fee change reflects additional Committee membership during 2019, and is in line with the fee structure on page 102.
3. Isabel Hudson and Joseph Streppel resigned as Non-Executive Directors effective 31 July 2019 and 9 May 2019 respectively. The above changes are presented on an annualised basis. On an actual earnings basis, the changes in Isabel's fees and benefits were -40.9% and -48% respectively and the changes in Joseph's fees and benefits were -63.6% and -25% respectively.
4. Figures relate to Charlotte Jones' Non-Executive remuneration. She became an Executive Director effective 31 July 2019. The above changes are presented on an annualised basis. On an actual earnings basis, the change in Charlotte's fees was -27.8%.
5. Martin Strobel's % fee change reflects his becoming Senior Independent Director during 2019, and is in line with the fee structure on page 102.
6. Sonia Baxendale was appointed as a Non-Executive Director effective 1 March 2019 and therefore it is not possible to calculate a percentage change in her case.

Fee structure

The Committee reviewed the Chairman's fee in accordance with the Remuneration Policy, and did so referencing a range of information including market data on fees taken from the same peer groups used to benchmark the Executive Directors' salaries, UK inflation figures and the average reviews applied elsewhere in the Group. From 1 April 2020, the current fee of £436,968 will increase by 2% to £445,707, below the average salary increase levels for our UK employees.

Under the Company's Articles of Association, the Non-Executive Directors' remuneration is determined by the Board (minus the Non-Executive Directors), within limits set by shareholders. The Non-Executive Directors' fees were reviewed in accordance with the Remuneration Policy and the fees effective from 1 April 2020 are shown in the following table. The base fee change is below the average salary increase levels for our UK employees, while other fees are unchanged.

Fee structure	From 1 April 2019	From 1 April 2020
Base fee	£65,500	£67,000
Additional fee for chairing committees:		
Group Audit Committee	£20,000	£20,000
Group Remuneration Committee	£20,000	£20,000
Group Investment Committee	£12,500	£12,500
Board Risk Committee	£20,000	£20,000
Additional fee for Senior Independent Director	£20,000	£20,000
Additional committee fee[1]	£5,000	£5,000

Note:
1. A fee of £5,000 applies for each committee a Non-Executive Director is a member of other than as Committee Chairman.

Shareholding

The table below shows the interests of Non-Executive Directors in Ordinary Shares of £1.00 each of the Company, including those of closely associated persons.

Director	Shares held at 1 January 2019	Shares held at 31 December 2019[1]
Alastair Barbour	12,039	12,039
Sonia Baxendale[2]	–	–
Kath Cates	4,124	4,124
Enrico Cucchiani	–	–
Isabel Hudson[3]	5,974	5,974
Charlotte Jones[4]	–	–
Martin Scicluna	14,303	14,303
Joseph Streppel[5]	4,125	4,125
Martin Strobel	12,000	12,000

Notes:
1. As at 26 February 2020, the interests in Ordinary Shares of the current Directors have not changed since 31 December 2019.
2. Sonia Baxendale was appointed as Non-Executive Director effective 1 March 2019. The table above shows her shareholding as at that date and not 1 January 2019.
3. Isabel Hudson resigned as a Non-Executive Director effective 31 July 2019. The table above shows her shareholding as at that date and not 31 December 2019.
4. Charlotte Jones' shareholding is shown for her period as a Non-Executive Director, 1 January to 30 July 2019, and not 31 December 2019. Her holding as an Executive Director is shown on page 95.
5. Joseph Streppel resigned as a Non-Executive Director effective 9 May 2019. The table above shows his shareholding as at that date and not 31 December 2019.
6. Full details of all Directors' shareholdings and options to subscribe for shares are recorded in the Group's Register of Directors' Interests which is open to inspection by shareholders at the AGM and at the Company's registered office during standard business hours. The Directors had no share options that vested and remained unexercised, or were exercised in the year.

Contracts

The table below shows when the Non-Executive Directors' appointments became effective and their ninth anniversary. All Non-Executive Directors, including the Chairman, are subject to annual re-election by shareholders at the Annual General Meeting.

Non-Executive Director	Date of initial appointment	9th anniversary
Alastair Barbour	10 October 2011	10 October 2020
Sonia Baxendale	1 March 2019	1 March 2028
Kath Cates	1 September 2013	1 September 2022
Enrico Cucchiani	1 December 2014	1 December 2023
Martin Scicluna	1 January 2013	1 January 2022
Martin Strobel	1 May 2016	1 May 2025

Note:
1. In November 2019, it was announced that Clare Bousfield has been appointed as a Non-Executive Director with effect from 1 April 2020.

11. Statement of voting at Annual General Meeting

The following voting was recorded at the AGM on 10 May 2019:

Resolution	Votes for	Votes against	Total votes cast	Votes witheld[1]
To approve the Directors' Remuneration Report				
Number of votes	663,513,344	16,093,123	679,606,467	81,688,249
% of votes cast	97.63%	2.37%	100%	–

The most recent resolution to approve the Directors' Remuneration Policy was at the AGM on 5 May 2017, where the following voting was recorded:

Resolution	Votes for	Votes against	Total votes cast	Votes witheld[1]
To approve the Directors' Remuneration Policy				
Number of votes	734,627,246	6,903,843	741,531,089	158,023
% of votes cast	99.07%	0.93%	100%	–

Note:
1. Votes withheld are not included in the calculation as a vote withheld is not a vote in law.

Kath Cates
Non-Executive Director and Chairman of Group Remuneration Committee

26 February 2020

Other Disclosures

Index to Directors' Report and Other Disclosures

Listing Rule 9.8.4 R cross-reference table

Information required to be disclosed by LR 9.8.4 R (starting on the page indicated):

Interest capitalised	Not applicable
Publication of unaudited financial information	Not applicable
Details of long-term incentive schemes	Not applicable
Waiver of emoluments by a director	78
Waiver of future emoluments by a director	78
Non pre-emptive issues of equity for cash	Not applicable
Item 7 (in relation to major subsidiary undertakings)	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Contracts of significance	Not applicable
Provision of services by a controlling shareholder	Not applicable
Shareholder waivers of dividends	110
Shareholder waivers of future dividends	110
Agreements with controlling shareholders	Not applicable

UK Corporate Governance Code

The Board, through the Group Nomination and Governance Committee, monitors compliance with the Code. The Company has complied with the 2018 Code which was in force throughout the year (which is available at www.frc.org.uk). Details of how the principles and provisions of the Code have been applied are set out in the Directors' and Corporate Governance Report, the reports from each of the Board committees and in the Strategic Report.

The table below sets out where the reporting on the provisions can be located together with supplementary disclosures to explain how we have applied the principles of the Code.

Principles	More information and related provisions
Board leadership and company purpose	
A The primary responsibility of the Board is to provide effective leadership to ensure that it promotes the long-term sustainable success of the Company, generating value for our shareholders and other stakeholders, and contributing to wider society.	The role of the Board and its committees is set out on page 57. The business model on pages 6 and 7 sets out what we do and how we create value for our stakeholders. How we respond to changing market dynamics and the opportunities and risks that these present is set out on page 14. Details of our Board and their biographies, including external appointments, are set out on pages 54 and 55.
B RSA exists to help protect customers against risk and to serve shareholders well. In so doing, we contribute to society at large. RSA is a people-centred business which aims for a culture of high performance, where working together as a team is valued and the business invests in its people.	More information on our purpose, ambition, strategy and values can be found on page 5. Our goal is a culture of high performance and engagement and this is reflected in the decisions taken by the Board and senior management. More information on the Board's consideration of our culture and people strategy is set out on pages 50 and 51. Further information on the Board's activities in respect of monitoring and assessing corporate culture and workforce engagement is included at pages 9 and 12. Enabling our employees to flourish by providing training and development, promoting diversity and inclusion and providing the right supporting policies and environment is incredibly important; see pages 50 and 51 for more details.
C The Board sets annual objectives for the business in line with the current Group strategy and monitors achievement against these objectives through regular reports. The Board, supported by its committees, provides leadership within a framework of prudent and effective controls.	Our progress towards best-in-class is measured using nine key performance indicators, see pages 26 and 27 for our progress this year. How we manage and assess risk to achieve our goals is set out on pages 40 to 43.
D The Board recognises the importance of positive relationships between RSA, its shareholders and other stakeholders, and is committed to fostering and maintaining strong engagement with them.	The Board considered the workforce engagement models set out in the Code and determined that the most effective engagement would result from all Board members maximising their engagement with the workforce through the wide range of activities described on page 9. The Board believes that its stakeholder engagement programme provides meaningful insight into the views, priorities and issues facing each of its stakeholders. The Board's engagement activities undertaken in 2019 are set out on pages 8 to 11. The principal decisions and activities included on pages 8 to 11 demonstrate how the Board has assessed and addressed different stakeholder interests and impacts in making decisions which support the implementation of the Group's long-term strategy.
E As set out in the Matters Reserved for the Board, the Board is responsible for ensuring workforce policies and practices are consistent with corporate values and support long-term success. We encourage employees to identify and escalate concerns to management or our confidential third-party whistleblowing helpline in line with our Whistleblowing Policy.	More information on our people strategy, progress made in 2019 and our 2020 priorities is provided on pages 50 and 51. The Group Audit Committee reviewed and considered the arrangements for monitoring and reporting of whistleblowing activities; see page 64. The Board reviews the schedule of directors' conflicts of interest on an annual basis and considers potential conflicts of interest when these arise; see page 108 for more information.
Division of responsibilities	
F The Chairman is responsible for the leadership and effectiveness of the Board and its governance. He promotes a culture of openness and debate, and facilitates constructive Board relations and the effective contribution of all directors to support effective decision-making.	The Chairman regularly meets with the non-executive directors, without management present including in advance of Board meetings to discuss the upcoming agenda and provide the opportunity for open dialogue. The Chairman was considered independent on appointment.
G No individual director or small group of directors is able to dominate the Board's decision-making. Role statements define the separation of responsibilities between the Chairman and Group Chief Executive and provide a mandate to independent non-executive directors to debate and challenge strategy, execution and performance and bring independent, objective opinion.	Page 57 provides further details of the division of responsibilities and the roles within the Board. Role statements for the Chairman, CEO, non-executive directors and the company secretary are available on our website. The Board took into consideration the circumstances which could potentially impair a non-executive director's independence as set out in the Code. The Board determined that, with the exception of the Chairman, all the non-executive directors remained independent in character and judgement throughout the year as defined by the Code.

Principles	More information and related provisions
H The role of the non-executive director is to challenge and approve the Group's strategy and to assess and challenge performance against business plans, bringing an independent, objective view to the discussion.	The independence of the non-executive directors is considered at least annually along with their commitments and performance on the Board and its Committees. Following review of the time commitments of the non-executive directors, the Board considers that they each devote sufficient time to discharging their duties. When considering the appointment of Clare Bousfield, the Board took into account the other demands on her time, noting that she had committed to stepping down from one of her appointments in advance of joining the Board. Directors are required to seek prior approval for additional external appointments. The NomCo considered the changes to the non-executive directors' external appointments; see page 67. Martin Strobel has been appointed Senior Independent Director. In this role, he supports the Chairman in the delivery of his responsibilities as required, ensuring the views of each of the non-executive directors are given due consideration and serves as an intermediary for the other directors and shareholders. He also led a meeting of the non-executive directors, without the Chairman present, to appraise the Chairman's performance, see pages 60 and 61 for more details.
I The Chairman, supported by the Group Chief Legal Officer and Company Secretary, makes sure that appropriate and timely information is provided to the Board and its committees. Through regular review of the Board's rolling agenda and previews of each Board meeting's agenda, the Chairman ensures sufficient time is allowed for discussion and debate.	The role of the Company Secretary is to support the Chairman and the Board. This includes bringing all governance matters to the attention of the Board and delivering a programme of Board and committee meetings, training, induction programmes and senior management presentations to ensure that each director has the information required to discharge his or her statutory duties. The Directors have access to the services and advice of the Company Secretary and may take independent professional advice at the expense of the Company. The number of meetings of the Board and its committees, and the individual attendance by directors, is set out on page 71.
Composition, succession and evaluation	
J The Board recognises the importance and beneficial impact of diversity of gender, social and ethnic backgrounds and cognitive and personal strengths on Board effectiveness and values the breadth of perspective that such diversity can bring. RSA will continue to seek out opportunities to further improve diversity and inclusion on our Board and across the Group while always seeking to appoint the most appropriate candidates based on merit. Appointments to the Board are subject to a formal, rigorous and transparent procedure. The NomCo is dedicated to ensuring that an effective succession plan is maintained for both Board and senior management positions.	The report of the NomCo on pages 66 and 67 provides more details on the appointments to the Board during the year and the process undertaken, the committee's role in succession planning and our commitment to and focus on diversity and inclusion. An executive search firm, Russell Reynolds Associates, was appointed to assist with the non-executive director search process. Russell Reynolds Associates does not have any other connection with the Group or any individual director. Executive and senior management succession planning is regularly reviewed by the NomCo to ensure that a pipeline of high-performing, talented individuals across the Group is being maintained.
K The NomCo is responsible for reviewing Board membership, succession planning and diversity to ensure the skills, experience and balance of the Board and its committees remain appropriate. As part of succession planning discussions, consideration is given to the tenure of Directors, diversity of members and the size and combination of the Board and its committees.	The non-executive directors participated in a self-assessment survey to determine the overall range and level of skills, knowledge and experience on the Board; see page 67 for more details.
L The annual evaluation of the Board was designed to include consideration of the Board's composition, diversity and how effectively the Board works together and other factors relevant to the continued effectiveness of the Board and its committees. The process also included a 360-degree evaluation of the individual performance of all Directors.	Each year a formal and rigorous evaluation of the Board, its committees, the Chairman and each individual Director is conducted. As required by the Code, the 2019 Board evaluation was externally facilitated; see page 60 for more information. All Directors proposed for re-election have been subject to formal performance evaluation in relation to the fulfilment of their s.172 duties. The Board believes that it is of a size appropriate to the needs of the business and that it has the appropriate balance of skills, experience, independence and knowledge to enable it and its Committees to discharge their duties and responsibilities effectively, and that each Director provides a contribution which is, and continues to be, important to the Company's long-term sustainable success. Therefore, the Board is proposing the election and re-elections as set out in the 2020 Notice of Annual General Meeting.

Principles	More information and related provisions
Audit, risk and internal control	
M The GAC plays an important role assisting the Board in its oversight and monitoring of the Company's financial statements, the robustness of the Group's systems of internal control and its financial and regulatory risk management, and oversees the effectiveness and objectivity of the internal and external auditors.	The report of the GAC is set out on pages 62 to 65 and describes the work of the Committee, including the significant issues considered during the year, an explanation of how it has assessed the independence and effectiveness of the external audit process, how auditor independence and objectivity are safeguarded, the approach taken to the re-appointment of the external auditor and information on the tenure of the current audit firm.
N The Board considers the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.	The Directors' statement of responsibilities in respect of the Annual Report and Accounts 2019 is set out on page 113. The Board's consideration of the adoption of the going concern basis of accounting is set out page 109 and the Board's viability statement is included on page 111.
O Our risk management and controls frameworks were created to help ensure that we identify, measure and manage risks across the Group before they adversely impact on our customers or the business. This information, together with the strength of the Group'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 strategic objectives.	The emerging and principal risks identified are set out on page 41, including a description of its principal risks and an explanation of how these are being managed or mitigated, and what procedures are in place to identify emerging risks. The Board reviewed the effectiveness of the Company's risk management and internal control systems, including financial, operational and compliance controls, and concluded that they were appropriate and had operated effectively during the year. The Board is responsible for ensuring the effectiveness of the Group's System of Governance, which is approved on an annual basis. More information on the System of Governance is provided on page 58.
Remuneration	
P RSA's Director's remuneration policies and practices are designed to support strategy and promote long-term sustainable success. A significant proportion of executive remuneration is variable and at-risk, with payments subject to stretching performance criteria aligned to RSA's purpose, values, culture and the successful delivery of RSA's long-term strategy.	The Remuneration Committee carefully considers the remuneration policies and practices of the Group to ensure they are designed to support the Company's strategy and promote its long-term sustainable success. The factors considered and principles followed are set out on pages 76 and 77 of the Remuneration Report. RSA's Remuneration schemes promote long-term shareholdings by executive directors that support alignment with long-term shareholder interests, with 50% of any annual bonus earned deferred into shares, vesting after 3 years and the LTIP awards subject to a 3 year vesting period and 2 year post-vesting retention period. Furthermore, executive directors will be required to maintain a shareholding post-employment for 2 years, in-line with their in-employment requirement. The Committee's policy in respect of share awards and share ownership are set out on pages 79 and 84 of the Remuneration Report. The Policy for Non-Executive Director remuneration, set out on page 84 of the Remuneration Report, states, they are not eligible to receive a bonus award or participate in any of RSA's share plans.
Q The Directors' Remuneration Policy is determined by the Remuneration Committee by reviewing the impact of the existing policy, key governance factors, and taking account of stakeholder feedback. It also follows RSA's remuneration principles, applied consistently across the Group. Independence is ensured whereby no director is involved in deciding their own remuneration outcome.	The factors considered, as set out on pages 76 and 77 of the Remuneration Report include clarity, simplicity, alignment to culture, predictability, proportionality, risk, shareholder alignment, and the workforce policies more broadly. RSA's principles are that remuneration is competitive and cost effective, fair-minded, for performance and open and transparent. The policy for executive pensions, as set out on page 78 of the Remuneration Report, is that for newly appointed Executive Directors they will be aligned to the offering for new RSA employees in their country (currently 10% of salary for UK new hires and the majority of UK employees). The approach for existing directors is noted on pages 78 and 99. Details of the Committee's engagement with shareholders and the workforce in 2019 are included on page 77. PricewaterhouseCoopers (PwC) was appointed by the Committee as its independent adviser. The role of PwC, along with a statement about the other connections it has with RSA and the Committee's approach to advice is set out on page 85 of the Remuneration Report.
R Committee members exercise independent judgement and discretion when authorising remuneration outcomes, taking account of Company and individual performance, and wider circumstances.	The judgements made and use of discretion are set out on pages 88 and 93 of the Remuneration Report. The Remuneration Report also sets out how the performance for the year impacted remuneration overall (pages 87 to 93).

Articles of Association

The directors may exercise all the powers of the Company subject to the Articles of Association, relevant law and any directions that may be given by the Company at general meetings by shareholder resolution. The Articles of Association authorise the Board to manage the business of the Company and give the directors power to appoint and replace directors as required until the next AGM.

The Company's Articles of Association may be amended by special resolution of the Company's Ordinary shareholders.

The Company's current Articles of Association are available on the Company's website at www.rsagroup.com/articles.

Borrowing powers

Article 101 of the Articles of Association sets out the restrictions on the borrowings of the Company. The aggregate amount, for the time being, remaining borrowed by the Group must not, without the previous sanction of an ordinary resolution of the Company, be more than one-and-a-half-times the aggregate of: (i) the amount paid up on the issued share capital of the Company; and (ii) the total of the capital and revenue reserves of the Group (subject to certain adjustments).

Conflicts of interest

In accordance with section 175 of the Companies Act 2006, each director has a duty to avoid conflicts of interest. Under Articles 94 and 95 of the Company's Articles of Association, conflicts of interest may be authorised by the Board or a Board committee. Directors are required to notify the Company Secretary when a potential conflict of interest arises. Each director's conflicts of interest are reviewed on an annual basis. Any director who has declared a conflict of interest shall not count towards the quorum or vote on any resolution to authorise the conflict of interest and, at the Board's discretion, may be excluded from any meeting at which the conflict of interest is under consideration. Where a conflict of interest is authorised, restrictions may be imposed on the conflicted director, such as excluding the director from the discussion or restricting the receipt of information in connection with the conflict of interest. The Board confirms that it has reviewed the schedule of directors' conflicts of interest during the year and that the procedures in place operated effectively in 2019. None of the directors had an interest in any contract of significance with the Company or any of its subsidiaries during 2019.

Directors' indemnity

Article 143 of the Articles of Association provides that, among other things and insofar as permitted by law, the Company may indemnify its directors against any liability and may purchase and maintain insurance against any liability. The Company has granted an indemnity to each of the directors pursuant to the power conferred by Article 143 of the Articles of Association. The indemnities granted constitute qualifying third-party indemnity provisions, as defined by section 234 of the Companies Act 2006, and is in addition to appropriate insurance cover. The Company believes that it promotes the success of the Company to provide this indemnity to its directors in order to ensure that the Group attracts and retains high calibre directors through competitive terms of employment in line with market standards.

The directors and officers of the Company and its subsidiaries also have the benefit of Directors & Officers insurance which provides suitable cover in respect of legal actions brought against them. In addition, the Company also maintains a pension trustee liability insurance policy for the directors of SAL Pension Fund Limited, RIGPS Pension Trustee Limited and Royal & Sun Alliance Pension Trustee Limited, subsidiaries of the Group, in relation to such company's role as a trustee of an occupational pension scheme. This insurance constitutes a qualifying pension scheme indemnity provision under section 235 of the Companies Act 2006. These insurances were in force during the year ending 31 December 2019 and remain in force as at the date of this report.

Dividends

In accordance with regulatory requirements, in order for the Company's Ordinary Shares to be counted towards the new Group capital requirements, any dividends declared by the Company must be capable of being cancelled and withheld or deferred at any time prior to payment, if the relevant capital requirements have been breached or payment of the dividend would lead to non-compliance with those requirements. The Directors have no current intention of exercising this cancellation right, other than where required to do so by the PRA or necessary or desirable for regulatory capital purposes.

Employment information

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

RSA is committed to the promotion of equal opportunities for all employees and the only acceptable form of discrimination is on the basis of an individual's ability to do the job. We aim to ensure that no employee or job applicant or leaver receives less favourable treatment on the grounds of:

- Sex
- Sexual orientation
- Gender re-assignment
- Marital status
- Race – including colour and nationality
- Disability
- Religion and belief
- Age
- Pregnancy and maternity.

The Group is committed, wherever possible, to employing and supporting people who are disabled, or become disabled during their career with the Group and we welcome applications from all sections of the community. Our Equal Opportunities and Dignity at Work policies support these commitments.

More information on employees can be found on pages 50 and 51.

As well as the town halls with the Board and other methods of workforce engagement described on page 9, members of the Executive Committee and senior management host regular 'town hall' meetings to update employees on topical issues and other matters of concern to the workforce, including giving performance updates following the announcement of results or a trading update. At these updates, senior management will present on the results and the key factors affecting performance of the Group and provide an opportunity for individuals to ask questions. These 'town hall' meetings are supplemented by internal communications, including emails, internal social collaboration tools and intranet postings, which provide our entire workforce with relevant updates and further information on key issues.

Essential contracts and change of control

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

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

Going concern

The Board has reviewed the Group's ongoing commitments for the next 12 months and beyond. The Board's review included the Group's strategic plans and updated forecasts, capital position, liquidity including credit facilities and investment portfolio.

Based on this review, no material uncertainties that would require disclosure have been identified in relation to the ability of the Group to remain a going concern for at least the next 12 months, from both the date of the Statement of Financial Position and the approval of the Consolidated Financial Statements.

Greenhouse gas emission reporting

Approach

Our disclosures cover all sources of greenhouse gas emissions as required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, covering everything within the boundary of our operational control. Figures below include emissions from all operations with 50 or more full time equivalent employees, covering the period 1 January 2019 – 31 December 2019.

Where data is not provided by the operating entity, estimates have been provided based on intensities determined from similar sites within the Company. Our reporting has been conducted in accordance with guidance set forth by the GHG protocol's corporate standard.

All conversion factors have been sourced from recognised public sources, including the UK's Department for Business, Energy and Industrial Strategy, the International Energy Agency and the GHG protocol's stationary combustion tool.

	2019	2018[1]	2017[1]	2016[1]
Scope 1	3,096[A]	2,673	3,019	2,807
Scope 2	7,202[A]	8,665	9,687	11,243
Scope 3[2]	8,551	10,938	12,294	13,538
Business travel	*7,880*[A]	*10,232*	*11,570*	*12,346*
Total gross tonnes CO_2e	18,849	22,276	25,000	27,588
Gross tonnes of CO_2e per FTE	1.52	1.82	1.98	2.06

Notes:

The emissions reported above have been restated versus numbers previously disclosed, in accordance with GHG protocol guidelines.

1. Calculations have been amended to include data that was not available at the time of publication and reflect improvements in methodology.
2. We have removed the impact of hotel stays from all years in line with our updated reporting criteria, this allows for fair comparison year on year.

A. Indicates values independently assured by PwC in accordance with ISAE 3000 (Revised) and ISAE 3410. For further information, please refer to our reporting criteria and PwC's assurance opinion which can be found on our Corporate Responsibility pages at www.rsagroup.com/responsibility.

Scope 1: Direct emissions from the Group's activities, including use of Company-owned vehicles and onsite thermal energy.

Scope 2: Indirect emissions from imported energy; electricity, district cooling and district heating.

Scope 3: Emissions relating to RSA activities not within our direct control, including business travel, water supply, wastewater treatment, paper and waste generated.

Business travel: Emissions from flights, trains, taxis and vehicles not owned by the organisation.

Modern slavery

As per section 54(1) of the Modern Slavery Act 2015, our Slavery and Human Trafficking Statement is published annually on our Group website. The statement covers the activities of RSA Insurance Group plc and its subsidiaries and details policies, processes and actions we have put in place to ensure that appropriate steps are taken to protect against slavery and human trafficking in our supply chains and all parts of our own business.

Political donations

During the year the Group did not make any donations to political parties or independent election candidates. Each year the Company proposes a resolution authorising political expenditure up to £100,000 for each of donations to political parties and independent election candidates, donations to political organisations and incurring political expenditure.

This resolution is proposed in the event that the funding of seminars, functions and charitable donations by the Group may be regarded as political in nature.

Registered shareholdings by size as at 31 December 2019

	No of holdings	No of shares	% of holdings	% of shares
1 and 24,999	25,936	22,555,058	97.63%	2.19%
25,000 and 99,999	251	13,345,830	0.95%	1.29%
100,000 and 499,999	196	46,587,918	0.74%	4.52%
500,000 and 999,999	57	40,940,579	0.21%	3.97%
1,000,000 and 1,999,999	54	78,044,450	0.20%	7.56%
2,000,000 and 9,999,999,999	72	830,171,459	0.27%	80.47%
Total	**26,566**	**1,031,645,294**	**100.00%**	**100.00%**

Scrip Dividend Scheme

The Company is seeking shareholder approval to renew its authority to offer a Scrip Dividend Scheme to shareholders at the 2020 AGM. The Company will not be offering a Scrip Dividend alternative in respect of the final 2019 dividend. For dividends where a Scrip alternative is offered, shareholders wishing to receive a Scrip dividend instead of a cash dividend should contact the Company's Registrar for details or visit the shareholder services area of the Company's website www.rsagroup.com/investors/shareholders.

Share capital

More information on the Company's share capital can be found in Notes 32 and 33 on pages 169 and 170. Note 33 includes a summary of the principal terms of the Company's SEK 2,500,000,000 and DKK 650,000,000 floating rate Restricted Tier 1 Contingent Convertible Notes which were issued in March 2017. The notes are convertible into Ordinary Shares of the Company upon the occurrence of certain conversion trigger events.

Preference Shareholders are only entitled to receive notice of, attend, speak and vote at general meetings if the dividend payable on the Preference Shares is in arrears at the date of the Notice, a resolution is proposed that affects the rights of the preference shareholders, a resolution is proposed to wind-up the Company, a resolution is proposed to reduce the capital of the Company (other than a redemption or purchase of shares), or in such other circumstances as the Board shall determine. In any of these situations, the Preference Shareholders may only vote on the relevant resolution and not on all the business of the general meeting.

As at 31 December 2019, the Ordinary Shares and Preference Shares represented 89% and 11% respectively of the Company's total issued share capital. Directors are limited as to the number of shares they can allot (save in respect of employee share schemes). Renewal of the directors' authorities to allot shares will be sought at the 2020 AGM. In addition, directors are restricted by the limits set out by the Investment Association. During 2019, the directors exercised their authorities to allot shares only in respect of employee share schemes.

The directors are not aware of any agreements between the Company's shareholders that may result in restrictions on the transfer of securities or on voting rights. The Company may purchase any of its own shares (including any redeemable shares). An authority from Ordinary Shareholders for the Company to purchase up to 103,092,221 of its own Ordinary Shares (representing 10% of its issued share capital as at 20 March 2019), was passed at the 2019 AGM. This authority will expire at the conclusion of the 2020 AGM and a new authority will be sought. The authority was not exercised during 2019. Other than the standard compulsory transfer provisions in respect of US shareholders contained in the Company's Articles of Association, there are no specific restrictions on the size of a shareholding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and legislation.

During the year, the Company operated two employee benefit trusts to hold Ordinary Shares in the Company which are used to satisfy grants under the Company's share incentive schemes. The trustees are Link Market Service Trustees Limited (for the Share Incentive Plan Trust) and Apex Financial Services (Trust Company) Limited (for the Royal and Sun Alliance ESOP Trust No.2), respectively. The Trustees may vote in respect of any shares held in the trusts but have no obligation to do so, and the Trustees may have regard to the financial interests of the beneficiaries in exercising their voting rights over the Company's shares. Standard dividend waiver agreements are in place for the for RSA ESOP Trust No.2, an employee benefit trust, to receive dividends of 0.01 pence per share. Further information can be found on page 170 in the Notes to the Financial Statements.

Substantial share interests[1]

The table below shows the holdings of major shareholders as disclosed to the Company in accordance with the Disclosure Guidance and Transparency Rules (DTR) as at 31 December 2019 and at the date of this report.

	31 December 2019			26 February 2020		
Shareholder name	No of Ordinary Shares	% of voting rights	Nature of holding	No of Ordinary Shares	% of voting rights	Nature of holding
Ameriprise Financial, Inc. and its group	75,871,245	7.46%	Direct & Indirect & CFD	75,871,245	7.46%	Direct & Indirect & CFD
BlackRock, Inc	55,359,399	5.43%	Indirect & Securities Lending and CFD	55,359,399	5.43%	Indirect & Securities Lending and CFD
Cevian Capital II G.P. Limited	137,645,130	13.50%	Indirect	137,645,130	13.50%	Indirect

Notes:

1. The threshold for notifications is 5 percent in accordance with DTR 5.1.5. If the Company has not been informed that interests have fallen below this threshold the last notification is included in this table.

Viability statement

In accordance with the UK Corporate Governance Code, the Directors have performed a robust assessment of the viability of the Group over an initial three year period and beyond after considering the longer term risks to the prospects of the business and mitigating actions that are in place.

The Directors have determined that an initial three year period is an appropriate basis to provide its viability statement as the operational planning process focuses on this period and is aligned to the short-tail nature of insurance contracts that the business underwrites.

As part of assessing the Group's prospects reliance is placed on the operational planning process. The Group prepares a three year operational plan and capital forecast along with sensitivity analysis in line with the Group's strategy. These forecasts are subject to review and challenge by the Directors on at least an annual basis.

The three year cash flow forecast supports the Group's ability to sustain positive cash flows in its businesses through targeted underwriting, portfolio and distribution actions, and to pay dividends as forecast. This is further supported by the Group's credit facilities and highly liquid investment portfolio which provide further sources of short term cash if needed.

In addition, the Group, as part its Own Risk and Solvency Assessment (ORSA) process, uses Prudential Regulatory Authority stress tests to assess the capital resilience of the Group to a range of severe but plausible scenarios including a reverse stress test (which includes a combination of insurance, market and economic stresses). These tests allow the Board to review and challenge the Risk Management strategy and consider potential mitigating actions.

The directors have also considered the prospects of the Group through review of the longer term strategy as set in the Strategic Report on pages 2 to 51 and the principal risks and uncertainties that are of a longer term nature (set out on pages 40 to 43), including the impact of Brexit. In their judgement the potential impacts such as claims inflation and supplier disruption would be covered by the circumstances envisaged under the stress test scenarios detailed above.

Based on the results of these reviews, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.

Statement by directors

Section 414A of the Companies Act 2006 requires the directors to present a Strategic Report of the Company for the financial year ended 31 December 2019. The information that fulfils the requirements of the Strategic Report set out in section 414C of the Companies Act 2006 can be found on pages 2 to 51.

The Companies Act 2006 and the UK Listing Authority's Listing Rules and Disclosures and Transparency Rules also require the Company to provide a Directors' Report for the year ended 31 December 2019. The information that fulfils this requirement and which is incorporated by reference into, and forms part of, this report is set out on pages 2 to 111 and includes the information on financial risk management objectives and policies contained in Note 5 in the consolidated financial statements.

So far as each director of the Board is aware, there is no relevant audit information (as defined in section 418(3) of the Companies Act 2006) of which the Company's external auditor is unaware, and each director has taken all reasonable steps to make himself/herself aware of, and to establish that the external auditor is aware of, any relevant audit information.

A balanced and understandable assessment of the Group's position and prospects, and an explanation of its strategy for delivering the objectives of the Company are contained in the Strategic Report on pages 2 to 51 which includes:

- Use of financial instruments by the Company and details of financial risk management objectives and policies of the Company, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used
- The Company's exposure to price risk, underwriting risk, reserving risk, credit risk, liquidity risk and cashflow risk
- An indication of likely future developments in the Company's business.

There are no activities relevant for disclosure in respect of research and development of the Company.

A full list of the Group's subsidiaries and related undertakings is in Appendix B on page 191. Further explanation of the assurances undertaken by the Group Audit Committee on behalf of the Board are set out in the Group Audit Committee Report found on pages 62 to 65. A report from the external auditor can be found on pages 114 to 121.

Management report

The Strategic Report is considered to form the management report for the purpose of DTR 4.1.8.R.

Directors' Responsibility Statement

The Directors' Responsibility Statement appears on page 113 and is incorporated by reference into this Report.

Directors' Report

The Directors' Report for the year ended 31 December 2019, was approved by order of the Board and signed on its behalf.

Charlotte Heiss
Group Chief Legal Officer and Company Secretary

26 February 2020

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

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

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable, relevant and reliable
- State whether they have been prepared in accordance with IFRSs as adopted by the EU
- Assess the Group and Parent 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 Group or the Parent 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 Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that, to the best of our knowledge:

- The financial statements on pages 122 to 200, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Parent Company and the undertakings included in the consolidation taken as a whole.
- The Strategic Report on pages ifc to 51 includes a fair review of the development and performance of the business and the position of the Parent Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Stephen Hester
Group Chief Executive

26 February 2020

Charlotte Jones
Group Chief Financial Officer

26 February 2020

Independent auditor's report to the members of RSA Insurance Group plc

1. Our opinion is unmodified

We have audited the financial statements of RSA Insurance Group plc ("the Company") for the year ended 31 December 2019 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated and parent company statement of changes in equity, consolidated and parent company statement of financial position, the consolidated and parent company statement of cash flows and the related notes, including the accounting policies in note 4.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

Overview

Materiality: Group financial statements as a whole		£35m (2018: £35m) 0.5% (2018: 0.5%) of Net Earned Premium
Coverage		97% (2018: 97%) of Net Earned Premium
Risks of material misstatement		**vs 2018**
Recurring risks of the Group	Valuation of Insurance Liabilities	◀▶
	IT systems and control environment	◀▶
	Valuation of post-employment benefits and obligations	◀▶
	Valuation of deferred tax assets	◀▶
Recurring risks of the Parent	Valuation of Parent company's investment in subsidiaries	◀▶

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

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

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

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

	The risk	Our response
Valuation of insurance liabilities Insurance contract liabilities 2019: £9,141 million gross, £7,561 million net; 2018: £9,468 million gross, £7,936 million net, including provision for losses and loss adjustment expenses) Refer to page 62 (Audit Committee Report), page 131 (accounting policy) and pages 172 to 177 (financial disclosures)	**Subjective valuation** Insurance liabilities represent the single largest liability for the Group. Valuation of these liabilities is highly judgmental because it requires a number of assumptions to be made with high estimation uncertainty such as loss ratios, estimates of the frequency and severity of claims and, where appropriate, the discount rates for longer tail classes of business, by territory and line of business. The determination and application of the methodology and performance of the calculations are also complex. In addition, the determination of the valuation of individual large losses can be particularly subjective as it is based on estimated settlement amounts which are inherently uncertain, especially for recently reported claims. A margin is added to the actuarial best estimate of insurance liabilities 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. Certain lines of business have greater inherent uncertainty, for example those where claims emerge more slowly over time, or where there is greater variability in claim settlement amounts and potential exposure to large losses due to the effect of uncertain or unknown future events. This includes Abuse, Deafness classes; UK Professional and Financial Risk Classes; the Danish Workers Compensation class; the Swedish Personal Accident classes; and the Canadian General Liability class; and associated reinsurance recoveries in relation to these areas. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance liabilities 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 37) disclose the sensitivity estimated by the Group.	With the assistance of our own actuarial specialists, our procedures included: · **Controls design and observation:** Evaluation of the governance around the overall Group reserving process, including the scrutiny applied by the Local, Regional and Group Reserving committees, as well as Group level actuarial reviews. We assessed the qualifications and experience of those responsible and examined the output of the reviews to assess the scope and depth of these processes. Our evaluation of the methodologies and key assumptions for the most significant and subjective classes of business enabled us to assess the quality of challenge applied through the Group's reserving process. · **Independent re-performance:** Independent re-projection of the gross and net reserve balances using our own models for certain classes of business. The determination of which classes to re-project was based on risk assessment and consideration of the evidence available from other alternative data analysis procedures. · **Sector experience and Benchmarking:** Comparison of assumptions, reserving methodologies and estimates of losses to expectations based on the Group's historical experience, current trends, externally-derived data and benchmarking against industry trends including information relating to forthcoming legislation that may affect claims settlement speed or amount. · **Sensitivity analysis:** Evaluation of sensitivity analysis over key judgments and assumptions, such as large claims and the discount rates for longer tail classes of business. · **Margin evaluation:** Evaluation of the appropriateness of the Reserve Committee's recommended margin to be applied to the actuarial best estimate. In order to do this we assessed the Directors' approach to, and analysis performed, in setting the margin with respect to recognised actuarial methods. In particular we considered the allowance for uncertainties inherent in the data and assumptions in developing the actuarial best estimate through inquiry with the Directors and with respect to our understanding of any changes in the Group's risks and our own sector experience of approaches to setting the margin and the level of margin held by the Group's peers. · **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of the sensitivity of the insurance liabilities to key assumptions.

<table>
<tr><th></th><th>The risk</th><th>Our response</th></tr>
<tr><td>Valuation of insurance liabilities (continued)</td><td>Data capture
The valuation of insurance liabilities depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating insurance liabilities, or for forming judgments over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise.</td><td>In addition to the above we performed procedures to assess the completeness and accuracy of the data used in the calculations to estimate insurance liabilities:
· Control observation and operation: Evaluation and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process (including both current and prior year case reserve data). The controls included reconciliations between data in the actuarial reserving systems and data in the policy administration systems. We tested controls through inspecting or re-performing the Group's reconciliations.
In addition, we tested the operation of controls over the valuation of individual claims reserves, such as large loss review controls, internal peer reviews and claims approvals. We assessed whether such controls were performed in line with the Group's policies and with reference to underlying claims data.
· Data comparisons: We inspected reconciliations between the claims data recorded in the policy administration systems and the data used in the actuarial reserving calculations to ensure the integrity of the data used in the actuarial reserving process.
· Test of detail: We compared samples of claims case reserves, including large loss reserves, to appropriate documentation, such as reports from loss adjusters in order to test the valuation of individual claims reserves, particularly where such claims may be subject to recovery under reinsurance arrangements.
Our results
We found the valuation of the insurance liabilities to be acceptable (2018 result: acceptable).</td></tr>
<tr><td>IT systems and control environment
Refer to page 63 (Group Audit Committee Report).</td><td>Processing errors
Many financial reporting controls depend on the correct functioning of operational and financial IT systems. If these systems or controls fail, a significant risk of error in reported financial information can arise from the failure to transfer data appropriately between systems or inappropriate changes being made to financial data or systems.
This is an area of significant risk in our audit due to the complexity of the IT infrastructure, particularly in the UK and Scandinavia, where there are legacy systems which require increased manual inputs, relative to more automated processes.</td><td>With the assistance of our own IT specialists, our procedures included:
· Controls design and observation: Where we have planned to rely on IT systems, testing general IT controls around system access, change management and computer operations within specific applications pertinent to the financial statements by assessing if appropriate policies are in place and adhered to by inspecting supporting evidence. Where the general IT controls we have chosen to test are not operating effectively, we addressed the increased risk of financial statement misstatement by extending the scope of our work. This included assessing the operation of controls over changes or transactions being recorded in the systems and testing manual compensating controls, such as reconciliations between systems and other information sources, through re-performance or inspection.
· Extended scope: Where general IT controls and compensating manual controls did not operate to mitigate a risk, we performed additional substantive testing, such as using extended sample sizes and performing data analysis routines over impacted accounts to test the integrity of the transactional level data that is flowing into the Group financial statements.
Our results
Where we tested general IT controls, we identified deficiencies in the design and operation of these controls. In response to weaknesses in general IT controls we expanded the extent of our detailed testing over and above that originally planned, and this work was completed satisfactorily (2018 result: Our testing identified deficiencies in the design and operation of controls. As a result we expanded the extent of our detailed testing over and above that originally planned, and this work was completed satisfactorily).</td></tr>
</table>

KPMG

	The risk	Our response
Valuation of post-employment benefits and obligations (2019: £8,681 million, 2018: £7,974 million) Refer to page 63 (Group Audit Committee Report), page 133 (accounting policy) and pages 177 to 182 (financial disclosures).	**Subjective valuation** Small changes in the assumptions and estimates used can have a significant effect on the valuation of the Group's pension obligations and therefore the amount of the pension and post retirement obligations and the Group's financial position. The valuation of defined benefit pension obligations is dependent upon the data in respect of the members of the pension scheme being complete and accurate. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of pensions and post-retirement 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 38) disclose the sensitivity estimated by the Group.	With the assistance of our own pension actuarial specialists, our procedures included: · **Membership data:** Compared the data received from the third party administrators of the pension schemes to the data sent to the third party external expert who valued the pension obligation. · **Benchmarking assumptions:** Comparing the key assumptions such as discount rate, inflation rate and life expectancy against externally derived data. · **Assessing valuer's credentials:** Evaluating the Group's external valuer's competence, objectivity, capability and scope of work. · **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of the sensitivity of the defined pension obligation to these assumptions. **Our results** We found the valuation of the pension and post retirement obligations to be acceptable (2018 result: acceptable).
Valuation of deferred tax assets (2019: £209 million; 2018: £234 million) Refer to page 63 (Group Audit Committee Report), page 133 (accounting policy) and pages 167 and 168 (financial disclosures).	**Forecast-based valuation** The recoverability of the recognised deferred tax asset is dependent on the future profitability of the UK business and RSAI plc as the taxable legal entity, in particular. There is inherent uncertainty involved in developing the 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 29) disclose the sensitivity estimated by the Group.	Our procedures included: · **Historical comparisons:** Assessing the accuracy of the Group's approved operating plan in relation to the forecasting process in the past. We considered whether projected margins are achievable with reference to the business's recent performance and operating plans. · **Our sector experience:** Comparing the expected growth rates and projected margins in the Group's approved operating plan to expectations based on our own industry knowledge. · **Sensitivity analysis:** Sensitivity analysis of taxable profits to assumptions such as expected weather losses, the development of claims reserves, projected future expense levels and future investment returns. · **Own tax expertise:** With the support of our own tax specialists and their knowledge of tax legislation, we also assessed the extent to which projected profits were taxable, in particular the Group's assumptions about how accumulated tax losses and other similar items can be utilised within the Group against the UK business, and RSAI plc as the taxable legal entity, in particular. · **Assessing transparency:** Assessing the adequacy of the Group's disclosures in respect of the assumptions applied in the calculation and the adequacy of the Group's disclosures in respect of the sensitivity of the valuation of the deferred tax asset to key assumptions. **Our results** As a result of our work we found the level of deferred tax assets recognised to be acceptable (2018 result: acceptable).
Valuation of parent company's investment in subsidiaries (2019: £4,986 million, 2018: £4,476 million) Refer to page 197 (accounting policy, Investments in Subsidiaries) and page 199 (financial disclosures).	**Subjective valuation** The parent company holds its investments in subsidiaries at fair value, representing 67% (2018: 66%) of the company's total assets. The valuation is based on the market value of the Group, after adjusting for certain items that relate to the parent company. Whilst there is not a high degree of subjectivity, there is estimation in some of the adjusting items which are dependent on assumptions of future cash flows discounted to present value.	Our procedures included: · **Comparing valuations:** We compared the market value of the Group, used as the base for the Company's valuation, to an independent source of market capitalisation. · **Historical comparisons:** In respect of the adjusting items, we compared the expected cash flows to the Group's operating plan, and considered the historical accuracy of previous projections. · **Sector experience:** We independently recalculated the weighted average cost of capital used to discount the cash flows to determine the value of the adjusting items. **Our results:** We found the assessment of the valuation of the parent company's investment in subsidiaries to be acceptable (2018 result: acceptable).

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

The materiality for the Group financial statements as a whole was set at £35m (2018: £35m) determined with reference to a benchmark of Net Earned Premiums of £6,462m (2018: £6,537m), of which it represents 0.5% (2018: 0.5%). We continue to believe that the benchmark of net earned premiums is a fair reflection of revenue from the Group's operations as it is not subject to the volatility arising from multi-year insurance contracts that net written premium would be. We have not considered profit before tax to be a suitable benchmark due to historical volatility in this metric.

Materiality for the Parent company financial statements as a whole was set at £31.5m (2018: £31.5m), determined with reference to a benchmark of Net Assets and chosen to be lower than materiality for the Group financial statements as a whole. It represents 0.5% of the stated benchmark (2018: 0.5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.75m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's nine (2018: nine) reporting components, we subjected four (2018: four), being those located within the UK, Ireland, Canada and Scandinavia to full scope audits for Group purposes and one (2018: one), being the Group's central functions, to specified risk-focused audit procedures. The latter was not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed. As such, specified risk-focused procedures were performed on investments, treasury and reinsurance, which included agreeing financial information to supporting documentation. Within the Scandinavia reporting component, audits were performed by local audit teams in Denmark, Sweden and Norway.

The components within the scope of our work accounted for the percentages illustrated opposite. For the remaining components we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materiality's, which ranged from £8m to £28m (2018: £15m to £28m), having regard to the mix of size and risk profile of the Group across the components. All (2018: all) of the audits of reporting components were performed by the component auditors.

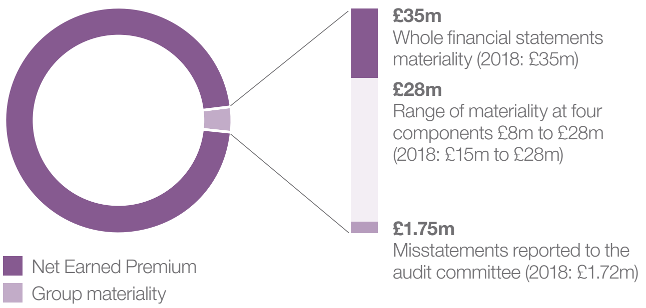
The Group audit team visited four (2018: four) component locations, being those in the UK, Ireland, Canada and Denmark (2018: UK, Ireland, Canada and Denmark) to assess the audit risk and planned audit approach. The work on four of the nine components (2018: four of the nine components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. Telephone conference meetings were also held with these component auditors and at these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Net Earned Premium

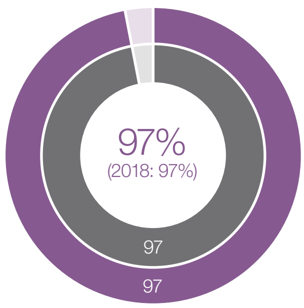
£6,462m (2018: £6,537m)

Group materiality

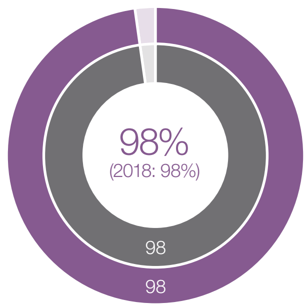
£35m (2018: £35m)



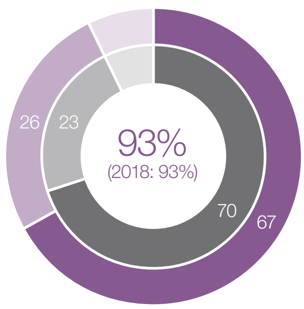
Net Earned Premium



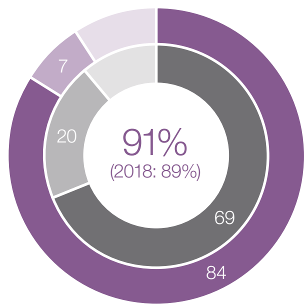
Insurance Contract Liabilities



Total Assets



Group Profit before Tax



2019 2018

- Full scope for group audit purposes
- Specified risk-focused audit procedures
- Residual components

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group'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 their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and 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 Group's and Company's available financial resources over this period were:

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

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

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 109 is materially inconsistent with our audit knowledge.

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

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports 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.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability Statement (page 111) that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 113, 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 Group and parent 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 Group or the parent 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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.

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

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

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

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

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

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

Daniel Cazeaux (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

26 February 2020

Basis of preparation and significant accounting policies

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

1) Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the Companies Act 2006 where applicable. The consolidated financial statements are prepared on an historical cost basis. Where other bases are applied, these are identified in the relevant accounting policy.

In line with industry practice, the Group's statement of financial position is not presented using current and non-current classifications, but broadly in increasing order of liquidity.

The assets and liabilities considered as non-current include: investments in associates, deferred tax assets, property and equipment, intangible assets, goodwill, deferred tax liabilities, outstanding debt including issued debt and elements of financial investments, insurance contract liabilities and reinsurers' share of insurance contract liabilities.

The assets and liabilities considered as current include cash and cash equivalents, and insurance and reinsurance debtors.

The remaining balances are of a mixed nature. The current and non-current portions of such balances are in the notes on pages 127 to 193 or in the risk and capital management note (note 5).

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

Accounting policies that are significant to understanding the performance, financial position and cash flows of the Group are set out in note 4 with other policies presented in Appendix A. The notes are grouped together by their nature.

Significant accounting estimates and judgements

In preparing these consolidated financial statements, management has made judgements in determining estimates in accordance with Group'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 as follows. Additional information on estimation techniques and assumptions is presented in the relevant note in order to provide context to the figures presented.

- Valuation of insurance contract liabilities: the eventual outcome of the claims that have occurred by the end of the reporting period but remain unsettled – refer to note 37 for additional information
- Measurement of defined benefit obligations: key actuarial assumptions – refer to note 38 for additional information
- Recognition of deferred tax assets: availability of future taxable profits against which deductible temporary differences and tax losses carried forward can be utilised – refer to note 29 for additional information
- Valuation of level 3 financial assets and investment properties: use of significant unobservable inputs – refer to note 26 for additional information
- Measurement and impairment of goodwill and intangible assets: key assumptions applied in the valuation of the recoverable amount and the estimation of useful economic life – refer to note 22 for additional information

Management have applied judgement when deciding to classify sovereign debt and bonds for which immediate prices are available as being level 1 in the fair value hierarchy (see note 26) and other debt securities 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.

The Group Audit Committee reviews the reasonableness of significant judgements and estimates. The issues considered by the Group Audit Committee are included within the Group Audit Committee Report on pages 62 and 63.

Basis of preparation and significant accounting policies continued

2) Adoption of new and revised standards

IFRS 16 'Leases'

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

Transition

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

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

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

Recognition and measurement

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

The lease liability is recognised at the inception of a lease as the present value of the fixed and certain variable lease payments, plus any guaranteed residual values, any termination penalties if the lease term assumes termination options will be exercised, and the purchase option value if it is reasonably certain that it will be exercised.

Interest is accrued on the lease liability based on the discount rate at commencement of the lease, and is accounted for in finance costs. Subsequent payments are deducted from the lease liability.

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

The right-of-use asset is depreciated over the shorter of the useful life or the period of the contract on a straight line basis. There are no lease contracts with purchase options or under which the Group would acquire a right-of-use asset by the end of the lease term.

The lease liability is subsequently re-measured 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 consolidated income statement.

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

Nature and effect of adoption of IFRS 16

On adoption the Group recognised lease liabilities in relation to leases which had been previously classified as operating leases under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rate as at 1 January 2019. These are set at a regional level. The Group's weighted average incremental borrowing rate applied at that time was 2.7%.

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

	£m
Operating lease commitments disclosed as at 31 December 2018	311
Discounted using the lessee's incremental borrowing rate at the initial application	278
Less: short term leases	(5)
Less: low value leases	(18)
Add: adjustments as a result of a different treatment of an extension/termination option[1]	48
Less: contract elements reassessed as service agreements, VAT and other[2]	(24)
Lease liability recognised at 1 January 2019	279

1. 2018 commitments assumed break clauses would be taken for certain contracts, whilst lease term under IFRS 16 assessed as contract end date.
2. Service components and VAT within lease payments excluded from IFRS 16.

2) Adoption of new and revised standards continued

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

Impact on the Consolidated Statement of Financial Position (increase/(decrease))

	31 December 2019 £m	1 January 2019 £m
Assets		
Property and equipment[1] (note 23)	**213**	239
Other assets[2]	**20**	17
Total assets	**233**	256
Equity		
Shareholders' equity	**(5)**	(2)
Total equity	**(5)**	(2)
Liabilities		
Other liabilities[3]	**238**	258
Total liabilities	**238**	258

1. The right-of-use asset primarily relates to properties. The value at transition is made up of £279m equal to the lease liability, less £19m derecognition of finance sub leases, less £21m adjustment for the unwind of opening accruals.
2. Primarily relates to finance sub leases, whereby the sub lease term is for the remaining lease term of the head lease.
3. The value at transition includes lease liabilities of £279m less the £21m unwind of opening accruals represented against the right-of-use asset, 31 December 2019 values **£258m** and **£20m** respectively.

Impact on the Consolidated Income Statement (increase/(decrease))

	31 December 2019 £m
Expenses	
Underwriting and policy acquisition costs[1]	**6**
Other operating expenses[2]	**(2)**
Finance costs[3]	**(7)**
Profit before tax	**(3)**
Income tax expense	**–**
Profit for the period	**(3)**
Attributable to:	
Equity holders of the Parent Company	**(3)**
	(3)

1. 2019 includes **£42m** depreciation charge, whereby £50m lease payment cost and £2m sublease income would have been recognised in accordance with IAS 17. 2019 also includes **£7m** costs for leases classified as low value and short term for which the financial impact is unchanged.
2. Right-of-use asset impairment.
3. Lease interest which would have been recognised as part of the lease cost within underwriting and policy acquisition costs in accordance with IAS 17.

Impact on the Consolidated Statement of Cash Flows (increase/(decrease))

	31 December 2019 £m
Net cash flows from operating activities	**50**
Net cash flows from financing activities	**(50)**

Lease payments in 2018 were reported in operating activities in accordance with IAS 17, now presented within financing activities.

There is no material impact on the Consolidated Statement of Other Comprehensive Income or on basic and diluted EPS.

2) Adoption of new and revised standards continued

IAS 19 'Employee Benefits'

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

This interpretation has not had a significant impact on the Group's consolidated financial statements.

IFRIC 23 'Uncertainty over Income Tax Treatment'

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

This interpretation has not had a significant impact on the Group's consolidated financial statements.

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

3) New accounting standards, interpretations and amendments yet to be adopted

IFRS 17 'Insurance Contracts'

The International Accounting Standards Board (IASB) issued IFRS 17 'Insurance Contracts' in May 2017 to replace IFRS 4 'Insurance Contracts' for annual reporting periods beginning, at the latest, on or after 1 January 2021. It has subsequently published an Exposure Draft (ED) proposing targeted amendments in response to concerns and challenges raised by stakeholders, including a proposal to defer the implementation of IFRS 17 by one year and to extend the exemption from applying IFRS 9 'Financial Instruments' for the same period.

Responses to the ED are being considered by the IASB and it is expected that subsequent amendments including the deferral proposals will be approved and incorporated into an amended IFRS 17 standard due to be issued in the middle of 2020 resulting in both IFRS 17 and IFRS 9 becoming effective from a provisional date of 1 January 2022.

Draft legislation has been laid before Parliament to ensure that IFRS as endorsed by the EU at the end of the Brexit transitional period on 31 December 2020 will be adopted for use in the UK as well as providing the Secretary of State with the power to adopt and endorse subsequent changes to IFRS for adoption and use in the UK. This power will be delegated to a UK Endorsement Board (UKEB) which will be responsible for the UK endorsement of the amended IFRS 17. The Group is monitoring this closely.

Detailed build and testing of systems and processes to implement IFRS 17 is in progress and remains on track to substantially complete in 2020. Parallel run testing of reporting is scheduled to take place in 2021 to assure reporting compliance by 1 January 2022. Contingency planning has been considered in the event that the endorsement process adds any further delay to implementation after 2022. It is not yet possible to quantify the impact that implementing IFRS 17 will have on the measurement and presentation of insurance, reinsurance and related transactions and balances.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' has been issued to replace IAS 39 'Financial Instruments: Recognition and Measurement' and primarily changes the classification and measurement of financial assets. As described above the Group has elected to implement IFRS 9 'Financial Instruments' alongside IFRS 17. Further information can be found in note 25.

Other standards

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

4) Significant accounting policies

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

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

Premium income

Written premium is recognised in the period in which the Group 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. Net earned premiums are stated net of amounts passed ('ceded') to reinsurers. Premiums are shown before deduction of commission and exclude any sales based taxes or duties.

4) Significant accounting policies continued

Gross claims incurred and insurance contract liabilities

Gross claims incurred represent the cost of agreeing and settling insurance claims on insurance contracts underwritten by the Group. Provisions for losses and loss adjustment expenses are recognised at the estimated ultimate cost, net of expected salvage and subrogation recoveries when a claim is incurred.

The provisions for losses and loss adjustment expenses, 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 of 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 provisions for insurance contract liabilities 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 consolidated income statement in the year in which they are settled or in which the insurance contract liabilities 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) and are deducted from the provision for unearned premium. DAC is amortised on the same basis as the related unearned premiums are earned.

At the end of each reporting period tests are performed to ensure the adequacy of the Group's insurance contract liabilities 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 consolidated income statement 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 are managed together and where there are no restraints on the ability to use assets held in relation to such business to meet any of the associated liabilities.

Further information on net claims can be found in note 10, and insurance contract liabilities in note 37.

Reinsurance

Written premiums ceded to a reinsurer 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 consolidated income statement over the period of the reinsurance contract, based on the expected earning pattern in relation to the underlying insurance contract(s).

Reinsurers' share of insurance contract liabilities within the consolidated statement of financial position includes the reinsurers' share of provisions for losses and loss adjustment expenses and unearned premiums. The Group reports third party reinsurance balances on the consolidated balance sheets 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 Group may not receive all amounts due under the reinsurance contract.

Annuities purchased by the Group to provide for payments under structured settlement arrangements are accounted for as reinsurance ceded and a corresponding reinsurers' share of insurance contract liabilities in cases where the Group 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 consolidated income statement at the date of purchase.

Further information can be found in note 28.

Financial Instruments

Classification and measurement of financial assets and financial liabilities

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

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

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

Further information can be found in notes 25, 26 and 27.

4) Significant accounting policies continued

Financial Instruments continued

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

Category	Financial instrument	Description	Subsequent measurement	Recognition of change in fair value
Designated fair value through profit and loss (FVTPL) on initial recognition	Debt securities, equity securities	Where the investment return is managed on the basis of the total return on investment (including unrealised investment gains)	Fair value using prices at the end of the period	Income statement – net investment gains/(losses)
Held for trading	Derivative assets/(liabilities) not designated as hedging instruments	Acquired or incurred principally for the purpose of selling or repurchasing in the near term	Carried at fair value Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative	Income statement – net investment gains/(losses)
Available for sale (AFS)	Debt securities, equity securities	Where the investment return on equity or debt securities is managed on the basis of the periodic cash flows arising from the investment	Fair value using prices at the end of the period	Other comprehensive income – unrealised gains/(losses) Income statement – net investment gains/(losses) when realised or impaired
Cash and cash equivalents	Cash and cash equivalents	Consist of cash and highly liquid investments that are readily convertible into a known amount of cash, are subject to insignificant risk of changes in value and have a maturity date of 90 days or less from the date of acquisition	Carrying amounts at amortised cost	
Loans and receivables	Loans, reinsurance deposits, other deposits and financial assets arising from non-investment activities, and loans made for investment purposes	Financial assets with fixed or determinable payments not quoted in an active market	Amortised cost using the effective interest method	Income statement – net investment gains/(losses) when realised or impaired
Financial liabilities	Other borrowings	Financial liabilities with fixed or determinable payments	Amortised cost using the effective interest method	Income statement – net investment gains/(losses) when settled
	Issued debt	Financial liabilities with fixed or determinable payments and maturity date	Amortised cost using the effective interest method	Income statement – net investment gains/(losses) when settled
Derivatives designated as hedging instruments	Derivative assets/(liabilities) designated as hedging instruments	Hedge of a net investment in a foreign operation or hedge of future cash flows or hedge of fair value of fixed interest securities	Carried at fair value Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative	Hedge of future cash flows – effective portion is initially recognised in other comprehensive income (OCI); subsequently recognised in the income statement when the hedged cash flows affect profit or loss Hedge of a net investment in a foreign operation – effective portion is recognised in OCI, ineffective portion is immediately recognised in the income statement Hedge of fair value – recognised in the income statement. The change in fair value of the hedged investments attributable to the hedged risk is transferred from the revaluation reserve to the income statement

4) Significant accounting policies continued

Financial Instruments continued

Investment income

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

Unrealised gains and losses on AFS investments are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary items which are recognised in the consolidated income statement. On derecognition of an investment classified as AFS, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the consolidated income statement. Further information can be found in note 9.

Impairment of financial instruments

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

An impairment loss in respect of debt instruments is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate of the instrument and is recognised in the consolidated income statement. Interest on the impaired asset continues to be recognised using the effective interest rate method.

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

If the fair value of a previously impaired debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed and the reversal recognised in the consolidated income statement. Impairment losses on equity investments are not reversed. Further information can be found in note 9.

Current and deferred tax

Current and deferred tax are recognised in the consolidated income statement, except to the extent that the tax arises from a transaction or event recognised either in other comprehensive income or directly in equity. Any exceptions permitted under IAS 12 'Income Taxes' are disclosed in the notes.

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 consolidated 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.

Post-employment benefits and obligations

The Group operates both defined contribution and defined benefit schemes.

A defined contribution scheme is a pension scheme under which the Group 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 consolidated income statement in the period in which the underlying employment services are provided to the Group.

A defined benefit scheme refers to any other pension scheme; specifically, the Group'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 consolidated statement of financial position 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 consolidated statement of financial position in provisions. For those schemes in a net asset (surplus) position, the net asset is recognised in the consolidated statement of financial position in other debtors and other assets only to the extent that the Group can realise an economic benefit, in the form of a refund or a reduction in future contributions, at some point during the life of the scheme or when the scheme liabilities are settled.

4) Significant accounting policies continued

Post-employment benefits and obligations continued

The amounts charged (or credited where relevant) in the consolidated income statement 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 Group 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 38.

Goodwill and other intangible assets

Goodwill

Goodwill is the difference between the cost of a business acquisition and the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is initially capitalised in the consolidated statement of financial position at cost and is subsequently recognised at cost less accumulated impairment losses (see below). The cost of the acquisition is the amount of cash paid and the fair value of other purchase consideration.

Customer related intangible assets

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

Customer related intangible assets comprise renewal rights and customer lists. The useful economic lives are generally between one and ten years and are estimated considering relevant metrics such as customer retention rates and contract length. The asset is amortised on a basis which reflects usage of economic benefit.

Internally developed and externally acquired software

The Group capitalises internal and external software development costs where the software is separately identifiable; the Group has control over the software; and where it can be demonstrated that they provide future economic benefits for the Group 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.

Further information on goodwill and other intangibles can be found in note 22.

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

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

Goodwill, other intangible assets, and internally developed and externally acquired software are allocated to cash generating units (CGUs) for the purpose of impairment testing. When testing for impairment, the recoverable amount of a CGU is determined based on value in use calculations. Further information on how the value in use is calculated can be found in note 22.

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

4) Significant accounting policies continued

Assets and liabilities held for sale

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

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

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

Further information can be found in note 6.

Reorganisation costs

Reorganisation costs represent external and clearly identifiable internal costs that are necessarily incurred and directly attributable to the Group's restructuring programme. The aim of the restructuring programme is to both reduce operating costs and improve profitability. Employee termination costs are only recognised when they are part of a restructuring programme that has been communicated to those affected or when a detailed plan of redundancies is announced.

Provisions for onerous contracts are recognised when action is taken by the Group as part of a restructuring programme that reduces any remaining benefit expected under a contract to below its remaining unavoidable costs.

Further information can be found in note 7.

5) Risk and capital management

Insurance risk

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

A) Underwriting risk

B) Reserving risk

A) Underwriting risk

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

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

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

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

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

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

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

B) Reserving risk

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

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

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

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

5) Risk and capital management continued

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

Financial risk

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

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

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

Credit risk

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

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

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

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

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

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

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

The Group Reinsurance Credit Committee oversees the management of credit risk arising from the reinsurer failing to settle its liability to the Group. Group standards are set such that reinsurers that have a financial strength rating of less than 'A-' with Standard & Poor's, or a comparable rating, are 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 2019 the extent of collateral held by the Group against reinsurers' share of insurance contract liabilities was **£36m** (2018: £577m), which in the event of a default would be called and recognised on the balance sheet. The decrease is following the legal transfer of the UK Legacy business on 1 July 2019.

5) Risk and capital management continued

The Group's use of reinsurance is sufficiently diversified that it is not concentrated on a single reinsurer, or any single reinsurance contract. The Group regularly monitors its aggregate exposures by reinsurer group against predetermined reinsurer group limits, in accordance with the methodology agreed by the BRC. The Group's largest reinsurance exposures to active reinsurance groups are Berkshire Hathaway, Lloyd's of London and Talanx. At 31 December 2019 the reinsurance asset recoverable from these groups does not exceed **4.1%** (2018: 3.9%) of the Group's total financial assets. Stress tests are performed by reinsurer counterparty and the limits are set such that in a catastrophic event, the exposure to a single reinsurer is estimated not to exceed **6.6%** (2018: 6.5%) of the Group's total financial assets.

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

As at 31 December 2019

	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	Less: Amounts classified as held for sale £m	Total financial assets that are neither past due nor impaired excluding held for sale £m
Debt securities	5,030	2,148	2,053	1,000	179	1	10,411	–	10,411
Of which would qualify for SPPI under IFRS 9[1]	5,030	2,125	1,852	959	106	1	10,073	–	10,073
Loans and receivables[2]	70	–	29	210	23	6	338	–	338
Reinsurers' share of insurance contract liabilities	–	670	1,495	78	60	23	2,326	–	2,326
Insurance and reinsurance debtors[3]	11	17	922	42	47	1,723	2,762	–	2,762
Derivative assets	–	10	25	60	–	3	98	–	98
Other debtors	–	5	2	16	–	129	152	–	152
Cash and cash equivalents	364	250	261	28	–	6	909	–	909

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

As at 31 December 2018

	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	Less: Amounts classified as held for sale £m	Total financial assets that are neither past due nor impaired excluding held for sale £m
Debt securities	5,345	1,993	2,132	854	146	–	10,470	–	10,470
Of which would qualify for SPPI under IFRS 9[1]	5,345	1,978	2,057	816	70	–	10,266	–	10,266
Loans and receivables[2]	80	–	31	106	26	6	249	–	249
Reinsurers' share of insurance contract liabilities	–	657	1,467	672	41	33	2,870	604	2,266
Insurance and reinsurance debtors[3]	75	12	846	72	64	1,761	2,830	13	2,817
Derivative assets	–	1	18	48	–	–	67	–	67
Other debtors	–	–	–	–	15	172	187	15	172
Cash and cash equivalents	196	305	277	5	9	1	793	5	788

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

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

5) Risk and capital management continued

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, excluding those assets that have been classified as held for sale.

As at 31 December 2019

	Note	Neither past due nor impaired £m	Financial assets that are past due but not impaired: Up to three months £m	Three to six months £m	Six months to one year £m	Greater than one year £m	Financial assets that have been impaired £m	Carrying value in the statement of financial position £m	Impairment losses charged/(reversed) to the income statement during the year £m
Debt securities	25	**10,411**	**–**	**–**	**–**	**–**	**–**	**10,411**	**–**
Loans and receivables	25	**338**	**–**	**–**	**–**	**–**	**–**	**338**	**–**
Reinsurers' share of insurance contract liabilities	28	**2,326**	**–**	**–**	**–**	**–**	**–**	**2,326**	**–**
Insurance and reinsurance debtors	30	**2,762**	**84**	**38**	**26**	**13**	**–**	**2,923**	**12**
Derivative assets	30	**98**	**–**	**–**	**–**	**–**	**–**	**98**	**–**
Other debtors	30	**152**	**23**	**–**	**6**	**1**	**–**	**182**	**–**
Cash and cash equivalents	31	**909**	**–**	**–**	**–**	**–**	**–**	**909**	**–**

As at 31 December 2018

	Note	Neither past due nor impaired £m	Financial assets that are past due but not impaired: Up to three months £m	Three to six months £m	Six months to one year £m	Greater than one year £m	Financial assets that have been impaired £m	Carrying value in the statement of financial position £m	Impairment losses charged/(reversed) to the income statement during the year £m
Debt securities	25	10,470	–	–	–	–	–	10,470	–
Loans and receivables	25	249	–	–	–	–	–	249	–
Reinsurers' share of insurance contract liabilities	28	2,266	–	–	–	–	5	2,271	–
Insurance and reinsurance debtors	30	2,817	63	28	19	23	4	2,954	(2)
Derivative assets	30	67	–	–	–	–	–	67	–
Other debtors	30	172	8	2	1	2	–	185	–
Cash and cash equivalents	31	788	–	–	–	–	–	788	–

Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations from equity and property prices, interest rates and foreign currency exchange rates. Market risk arises in the Group's operations due to the possibility that fluctuations in the value of liabilities are not offset by fluctuations in the value of investments held. At Group level, it also arises in relation to the overall portfolio of international businesses through foreign currency risk. Market risk is subject to the Board Risk Committee'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

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

At 31 December 2019 the Group held investments classified as equity securities of **£673m** (2018: £739m). These include interests in structured entities (as disclosed in note 27) and other investments where the price risk arises from interest rate risk rather than from equity market price risk. The Group considers that within equity securities, investments with a fair value of **£218m** (2018: £205m) may be more affected by equity index market price risk than by interest rate risk. On this basis a 15% fall in the value of equity index prices would result in the recognition of losses of **£33m** (2018: £31m) in other comprehensive income.

In addition the Group holds investments in properties and in group occupied properties which are subject to property price risk. A decrease of 15% in property prices would result in the recognition of losses of **£45m** (2018: £47m) in the income statement and **£3m** (2018: £3m) in other comprehensive income.

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

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

5) Risk and capital management continued

ii. Interest rate risk

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

Given the composition of the Group's investments as at 31 December 2019, the table below illustrates the impact to the income statement 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 income statement and other comprehensive income (OCI):

	Increase in income statement		Decrease in other comprehensive income	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Increase in interest rate markets:				
Impact on fixed income securities and cash of an increase in interest rates of 100bps	**19**	20	**(390)**	(380)

The Group 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 Group has been modelled by reference to a reasonable approximation of the average interest rate sensitivity of the investments held within each of the portfolios. The effect of movement in interest rates is reflected as a one time rise of 100bps on 1 January 2020 and 1 January 2019 on the following year's income statement 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 Group incurs exposure to currency risk in two ways:

- Operational currency risk – by holding investments and other assets and by underwriting and incurring liabilities in currencies other than the currency of the primary environment in which the business units operate, the Group is exposed to fluctuations in foreign exchange rates that can impact both its profitability and the reported value of such assets and liabilities;
- Structural currency risk – by investing in overseas subsidiaries the Group is exposed to the risk that fluctuations in foreign exchange rates impact the reported profitability of foreign operations to the Group, and the value of its net investment in foreign operations.

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

Structural currency risk is managed at a Group level through currency forward contracts and foreign exchange options within predetermined limits set by the Group Board. In managing structural currency risk the needs of the Group's subsidiaries to maintain net assets in local currencies to satisfy local regulatory solvency and internal risk based capital requirements are taken into account.

At 31 December 2019, the Group's total shareholders' equity deployed by currency was:

	Pounds Sterling £m	Danish Krone/Euro £m	Canadian Dollar £m	Swedish Krona £m	Other £m	Total £m
Shareholders' equity at 31 December 2019	**2,496**	**531**	**645**	**114**	**383**	**4,169**
Shareholders' equity at 31 December 2018	2,437	401	658	226	387	4,109

Shareholders' equity is stated after taking account of the effect of currency forward contracts and foreign exchange options. The analysis aggregates the Danish Krone exposure and the Euro exposure as the Danish Krone continues to be pegged closely to the Euro. The Group considers this aggregate exposure when reviewing its hedging strategy.

5) Risk and capital management continued

The table below illustrates the impact of a hypothetical 10% change in Danish Krone/Euro, Canadian Dollar or Swedish Krona exchange rates on shareholders' equity when retranslating into sterling:

	10% strengthening in Pounds Sterling against Danish Krone/Euro £m	10% weakening in Pounds Sterling against Danish Krone/Euro £m	10% strengthening in Pounds Sterling against Canadian Dollar £m	10% weakening in Pounds Sterling against Canadian Dollar £m	10% strengthening in Pounds Sterling against Swedish Krona £m	10% weakening in Pounds Sterling against Swedish Krona £m
Movement in shareholders' equity at 31 December 2019	**(48)**	**59**	**(59)**	**72**	**(10)**	**13**
Movement in shareholders' equity at 31 December 2018	(36)	45	(60)	73	(21)	25

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

Liquidity risk

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

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

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

As at 31 December 2019

	Note	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	Five to ten years £m	Greater than ten years £m	Total £m	Carrying value in the statement of financial position £m
Subordinated guaranteed US$ bonds[1]	35	–	–	–	–	–	7	–	7	6
Senior notes due 2024[1]	35	–	–	–	–	350	–	–	350	348
Guaranteed subordinated notes due 2045[1]	35	–	–	–	–	–	400	–	400	396
Provisions for losses and loss adjustment expenses	37	2,878	1,761	1,160	713	514	1,149	966	9,141	9,141
Direct insurance creditors	37	126	1	–	–	–	–	–	127	127
Reinsurance creditors	37	576	195	72	–	–	–	–	843	843
Borrowings	36	169	–	–	–	–	–	–	169	169
Deposits received from reinsurers	40	11	–	–	–	–	–	–	11	11
Derivative liabilities	40	4	15	–	–	2	7	67	95	95
Lease liabilities[1]	40	45	45	43	32	26	70	31	292	258
Total		**3,809**	**2,017**	**1,275**	**745**	**892**	**1,633**	**1,064**	**11,435**	**11,394**
Interest on perpetual bonds and notes		27	27	27	27	27	19	–	154	

1. Maturity profile shown on an undiscounted basis.

5) Risk and capital management continued

As at 31 December 2018

	Note	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	Five to ten years £m	Greater than ten years £m	Total £m	Carrying value in the statement of financial position £m
Subordinated guaranteed US$ bonds[1]	35	–	–	–	–	–	–	7	7	6
Guaranteed subordinated notes due 2045[1]	35	–	–	–	–	–	400	–	400	396
Guaranteed subordinated step-up notes due 2039[1]	35	39	–	–	–	–	–	–	39	39
Provisions for losses and loss adjustment expenses	37	3,081	1,610	1,021	717	542	1,247	1,250	9,468	9,468
Direct insurance creditors	37	118	2	–	–	–	–	–	120	120
Reinsurance creditors	37	562	198	48	–	–	–	–	808	808
Borrowings	36	119	–	–	–	–	–	–	119	119
Deposits received from reinsurers	40	22	–	–	–	–	–	–	22	22
Derivative liabilities	40	51	–	14	–	–	9	36	110	110
Total		3,992	1,810	1,083	717	542	1,656	1,293	11,093	11,088
Interest on perpetual bonds and notes		23	21	21	21	21	40	1	148	

1. Maturity profile shown on an undiscounted basis.

The above maturity analysis is presented on a discounted basis, with the exception of issued debt and lease liabilities, for consistency with the consolidated statement of financial position and supporting notes. In prior year the analysis was presented on an undiscounted basis including held for sale. The prior year figures have been re-presented above on a consistent basis.

The capital and interest payable on the bonds and notes have been included until the earliest dates on which the Group has the option to call the instruments and the interest rates are reset. For further information on terms of the bonds and notes, see note 35.

Pension risk

The Group 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 Group 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 Group's management of pension risk is included within note 38.

Capital management

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

The Group's overall capital position is primarily comprised of shareholders' equity, Tier 1 notes, and subordinated loan capital and aims to maximise shareholder value, while maintaining financial strength and maintaining adequate regulatory capital. In addition the Group also aims to hold sufficient capital so as to maintain its single 'A' credit rating.

The Group operates in many countries, and its regulated entities hold appropriate levels of capital to satisfy applicable local regulations. Compliance with local regulatory requirements is embedded within the BRC mandate, for the protection of the Group's policyholders and the continuation of the Group's ability to underwrite.

5) Risk and capital management continued

Regulatory solvency position during 2019

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

The Internal Model is used to support, inform and improve the Group's decision making across the Group. It is used to inform the Group's optimum capital structure, its investment and hedging strategy, its reinsurance programme and pricing and target returns for each portfolio.

At 31 December 2019, the estimated SCR and corresponding eligible own funds were as follows:

	Unaudited 2019 £bn	2018 £bn
Eligible own funds	**2.9**	3.0
SCR	**1.7**	1.8
Coverage (unrounded)	**168%**	170%

The impact on the Solvency II coverage ratio of a range of sensitivities is set out below:

	Unaudited 2019	
Solvency II Sensitivities (change in coverage ratio):	**Including pensions[1]**	**Excluding pensions**
Interest rates: +1% non-parallel[2] shift	**6%**	**7%**
Interest rates: -1% non-parallel[2] shift	**-10%**	**-8%**
Equities: -15%	**-8%**	**-2%**
Property: -10%	**-3%**	**-2%**
Foreign exchange: GBP +10% vs all currencies	**-5%**	**-5%**
Cat loss of £75m net	**-4%**	**-4%**
Credit spreads: +0.25%[3] parallel shift	**-1%**	**-2%**
Credit spreads: -0.25%[3] parallel shift	**-6%**	**2%**

1. The impact of pensions depends significantly on the opening position of the schemes and market conditions. As such the sensitivities shown are point in time estimates that will vary and should not be extrapolated.
2. The interest rate sensitivity assumes a non-parallel shift in the yield curve to reflect that the long end of the yield curve is typically more stable than the short end.
3. The asymmetry in credit spread sensitivities reflects the fact that upside pension sensitivities are restricted to the surplus cap. Sensitivities assume that credit spreads of different rating all move by the same amount and hence reflect an assumed offset between the impact on assets held and the IFRS value of pension scheme obligations which could differ.

The above sensitivities have been considered in isolation. The impact of a combination of sensitivities may be different to the individual outcomes stated above. Where an IFRS valuation of a pension scheme surplus is restricted under Solvency II, downside pension sensitivities may be dampened relative to those shown.

Movement in tangible net asset value (TNAV)

TNAV is one of many capital metrics used by the group and is based on IFRS net assets excluding the value of goodwill and intangible assets.

	2019 £m	2018 £m
As at 1 January	**2,867**	2,765
Profit after tax[1]	**443**	450
Exchange losses net of tax	**(63)**	(16)
Fair value gains/(losses) net of tax	**122**	(146)
Pension fund (losses)/gains net of tax	**(86)**	161
Dividends[2]	**(242)**	(231)
Goodwill and intangible additions and disposals	**(143)**	(137)
Other	**12**	21
As at 31 December	**2,910**	2,867

1. Profit after tax excludes amortisation and impairment of intangible assets.
2. Dividends includes **£9m** (2018: £9m) paid in relation to preference shares and **£14m** (2018: £14m) coupon payment on the Group's Tier 1 notes.

5) Risk and capital management continued

Own risk and solvency assessment (ORSA)

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

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

- The quantity and quality of the risks which it seeks to assume 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 approved by the BRC.

Significant transactions and events

6) Held for sale disposal groups and loss on disposal of businesses

The assets and liabilities of the businesses held for sale are shown below.

	2019	2018		
	Total £m	UK Legacy £m	Noble £m	Total £m
Assets classified as held for sale				
Goodwill	**–**	–	2	2
Reinsurers' share of insurance contract liabilities	**–**	604	–	604
Insurance and reinsurance debtors	**–**	13	–	13
Other debtors and other assets	**–**	15	–	15
Cash and cash equivalents	**–**	4	1	5
Assets of operations classified as held for sale	**–**	636	3	639
Liabilities directly associated with assets classified as held for sale				
Insurance contract liabilities	**–**	604	–	604
Insurance and reinsurance liabilities	**–**	3	–	3
Provisions and other liabilities	**–**	29	–	29
Liabilities of operations classified as held for sale	**–**	636	–	636
Net assets of operations classified as held for sale	**–**	–	3	3

On 7 February 2017, the Group's UK Legacy liabilities were disposed of to Enstar Group Limited. The transaction initially took the form of a reinsurance agreement, effective from 31 December 2016, which substantially effected economic transfer. The legal transfer of the business was completed on 1 July 2019. The Group's UK Legacy business was managed as part of the UK operations. It is not presented as a discontinued operation as it is neither a separate geographic area nor a major line of business.

The UK Noble Marine entities were disposed of in February 2019.

Loss on disposal of businesses

In 2019, the net loss of **£14m** comprises a **£19m** loss relating to the disposal of the UK Legacy business, consisting of a **£15m** additional contribution to Enstar Group Limited and **£4m** costs of disposal, offset by a **£4m** gain on the sale of Caunce O'Hara & Company Limited.

In 2018, the net loss of £2m included a write down of £4m on classification of the UK Noble Marine entities as Held for Sale at fair value, offset by a gain of £2m on the liquidation of Royal and Sun Alliance (Ireland) Limited.

7) Reorganisation costs

During 2019 the Group's UK business incurred costs in relation to improving operations through ongoing process re-engineering and other cost reduction initiatives such as office footprint consolidation and reduction. The **£27m** incurred in 2019 (notes 8, 12 and 39) includes **£15m** in respect of redundancy and **£12m** other restructuring activity.

Notes to the income statement, other comprehensive income and distributions

8) Segmental information

The Group's primary operating segments comprise Scandinavia, Canada, UK & International and Central Functions which is consistent with how the Group is managed. The primary operating segments are based on geography and are all engaged in providing personal and commercial general insurance services. Central Functions include the Group's internal reinsurance function and Group Corporate Centre.

Each operating segment is managed by a member of the Group Executive Committee who is directly accountable to the Group Chief Executive and Board of Directors, who together are considered to be the chief operating decision maker in respect of the operating activities of the Group. The UK is the Group's country of domicile and one of its principal markets.

Assessing segment performance

The Group uses the following key measures to assess the performance of its operating segments:

- Net written premiums;
- Underwriting result;
- Combined operating ratio (COR);
- Business operating result.

Net written premiums is the key measure of revenue used in internal reporting.

Underwriting result, COR and business operating result are Alternative Performance Measures (APMs) and the key internal measures of profitability of the operating segments. The COR reflects the ratio of claims costs and expenses (including commission) to earned premiums, expressed as a percentage. Further information on APMs can be found on pages 201 to 210.

Transfers or transactions between segments are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

Year ended 31 December 2019

	Scandinavia £m	Canada £m	UK & International £m	Central Functions £m	Total Group £m
Net written premiums	1,764	1,735	2,881	37	6,417
Underwriting result[1]	223	94	77	(48)	346
Investment result	63	65	135	–	263
Central costs and other activities	–	–	–	(12)	(12)
Business operating result (management basis)	286	159	212	(60)	597
Realised gains (note 9)					15
Unrealised (losses)/gains, impairments and foreign exchange					(24)
Interest costs (note 13)					(32)
Amortisation of intangible assets (note 22)					(12)
Pension net interest and administration costs (note 38)					4
Reorganisation costs (note 7)					(27)
Change in economic assumptions (note 37)					(15)
Loss on disposal of businesses (note 6)					(14)
Profit before tax					492
Tax on operations (note 17)					(109)
Profit after tax					383
Combined operating ratio (%)	87.4%	94.5%	97.1%		94.6%

1 UK & International management underwriting result, as reported in the strategic report, includes an **£8m** re-classification of claims recoveries from Central Functions. This re-classification is not made in the Group consolidated financial statements.

8) Segmental information continued

Year ended 31 December 2018

	Scandinavia £m	Canada £m	UK & International £m	Central Functions £m	Total Group £m
Net written premiums	1,817	1,652	3,100	(99)	6,470
Underwriting result	238	25	(43)	30	250
Investment result	68	59	148	–	275
Central costs and other activities	–	–	–	(8)	(8)
Business operating result (management basis)	306	84	105	22	517
Realised gains (note 9)					22
Unrealised (losses)/gains, impairments and foreign exchange					(2)
Interest costs (note 13)					(25)
Amortisation of intangible assets (note 22)					(13)
Pension net interest and administration costs (note 38)					(6)
Regulatory costs					(4)
Impairment of goodwill (note 22)					(7)
Loss on disposal of businesses (note 6)					(2)
Profit before tax					480
Tax on operations (note 17)					(108)
Profit after tax					372
Combined operating ratio (%)	86.8%	98.5%	101.4%		96.2%

9) Net investment return

A summary of the net investment return in the income statement is given below:

	Investment income		**Net realised gains**		**Net unrealised gains/(losses)**		**Impairments**		**Total investment return**	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Investment property	**18**	19	**–**	8	**(10)**	8	**–**	–	**8**	35
Equity securities										
Available for sale	**35**	35	**14**	10	**–**	–	**–**	(10)	**49**	35
At FVTPL	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Debt securities										
Available for sale	**223**	242	**1**	2	**–**	–	**–**	–	**224**	244
At FVTPL	**–**	–	**–**	–	**(6)**	(1)	**–**	–	**(6)**	(1)
Other loans and receivables										
Loans secured by mortgages	**2**	2	**–**	–	**–**	–	**–**	–	**2**	2
Other loans	**10**	7	**–**	2	**–**	–	**–**	–	**10**	9
Deposits, cash and cash equivalents	**9**	10	**–**	–	**–**	–	**–**	–	**9**	10
Derivatives	**6**	4	**–**	–	**(9)**	2	**–**	–	**(3)**	6
Other	**3**	3	**–**	–	**–**	–	**–**	–	**3**	3
Total net investment return	**306**	322	**15**	22	**(25)**	9	**–**	(10)	**296**	343

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

9) Net investment return continued

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

	Net unrealised gains/(losses)		Net realised (gains) transferred to income statement		Impairments transferred to income statement		Net movement recognised in other comprehensive income	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Equity securities	**38**	(51)	**(14)**	(10)	**–**	10	**24**	(51)
Debt securities	**115**	(121)	**(1)**	(2)	**–**	–	**114**	(123)
Other	**–**	2	**–**	(2)	**–**	–	**–**	–
Total	**153**	(170)	**(15)**	(14)	**–**	10	**138**	(174)

10) Net claims

	2019 £m	2018 £m
Gross claims paid	**5,196**	5,123
Gross changes in provision for losses and loss adjustment expenses	**(137)**	(100)
Reinsurance recoveries on claims paid	**(705)**	(619)
Reinsurers' share of changes in provision for losses and loss adjustment expenses	**(22)**	76
Total net claims	**4,332**	4,480

11) Other operating income

	2019 £m	2018 £m
Administration fee income	**26**	27
Instalment policy fee income	**40**	44
Introductory commissions	**13**	13
Service income	**11**	10
Other fees	**45**	44
Pension net interest and administration expenses	**4**	–
Foreign exchange gain	**1**	–
Total other operating income	**140**	138

12) Other operating expenses

	2019 £m	2018 £m
Administration and other expenses	**13**	9
Investment expenses and charges	**12**	14
Amortisation of intangible assets	**12**	13
Pension net interest and administration expenses	**–**	6
Regulatory costs	**–**	4
Impairment of goodwill	**–**	7
Reorganisation costs (see note 7)	**27**	–
Foreign exchange loss	**–**	1
Total other operating expenses	**64**	54

13) Finance costs

	2019 £m	2018 £m
Interest expense on issued debt	**25**	25
Interest on lease liabilities	**7**	–
Total finance costs	**32**	25

14) Employee expenses

Staff costs for all employees comprise:

	2019 £m	2018 £m
Wages and salaries	**584**	566
Social security costs	**84**	86
Pension costs	**53**	83
Share-based payments to directors and employees	**10**	12
Total staff costs	**731**	747

The average number of employees during the year are as follows:

	2019	2018
Scandinavia	**2,862**	3,013
Canada	**2,946**	2,896
UK & International	**6,846**	6,737
Total average number of employees during the year	**12,654**	12,646

Further information on pension obligations of the Group can be found in note 38. Further information on employee share schemes can be found in note 18.

15) Related party transactions

Key management personnel comprise members of the Group Executive Committee, executive directors, and non-executive directors.

Key management personnel compensation

	2019 £m	2018 £m
Salaries and other short term employee benefits	**8**	7
Bonus awards	**5**	1
Share-based awards	**4**	5
Total	**17**	13

Included in salaries and other short term employee benefits and bonus awards is **£6,719,000** (2018: £3,942,000) paid in respect of directors. These amounts exclude the value of share options granted to directors and gains made on the exercise of such options, Group contributions paid in respect of pension schemes and cash or other assets received or receivable under long term incentive schemes. The total value of the directors' remuneration (including values for these excluded items) and other details are disclosed in the Directors' Remuneration Report.

Key management personnel transactions

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or significant influence over these companies. A number of these companies transacted with the Group during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non-key management personnel-related companies on an arm's length basis.

A number of the directors, other key managers, their close families and entities under their control have general insurance policies with subsidiary companies of the Group. Such policies are available at discounted rates to all employees including executive directors.

16) Auditor's remuneration

	2019 £m	2018 £m
Fees payable to the auditor for audit of the Company's annual accounts	**0.8**	0.9
Fees payable to the auditor and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	**4.7**	4.2
Non-audit services:		
Audit related assurance services	**1.3**	1.4
Other services	**0.1**	0.1
Total auditor's remuneration	**6.9**	6.6

Included in the Audit related assurance services for 2019 is **£0.9m** (2018: £0.9m) of assurance work in respect of Solvency II reporting. The remainder of **£0.4m** (2018: £0.5m), together with Other services of **£0.1m** (2018: £0.1m), represents in aggregate **11%** (2018: 11%) of the Group IFRS audit fee of **£5.5m** (2018: £5.1m).

17) Income tax

The tax amounts charged in the income statement are as follows:

	2019 £m	2018 £m
Current tax	**90**	94
Deferred tax	**19**	14
Taxation attributable to the Group	**109**	108

Reconciliation of the income tax expense

	2019 £m	2018 £m
Profit before tax	**492**	480
Tax at the UK rate of **19.0%** (2018: 19.0%)	**93**	91
Tax effect of:		
Income/gains not taxable (or taxed at lower rate)	**(15)**	(7)
Expenses not deductible for tax purposes	**5**	1
Non-taxable (profit) on sale of subsidiaries	**–**	(1)
Impairment of goodwill and amortisation of intangibles	**–**	2
Increase/(decrease) of current tax in respect of prior periods	**5**	(5)
Increase/(decrease) of deferred tax in respect of prior periods (other than losses)	**–**	(1)
De-recognition of deferred tax asset for prior year losses	**6**	4
Non-recognition of deferred tax asset for current year losses	**5**	6
Different tax rates of subsidiaries operating in other jurisdictions	**8**	11
Withholding tax on dividends and interest from subsidiaries	**5**	4
Effect of change in tax rates	**(1)**	(2)
Deductible Restricted Tier 1 coupon in equity	**(3)**	(3)
One off tax charge on Swedish Safety Reserve	**–**	6
Other	**1**	2
Income tax expense	**109**	108
Effective tax rate	**22%**	23%

The Group effective tax rate of **22%** (2018: 23%) is higher than the UK statutory rate of 19% predominately due to unrecognised tax losses in the UK and Norway, higher statutory tax rates in the Group's core overseas jurisdictions and non-creditable withholding tax. Income/gains not taxable largely comprises tax-exempt investment income and non-taxable foreign exchange.

17) Income tax continued

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

	Current Tax		Deferred Tax		Total	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Exchange gains and losses	**(2)**	(3)	**(3)**	3	**(5)**	–
Fair value gains and losses	**2**	41	**(10)**	(18)	**(8)**	23
Remeasurement of net defined benefit pension liability	**–**	14	**(3)**	(30)	**(3)**	(16)
Total credited/(charged) to other comprehensive income	**–**	52	**(16)**	(45)	**(16)**	7

Foreign exchange arising on the revaluation of current and deferred tax balances is reported through other comprehensive income within the foreign currency translation reserve.

The net current tax and deferred tax charged directly to equity is **£nil** (2018: £nil).

The Group applies judgement in identifying uncertainties over income tax treatments under IAS 12 and, from 1 January 2019, IFRIC 23. The introduction of IFRIC 23 on 1 January 2019 had no material impact on the Group's provisions for uncertain tax positions. Provisions for uncertain tax treatments are based on our assessment of probable outcomes which take into consideration many factors, including interpretations of tax law and prior experience. At the end of the reporting period, provisions recognised in respect of uncertain tax positions for the Group totalled **less than £10m** (2018: less than £10m).

Tax rates

The table below provides a summary of the current tax and deferred tax rates for the year in respect of the core tax jurisdictions in which the Group operates.

	2019		2018	
	Current Tax	**Deferred Tax**	Current Tax	Deferred Tax
UK	**19.0%**	**17.0%**	19.0%	17.0%
Canada	**27.4%**	**27.4%**	27.7%	27.7%
Denmark	**22.0%**	**22.0%**	22.0%	22.0%
Ireland	**12.5%**	**12.5%**	12.5%	12.5%
Sweden	**21.4%**	**20.6%**	22.0%	20.6%

Tax assets and liabilities are recognised based on tax rates that have been enacted or substantively enacted at the balance sheet date. The Conservative Party manifesto at the recent general election included a commitment to cancel the reduction in the UK corporate tax rate from 19% to 17% in April 2020. Under IAS 12 only rate changes that have been substantively enacted at the reporting date can be used for calculating deferred tax.

18) Share-based payments

The total amount included within staff costs in the consolidated income statement in respect of all share scheme plans in 2019 is set out below.

Analysis of share scheme costs:

	2019 £m	2018 £m
Performance share plan (PSP)	8	11
Save as you earn (SAYE)	2	1
Total	10	12

Analysis of new award costs:

	2019		2018	
	Charge for year £m	Total value granted £m	Charge for year £m	Total value granted £m
PSP	4	12	5	10
SAYE	–	1	–	1
Total	4	13	5	11

The balance of the value of the awards will be charged to the consolidated income statement during the remaining vesting periods.

Performance share plan

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

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

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

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

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

Further information can be found in the Directors' Remuneration Report within the Corporate Governance section.

19) Earnings per share (EPS)

The earnings per ordinary share are calculated by reference to the profit attributable to the ordinary shareholders and the weighted average number of shares in issue during the year. These were **1,030,648,190** (2018: 1,026,040,413) for basic EPS and **1,033,077,874** (2018: 1,030,450,240) for diluted EPS (excluding those held in Employee Stock Ownership Plan (ESOP) and Share Incentive Plan (SIP) trusts). The number of shares in issue at 31 December 2019 was **1,031,523,544** (2018: 1,026,814,592) (excluding those held in ESOP and SIP trusts).

Basic EPS

	2019	2018
Profit attributable to the shareholders of the Parent Company (£m)	**359**	349
Less: cumulative preference dividends (£m)	**(9)**	(9)
Less: Tier 1 notes coupon payment (£m)	**(14)**	(14)
Profit for the calculation of earnings per share (£m)	**336**	326
Weighted average number of ordinary shares in issue (thousands)	**1,030,648**	1,026,040
Basic earnings per share (p)	**32.6**	31.8

Diluted EPS

	2019	2018
Weighted average number of ordinary shares in issue (thousands)	**1,030,648**	1,026,040
Adjustments for share options and contingently issuable shares (thousands)	**2,430**	4,410
Total weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,033,078**	1,030,450
Diluted earnings per share (p)	**32.5**	31.6

Note 32 includes further information of the outstanding share options and unvested share awards to Group employees that could potentially dilute basic earnings per share in the future.

20) Dividends paid and proposed

The final dividend to equity holders is recognised as a liability when approved at the Annual General Meeting (AGM). The Company and its subsidiaries may be subject to restrictions on the amount of dividends they can pay to shareholders as a result of regulatory requirements. However, based on the information currently available, the Company does not believe that such restrictions materially limit its ability to settle obligations as and when they fall due and pay dividends. At the AGM on 7 May 2020, a final dividend in respect of the year ended 31 December 2019 of **15.6p** (2018: 13.7p) per ordinary share amounting to a total dividend of **£161m** (2018: £141m) will be recommended by the directors (subject always to the dividend being cancelled, withheld or deferred). The proposed dividend will be paid on 14 May 2020 to holders of ordinary shares on the register at the close of business on 6 March 2020, subject to ordinary shareholder approval, and will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2020.

Details of 2020 dividend dates are detailed on page 211.

The Company's preference shareholders receive a dividend at the rate of 7.375% per annum paid in two instalments on, or as near as practicably possible to, 1 April and 1 October each year, subject to approval by the Board.

	2019 p	2018 p	2019 £m	2018 £m
Ordinary dividend:				
Final paid in respect of prior year	**13.7**	13.0	**141**	133
Interim paid in respect of current year	**7.5**	7.3	**78**	75
	21.2	20.3	**219**	208
Preference dividend			**9**	9
Tier 1 notes coupon payment			**14**	14
			242	231

The Tier 1 notes coupon payment relates to the two floating rate notes issued on 27 March 2017 (note 33).

21) Total other comprehensive income

Year ended 31 December 2019

	Investment valuation reserve £m	Group occupied property reserve £m	Hedging instrument reserve £m	Total revaluation reserves £m	Foreign currency translation reserve £m	Retained earnings £m	Shareholders' equity £m	Non-controlling interests £m	Total equity £m
Exchange (losses) net of tax	**(14)**	**–**	**(1)**	**(15)**	**(64)**	**–**	**(79)**	**(6)**	**(85)**
Fair value gains/(losses) net of tax	**128**	**–**	**(7)**	**121**	**–**	**–**	**121**	**–**	**121**
Pension – remeasurement of net defined benefit liability net of tax and tax credit for scheme contributions	**–**	**–**	**–**	**–**	**–**	**(86)**	**(86)**	**–**	**(86)**
Movement in property revaluation net of tax	**–**	**1**	**–**	**1**	**–**	**–**	**1**	**–**	**1**
Total other comprehensive income/(expense) for the year	**114**	**1**	**(8)**	**107**	**(64)**	**(86)**	**(43)**	**(6)**	**(49)**

Year ended 31 December 2018

	Investment valuation reserve £m	Group occupied property reserve £m	Hedging instrument reserve £m	Total revaluation reserves £m	Foreign currency translation reserve £m	Retained earnings £m	Shareholders' equity £m	Non-controlling interests £m	Total equity £m
Exchange (losses)/gains net of tax	(3)	–	–	(3)	(18)	–	(21)	8	(13)
Fair value (losses)/gains net of tax	(150)	–	2	(148)	–	–	(148)	(1)	(149)
Pension – remeasurement of net defined benefit liability net of tax and tax credit for scheme contributions	–	–	–	–	–	161	161	–	161
Movement in property revaluation net of tax	–	2	–	2	–	–	2	–	2
Total other comprehensive (expense)/income for the year	(153)	2	2	(149)	(18)	161	(6)	7	1

Notes to the statement of financial position

22) Goodwill and intangible assets

	Goodwill £m	Intangible assets arising from acquired claims provisions £m	Externally acquired software £m	Internally generated software £m	Customer related intangibles £m	Total £m
Cost						
At 1 January 2019	**441**	**133**	**83**	**907**	**262**	**1,826**
Additions	**–**	**–**	**2**	**132**	**11**	**145**
Additions acquired through business combinations	**–**	**–**	**–**	**–**	**–**	**–**
Disposals	**(15)**	**–**	**(5)**	**(92)**	**(6)**	**(118)**
Exchange adjustment	**(14)**	**(7)**	**–**	**(16)**	**(1)**	**(38)**
At 31 December 2019	**412**	**126**	**80**	**931**	**266**	**1,815**
Accumulated amortisation						
At 1 January 2019	**–**	**133**	**81**	**462**	**199**	**875**
Amortisation charge	**–**	**–**	**1**	**65**	**18**	**84**
Amortisation on disposals	**–**	**–**	**(5)**	**(86)**	**(6)**	**(97)**
Exchange adjustment	**–**	**(7)**	**–**	**(7)**	**–**	**(14)**
At 31 December 2019	**–**	**126**	**77**	**434**	**211**	**848**
Accumulated impairment						
At 1 January 2019	**92**	**–**	**–**	**60**	**5**	**157**
Impairment charge	**–**	**–**	**–**	**1**	**–**	**1**
Impairment on disposals	**(13)**	**–**	**–**	**(7)**	**–**	**(20)**
Exchange adjustment	**(4)**	**–**	**–**	**(3)**	**(1)**	**(8)**
At 31 December 2019	**75**	**–**	**–**	**51**	**4**	**130**
Carrying amount at 31 December 2019	**337**	**–**	**3**	**446**	**51**	**837**

	Goodwill £m	Intangible assets arising from acquired claims provisions £m	Externally acquired software £m	Internally generated software £m	Customer related intangibles £m	Total £m
Cost						
At 1 January 2018	441	132	82	859	256	1,770
Additions	–	–	1	122	17	140
Additions acquired through business combinations	5	–	–	–	–	5
Disposals	(4)	–	–	(71)	(7)	(82)
Exchange adjustment	(1)	1	–	(3)	(4)	(7)
At 31 December 2018	441	133	83	907	262	1,826
Accumulated amortisation						
At 1 January 2018	–	132	77	456	189	854
Amortisation charge	–	–	4	67	17	88
Amortisation on disposals	–	–	–	(60)	(5)	(65)
Exchange adjustment	–	1	–	(1)	(2)	(2)
At 31 December 2018	–	133	81	462	199	875
Accumulated impairment						
At 1 January 2018	79	–	–	69	5	153
Impairment charge	7	–	–	2	–	9
Impairment on disposals	4	–	–	(11)	–	(7)
Exchange adjustment	2	–	–	–	–	2
At 31 December 2018	92	–	–	60	5	157
Carrying amount at 31 December 2018	349	–	2	385	58	794
Less: Assets classified as held for sale	2	–	–	–	–	2
Carrying amount at 31 December 2018 net of held for sale	347	–	2	385	58	792

22) Goodwill and intangible assets continued

The carrying value of intangible assets not yet available for use at 31 December 2019 is **£170m** (2018: £191m). This primarily relates to the implementation of strategic software assets across the Group, reported within internally generated software.

Amortisation

Amortisation expense of **£72m** (2018: £75m) has been charged to underwriting and policy acquisition costs with the remainder recognised in other operating expenses.

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

Impairments

During 2019 the software impairment charge was **£1m** (2018: £2m), which was recognised in underwriting and policy acquisition costs (2018: £2m).

When testing for goodwill impairment, the carrying value of the Cash Generating Unit (CGU) to which goodwill has been allocated is compared to the recoverable amount as determined by a value in use calculation. These calculations use cash flow projections based on operating plans approved by management covering a three year period and using the best estimates of future premiums, operating expenses and taxes using historical trends, general geographical market conditions, industry trends and forecasts and other available information as discussed in more detail in the strategic report section. Cash flows beyond this period are extrapolated using the estimated growth rates which management deem appropriate for the CGU. The cash flow forecasts are adjusted by appropriate discount rates. Where a sales price has been agreed for a CGU, the sales proceeds less costs to sell are considered the best estimate of the value in use.

When testing for intangible asset impairment (including those not available for use), a consistent methodology is applied although future cash flow projection years are not extrapolated beyond the asset's useful economic life.

Where the value in use is less than the current carrying value of the CGU in the statement of financial position, the goodwill or intangible asset is impaired in order to ensure that the CGU carrying value is not greater than its future value to the Group.

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

	2019 £m	2018 £m
Scandinavia (Sweden, Norway, Denmark)	**138**	148
Canada (Commercial, Johnson, Personal, Travel)	**160**	157
UK and International (Ireland, Oman)	**39**	42
Total Goodwill	**337**	347

In 2018, the goodwill allocated to the Norwegian CGU was impaired by £7m. This was recognised in other operating expenses.

Also in 2018, goodwill of £4m in respect of the UK Noble Marine entities was impaired prior to its classification as Held for Sale in order to write down the value of its net assets to fair value less costs to sell.

The range of pre-tax discount rates used for goodwill and intangible asset impairment testing, which reflect specific risks relating to the CGU at the date of evaluation and weighted average growth rates used in 2019 for the CGUs within each operating segment are shown below. The growth rates include improvements in trade performance, where these are forecast in the three year operational plan for the CGU.

	Pre-tax discount rate		**Weighted average growth rate**	
	2019	2018	**2019**	2018
Scandinavia	**9%–11%**	10%	**1%–3%**	1%–3%
Canada	**11%–12%**	12%–13%	**3%–4%**	3%–4%
UK & International	**9%**	10%–11%	**0%–3%**	1%

23) Property and equipment

Property and equipment is split between property and equipment owned and right-of-use assets as follows:

	2019 £m	2018 £m
Property and equipment owned (see below)	**83**	90
Right-of-use assets (note 41)	**213**	–
Total property and equipment	**296**	90

Property and equipment owned

	Group occupied property-land and buildings 2019 £m	Other 2019 £m	Total 2019 £m	Group occupied property-land and buildings 2018 £m	Other 2018 £m	Total 2018 £m
Cost/valuation						
At 1 January	**19**	**234**	**253**	35	253	288
Additions	**–**	**8**	**8**	1	20	21
Disposal of subsidiaries	**–**	**–**	**–**	–	–	–
Other disposals	**–**	**(18)**	**(18)**	(17)	(36)	(53)
Exchange adjustment	**–**	**(2)**	**(2)**	–	(3)	(3)
At 31 December	**19**	**222**	**241**	19	234	253
Accumulated depreciation						
At 1 January	**–**	**163**	**163**	–	184	184
Depreciation charge	**1**	**14**	**15**	2	16	18
Depreciation on disposals	**–**	**(17)**	**(17)**	–	(35)	(35)
Revaluation adjustments	**(1)**	**–**	**(1)**	(2)	–	(2)
Exchange adjustment	**–**	**(2)**	**(2)**	–	(2)	(2)
At 31 December	**–**	**158**	**158**	–	163	163
Carrying amount at 31 December	**19**	**64**	**83**	19	71	90

Other includes fixtures, fittings and other equipment.

Depreciation expenses of **£14m** (2018: £16m) have been charged to underwriting and policy acquisition costs.

Group occupied property was revalued on 31 December 2019 by independent valuers using the basis of valuation as set out in note 26.

The carrying amount of group occupied property that would have been recognised had the assets been carried under the cost model at 31 December 2019 is **£5m** (2018: £5m).

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

	2019 £m	2018 £m
At 1 January	**20**	17
Revaluation adjustment (note 21)	**1**	2
Exchange adjustment	**–**	1
Group occupied property reserve at 31 December	**21**	20

Right-of-use assets

Right-of-use assets relate to leased properties and other equipment. Further information can be found in note 41.

24) Investment property

Investment property of **£300m** (2018: £310m), relating to freehold and leasehold land and buildings, is held for long term rental yields and is not occupied by the Group.

The movement in the carrying value of investment property is detailed below:

	2019 £m	2018 £m
At 1 January	310	308
Purchases	9	19
Sales	(9)	(25)
Fair value (losses)/gains	(10)	8
Investment property at 31 December	300	310

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

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

25) Financial assets

The following tables analyse the Group's financial assets by classification as at 31 December 2019 and 31 December 2018.

As at 31 December 2019

	At fair value through profit and loss (FVTPL) £m	Available for sale £m	Loans and receivables £m	Total £m
Equity securities	–	673	–	673
Debt securities	15	10,396	–	10,411
Financial assets measured at fair value	15	11,069	–	11,084
Loans and receivables	–	–	338	338
Total financial assets	15	11,069	338	11,422

As at 31 December 2018

	At fair value through profit and loss (FVTPL) £m	Available for sale £m	Loans and receivables £m	Total £m
Equity securities	–	739	–	739
Debt securities	19	10,451	–	10,470
Financial assets measured at fair value	19	11,190	–	11,209
Loans and receivables	–	–	249	249
Total financial assets	19	11,190	249	11,458

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

	2019				2018
	Cost/ amortised cost £m	Unrealised gains £m	Unrealised losses and impairments £m	Fair value £m	Fair value £m
Equity securities	679	60	(66)	673	739
Debt securities	10,144	383	(116)	10,411	10,470
Financial assets measured at fair value	10,823	443	(182)	11,084	11,209
Loans and receivables	338	–	–	338	249
Total financial assets	11,161	443	(182)	11,422	11,458

25) Financial assets continued

Collateral

At 31 December 2019, the Group had pledged **£557m** (2018: £550m) of financial assets as collateral for liabilities or contingent liabilities, consisting of government debt securities of **£533m** (2018: £475m) and cash and cash equivalents of **£24m** (2018: £75m). The assets pledged are included in the balance sheet as follows; available for sale debt securities of **£533m** (2018: £475m) and other assets of **£24m** (2018: £75m). The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities and derivative transactions.

At 31 December 2019, the Group has accepted **£429m** (2018: £313m) in collateral, consisting of debt securities of **£405m** (2018: £292m), which the Group is permitted to sell or repledge in the event of default by the owner, and cash and cash equivalents of **£24m** (2018: £21m) which is included in the balance sheet. The fair value of the collateral accepted is **£429m** (2018: £313m). The terms and conditions of the collateral held are market standard. The assets held as collateral are readily convertible into cash.

Derivative financial instruments

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

As at 31 December 2019

	Notional Amount				Fair Value	
	Less than 1 year £m	**From 1 to 5 years £m**	**Over 5 years £m**	**Total £m**	**Asset £m**	**Liability £m**
Designated as hedging instruments						
Currency risk (net investment in foreign operation)	**1,058**	**–**	**–**	**1,058**	**31**	**3**
Currency risk (cash flow)	**4**	**6**	**–**	**10**	**1**	**–**
Cross currency interest swaps (fair value/cash flow)	**–**	**49**	**155**	**204**	**–**	**27**
Total					**32**	**30**
At FVTPL						
Currency risk mitigation	**400**	**–**	**–**	**400**	**7**	**1**
Inflation risk mitigation	**–**	**60**	**257**	**317**	**59**	**64**
Total					**66**	**65**
Total derivatives					**98**	**95**

As at 31 December 2018

	Notional Amount				Fair Value	
	Less than 1 year £m	From 1 to 5 years £m	Over 5 years £m	Total £m	Asset £m	Liability £m
Designated as hedging instruments						
Currency risk (net investment in foreign operation)	1,064	–	–	1,064	18	11
Currency risk (cash flow)	4	11	–	15	1	–
Cross currency interest swaps (fair value/cash flow)	155	48	171	374	3	57
Total					22	68
At FVTPL						
Currency risk mitigation	355	–	–	355	1	3
Inflation risk mitigation	–	60	271	331	44	39
Total					45	42
Total derivatives					67	110

The use of derivatives can result in accounting mismatches when gains and losses arising on the derivatives are presented in the income statement and corresponding losses and gains on the risks being mitigated are not included in the income statement. In such circumstances the Group may apply hedge accounting in accordance with IFRS and the Group accounting policy on hedging.

The Group applies hedge accounting to derivatives acquired to reduce foreign exchange risk in its net investment in certain major overseas subsidiaries. There was no ineffectiveness recognised in the income statement in respect of these hedges during 2019 or 2018.

The Group also applies hedge accounting to specified fixed interest assets in its investment portfolio. In order to remove exchange risk from these assets the Group may also acquire cross currency interest rate swaps to swap the cash flows from the portfolio into cash flows denominated in pounds sterling or the functional currency of the entity acquiring the asset. The Group applies fair value hedge accounting when using 'fixed to floating' interest rate swaps and cash flow hedge accounting when using 'fixed to fixed' interest rate swaps. The interest rate swaps exactly offset the timing and amounts expected to be received on the underlying investments. The investments have a remaining term of between 1 and 36 years, with the substantial majority having a term of less than 10 years. There have been no defaults and no defaults are expected on the hedged investments. The Group also applies cash flow hedge accounting to certain foreign currency operating expense contracts in order to reduce foreign exchange risk on these contracts.

25) Financial assets continued

The total losses on cash flow hedge instruments during 2019 were **£2m** (2018: £nil) in the consolidated statement of other comprehensive income, and the amount reclassified to the income statement was a gain of **£1m** (2018: £1m). There was no ineffectiveness recognised in the income statement in respect of these hedges during 2019 or 2018.

The total losses on the fair value hedge instruments recognised in the income statement were **£52m** (2018: £44m) and the offsetting gains related to the hedged risk were **£45m** (2018: £45m).

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

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

In addition, during 2019, the Group took out borrowings from credit institutions under repurchase agreements of **£146m** (2018: £107m) (note 36). The Group continues to recognise debt securities in the statement of financial position as the Group remains exposed to the risks and rewards of ownership.

As at 31 December 2019

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in statement of financial position			**Related items not offset**		
	Gross amounts £m	**Amounts offset £m**	**Net amounts reported £m**	**Financial instruments £m**	**Financial collateral £m**	**Net amount £m**
Derivative financial assets	**98**	**–**	**98**	**(76)**	**(18)**	**4**
Cash received under repurchase arrangements	**146**	**–**	**146**	**(146)**	**–**	**–**
Total assets	**244**	**–**	**244**	**(222)**	**(18)**	**4**
Derivative financial liabilities	**95**	**–**	**95**	**(76)**	**(19)**	**–**
Repurchase arrangements and other similar secured borrowing	**146**	**–**	**146**	**(146)**	**–**	**–**
Total liabilities	**241**	**–**	**241**	**(222)**	**(19)**	**–**

As at 31 December 2018

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in statement of financial position			Related items not offset		
	Gross amounts £m	Amounts offset £m	Net amounts reported £m	Financial instruments £m	Financial collateral £m	Net amount £m
Derivative financial assets	67	–	67	(49)	(15)	3
Cash received under repurchase arrangements	107	–	107	(107)	–	–
Total assets	174	–	174	(156)	(15)	3
Derivative financial liabilities	110	–	110	(49)	(61)	–
Repurchase arrangements and other similar secured borrowing	107	–	107	(107)	–	–
Total liabilities	217	–	217	(156)	(61)	–

IFRS 9 ‘Financial Instruments’

The Group 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, with the carrying amount of its liabilities within the scope of IFRS 4 and debt instruments included within regulatory capital being greater than 90% of the total carrying amount of all its liabilities at 31 December 2015 and with no subsequent change in its activities.

25) Financial assets continued

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

As at 31 December 2019

	SPPI financial assets £m	Other financial assets £m	Total £m
Available for sale equity securities	–	673	673
Available for sale debt securities	10,073	323	10,396
Debt securities at FVTPL	–	15	15
Loans and receivables	338	–	338
Derivative assets held for trading	–	66	66
Fair value at 31 December 2019	**10,411**	**1,077**	**11,488**

As at 31 December 2018

	SPPI financial assets £m	Other financial assets £m	Total £m
Available for sale equity securities	–	739	739
Available for sale debt securities	10,266	185	10,451
Debt securities at FVTPL	–	19	19
Loans and receivables	249	–	249
Derivative assets held for trading	–	45	45
Fair value at 31 December 2018	10,515	988	11,503

The fair value gains of SPPI financial assets and other financial assets during the year are **£114m** (2018: £123m losses) and **£31m** (2018: £35m losses) respectively.

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

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

Companies within the Group that are applying IFRS 9 and disclose relevant information in their own published financial statements in addition to that already included in these consolidated financial statements are indicated in Appendix B.

26) Fair value measurement

Fair value is used to value a number of assets within the statement of financial position and represents their market value at the reporting date.

Cash and cash equivalents, loans and receivables, other assets and other liabilities

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

Group occupied property and investment property

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

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

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

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

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

Notes to the statement of financial position continued

26) Fair value measurement continued

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

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

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.

Issued debt

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

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

Fair value hierarchy

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

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

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

For level 1 and level 2 investments, the Group 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 Group determines whether the prices meet the criteria for classification as a level 1 valuation. The price provided is classified as a level 1 valuation when it represents the price at which the investment traded at the reporting date taking into account the frequency and volume of trading of the individual investment together with the spread of prices that are quoted at the reporting date for such trades. Typically investments in frequently traded government debt would meet the criteria for classification in the level 1 category. Where the prices provided do not meet the criteria for classification in the level 1 category, the prices are classified in the level 2 category.

In certain circumstances, the Group does not receive pricing information from an external provider for its financial investments. In such circumstances the Group 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. Valuations that require the significant use of unobservable data are classified as level 3 valuations and inputs are generally determined via reference to observable inputs, historical observations or using other analytical techniques. In addition, the valuations used for investment properties and for group occupied properties are classified in the level 3 category.

The following table provides an analysis of financial instruments 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.

26) Fair value measurement continued

	Fair value hierarchy 2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Group occupied property – land and buildings	–	–	19	19
Investment properties	–	–	300	300
Available for sale financial assets:				
Equity securities	394	–	279	673
Debt securities	3,725	6,296	375	10,396
Financial assets at FVTPL:				
Debt securities	–	–	15	15
	4,119	6,296	988	11,403
Derivative assets:				
At FVTPL	–	66	–	66
Designated as hedging instruments	–	32	–	32
Total assets measured at fair value	4,119	6,394	988	11,501
Derivative liabilities:				
At FVTPL	–	65	–	65
Designated as hedging instruments	–	30	–	30
Total liabilities measured at fair value	–	95	–	95
Issued debt	–	814	–	814
Total value of liabilities not measured at fair value	–	814	–	814

	Fair value hierarchy 2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Group occupied property – land and buildings	–	–	19	19
Investment properties	–	–	310	310
Available for sale financial assets:				
Equity securities	384	–	355	739
Debt securities	3,798	6,243	410	10,451
Financial assets at FVTPL:				
Debt securities	–	–	19	19
	4,182	6,243	1,113	11,538
Derivative assets:				
At FVTPL	–	45	–	45
Designated as hedging instruments	–	22	–	22
Total assets measured at fair value	4,182	6,310	1,113	11,605
Derivative liabilities:				
At FVTPL	–	42	–	42
Designated as hedging instruments	–	68	–	68
Total liabilities measured at fair value	–	110	–	110
Issued debt	–	460	–	460
Total value of liabilities not measured at fair value	–	460	–	460

26) Fair value measurement continued

The movement in the fair value measurements of level 3 financial assets is shown in the table below:

	Available for sale investments		Investments at FVTPL		
	Equity securities £m	Debt securities £m	Equity securities £m	Debt securities £m	Total £m
At 1 January 2018	350	327	–	18	695
Total gains recognised in:					
Income statement	2	–	–	–	2
Other comprehensive income	1	11	–	–	12
Purchases	152	90	–	1	243
Disposals	(151)	(18)	–	–	(169)
Exchange adjustment	1	–	–	–	1
At 1 January 2019	**355**	**410**	**–**	**19**	**784**
Total gains/(losses) recognised in:					
Income statement	**3**	**3**	**–**	**(6)**	**–**
Other comprehensive income	**(6)**	**(11)**	**–**	**–**	**(17)**
Purchases	**35**	**134**	**–**	**2**	**171**
Disposals	**(96)**	**(157)**	**–**	**–**	**(253)**
Exchange adjustment	**(12)**	**(4)**	**–**	**–**	**(16)**
Level 3 financial assets at 31 December 2019	**279**	**375**	**–**	**15**	**669**

Unrealised losses of **£6m** (2018: £nil) attributable to FVTPL debt securities recognised in the consolidated income statement relate to those still held at the end of the year.

The following table shows the level 3 available for sale financial assets, investment properties and group occupied property 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			
		2019		2018	
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
Group occupied property – land and buildings[1]	Property valuation	**19**	**(3)**	19	(3)
Investment properties[1]	Cash flows; discount rate	**300**	**(48)**	310	(51)
Level 3 available for sale financial assets:					
Equity securities[2]	Cash flows; discount rate	**279**	**(9)**	355	(10)
Debt securities[2]	Cash flows; discount rate	**375**	**(11)**	410	(10)
Total		**973**	**(71)**	1,094	(74)

1. The Group's property portfolio (including the Group occupied properties) is almost exclusively located in the UK. Reasonably possible alternative valuations have been determined using an increase of 100bps in the discount rate used in the valuation.
2. The Groups 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 100bps in the credit spread used in the valuation.

27) 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 Group 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 Group therefore considers that it does not act as a sponsor for any structured entity.

However, the Group 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 Group to broaden the diversification of its investment portfolio in a cost-efficient manner.

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

Class of investments	Nature of the underlying investments of the vehicle	**Carrying value 2019 £m**	**Undrawn commitments 2019 £m**	**Exposure 2019 £m**	Carrying value 2018[1] £m	Undrawn commitments 2018[2] £m	Exposure 2018[1 2] £m
Mortgage backed securities	Mainly consists of domestic mortgage backed securities	**2,257**	**–**	**2,257**	2,027	–	2,027
Collateralised debt obligations	Structured debt security backed by bonds	**212**	**50**	**262**	223	42	265
Cash money market funds	Short term cash deposits	**365**	**–**	**365**	196	–	196
Other	Mainly consist of property funds	**425**	**100**	**525**	488	193	681
		3,259	**150**	**3,409**	2,934	235	3,169

Structured entities are not consolidated and are disclosed as follows in the statement of financial position:

	2019 £m	2018[1] £m
Investments – financial assets – equity securities	**273**	348
Investments – financial assets – debt securities	**2,621**	2,391
Cash and cash equivalents	**365**	195
	3,259	2,934

1. Following a review of commercial and domestic mortgage backed securities, comparatives from 2018 have been re-presented on the basis that they meet the criteria of the definition for structured entities. The impact of the re-presentation has been to increase mortgage backed securities by £2,010m and other by £140m.
2. The comparatives for undrawn commitments has been re-presented following a review that resulted in £42m being re-classified from other to collateralised debt obligations.

28) Reinsurers' share of insurance contract liabilities

	2019 £m	2018 £m
Reinsurers' share of provisions for unearned premiums	746	739
Reinsurers' share of provisions for losses and loss adjustment expenses	1,580	1,532
Total reinsurers' share of insurance contract liabilities net of held for sale	**2,326**	2,271
To be settled within 12 months	902	964
To be settled after 12 months	1,424	1,307

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

	2019 £m	2018 £m
Reinsurers' share of provision for unearned premiums at 1 January	739	729
Premiums ceded to reinsurers	1,044	997
Reinsurers' share of premiums earned	(1,033)	(991)
Changes in reinsurance asset	11	6
Exchange adjustment	(4)	4
Total reinsurers' share of provision for unearned premiums at 31 December	**746**	739

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

	2019 £m	2018 £m
Reinsurers' share of provisions for losses and loss adjustment expenses at 1 January	2,136	2,159
Reinsurers' share of total claims incurred	727	543
Total reinsurance recoveries received	(705)	(619)
Disposal of UK Legacy	(572)	–
Exchange adjustment	(22)	23
Other movements	16	30
Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	**1,580**	2,136
Less: Assets classified as held for sale	–	604
Total reinsurers' share of provisions for losses and loss adjustment expenses at 31 December net of held for sale	**1,580**	1,532

29) Current and deferred tax

Current tax

	Asset		Liability	
	2019 £m	2018 £m	**2019 £m**	2018 £m
To be settled within 12 months	**14**	43	**13**	6
To be settled after 12 months	**4**	28	**4**	8
Current tax position at 31 December	**18**	71	**17**	14

Deferred tax

	Asset		Liability	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Deferred tax position at 31 December	**209**	234	**84**	79

Of the **£209m** (2018: £234m) deferred tax asset recognised by the Group, **£193m** (2018: £204m) relates to tax jurisdictions in which the Group has suffered a tax loss in either the current or preceding period; **£180m** (2018: £189m) of which relates to the UK. The UK deferred tax asset has reduced by **£9m** due to a reduction in the forecast profits, with the net impact mainly due to lower investment income forecasts.

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

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

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

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

The following table summarises the main categories of deferred tax assets/(liabilities) recognised by the Group:

	2019 £m	2018 £m
Net unrealised gains on investments	**(52)**	(34)
Intangibles capitalised	**(25)**	(25)
Deferred acquisition costs	**(6)**	(8)
Tax losses and unused tax credits	**85**	80
Accrued costs deductible when settled	**87**	87
Net insurance contract liabilities	**(15)**	(15)
Retirement benefit obligations	**17**	20
Capital allowances	**35**	51
Provisions and other temporary differences	**(1)**	(1)
Net deferred tax asset at 31 December	**125**	155

29) Current and Deferred Tax continued

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

	2019 £m	2018 £m
Net deferred tax asset at 1 January	**155**	220
Amounts charged to income statement	**(20)**	(15)
Amounts charged to other comprehensive income	**(16)**	(46)
Net arising on acquisition of subsidiaries and other transfers	**–**	(5)
Exchange adjustments	**5**	(1)
Effect of change in tax rates – income statement	**1**	1
– other comprehensive income	**–**	1
Net deferred tax asset at 31 December	**125**	155

At the end of the reporting period, the Group had the following unrecognised tax assets/(liabilities):

	2019		2018	
	Gross amount £m	Tax effect £m	Gross amount £m	Tax effect £m
Trading tax losses	**1,335**	**225**	1,313	227
Capital tax losses	**1,314**	**225**	1,195	205
Deductible temporary differences	**169**	**29**	196	33
Unremitted retained earnings	**(505)**	**(25)**	(501)	(25)
Unrecognised tax assets/(liabilities) as at 31 December	**2,313**	**454**	2,203	440

The Group's unrecognised trading losses are predominantly located in the UK and Ireland and represent losses which are not expected to be utilised within the forecast profit period. Unrecognised capital losses mainly relate to the UK and have not been recognised as it is not considered probable that they will be utilised in the future as most UK capital gains are exempt from tax. None of the Group's unrecognised tax losses are subject to expiry.

Unremitted retained earnings relate to the Group's subsidiaries in Canada. The Group can control the remittance of earnings to the UK and there is no intention to remit the retained earnings in the foreseeable future if the remittance would trigger a material incremental tax liability. As such the Group has not recognised any deferred tax in respect of the potential taxes on the temporary differences arising on unremitted earnings of continuing overseas subsidiaries.

30) Insurance, reinsurance and other debtors

Insurance and reinsurance debtors

	2019 £m	2018 £m
Insurance debtors comprise:		
Due from policyholders	**1,332**	1,365
Due from intermediaries	**1,405**	1,420
Total insurance debtors	**2,737**	2,785
Reinsurance debtors	**186**	182
Total insurance and reinsurance debtors	**2,923**	2,967
Less: Assets classified as held for sale	**–**	13
Total insurance and reinsurance debtors net of held for sale	**2,923**	2,954

30) Insurance, reinsurance and other debtors continued

Other debtors and other assets

	2019 £m	2018 £m
Derivatives designated as accounting hedging instruments	32	22
Other derivatives	66	45
Other debtors	182	200
Pension scheme surplus (note 38)	290	259
Accrued interest and rent	94	98
Prepayments	54	64
Total other debtors and assets	718	688
Less: Assets classified as held for sale	–	15
Total other debtors and assets net of held for sale	718	673
To be settled within 12 months	355	363
To be settled after 12 months	363	310

31) Cash and cash equivalents

	2019 £m	2018 £m
Cash and cash equivalents, and bank overdrafts (consolidated statement of cash flows)	886	781
Add: Overdrafts reported in other borrowings (note 36)	23	12
Total cash and cash equivalents	909	793
Less: Assets classified as held for sale	–	5
Total cash and cash equivalents (consolidated statement of financial position)	909	788

32) Share capital

The issued share capital of the Parent Company is fully paid and consists of two classes; Ordinary Shares with a nominal value of £1 each and Preference Shares with a nominal value of £1 each. The issued share capital at 31 December 2019 is:

	2019 £m	2018 £m
Issued and fully paid		
1,031,645,294 Ordinary Shares of £1 each (2018: 1,026,937,928 Ordinary Shares of £1 each)	1,032	1,027
125,000,000 Preference Shares of £1 each (2018: 125,000,000 Preference Shares of £1 each)	125	125
	1,157	1,152

During 2019, the Company issued a total of **4,707,366** new Ordinary Shares of £1 each ranking pari passu with Ordinary Shares in issue (2018: 4,102,889 new Ordinary Shares of £1 each), on the exercise of employee share options and in respect of employee share awards. The number of Ordinary Shares in issue, their nominal value and the associated share premiums are as follows:

	Number of shares	Nominal value £m	Share premium £m
At 1 January 2018	1,022,835,039	1,023	1,083
Issued in respect of employee share options and employee share awards	4,102,889	4	4
At 1 January 2019	**1,026,937,928**	**1,027**	**1,087**
Issued in respect of employee share options and employee share awards	**4,707,366**	**5**	**3**
At 31 December 2019	**1,031,645,294**	**1,032**	**1,090**

32) Share capital continued

Rights attaching to the shares

The rights attaching to each class of share may be varied with the consent of the holders of 75% of the issued shares of that class.

Ordinary Shares of £1 each

Each member holding an Ordinary Share shall be entitled to vote on all matters at a general meeting of the Company, be entitled to receive dividend payments declared in accordance with the Articles of Association, and have the right to participate in any distribution of capital of the Company including on a winding up of the Company.

Preference Shares of £1 each

The Preference Shares are not redeemable but the holders of the Preference Shares have preferential rights over the holders of Ordinary Shares in respect of dividends and of the return of capital in the event of the winding up of the Company.

Provided a resolution of the Board exists, holders of Preference Shares are entitled to a cumulative preferential dividend of 7.375% per annum, payable out of the profits available for distribution, to be distributed in half yearly instalments. Preference shareholders have no further right to participate in the profits of the Company.

Full information on the rights attaching to shares is in the RSA Insurance Group plc Articles of Association which are available on the Group's website.

Employee share schemes

The Share Incentive Plan Trust is used to hold shares purchased or issued under the company's all-employee Sharebuild plan. This includes unvested matching shares and unallocated shares which may subsequently be transferred to employees including Executive Directors to satisfy Sharebuild Matching Share awards. As at 31 December 2019, **121,750** Ordinary Shares (2018: 123,336 Ordinary Shares) are held by the Trust. These shares are presented as own shares. Own shares are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the own shares. Any consideration paid or received is recognised directly in equity.

This Trust also holds shares that are beneficially owned by participants in the Plan.

The Royal and Sun Alliance ESOP Trust No. 2, an employee benefit trust, is used as a vehicle to satisfy vested awards under the long-term incentive plan (Performance Share Plan). New issue shares are allotted to the trust immediately prior to vesting, and distributed to PSP participants at vesting. There was no balance of shares in this Trust as at 1 January 2019 or 31 December 2019.

At 31 December 2019, the total number of options over Ordinary Shares outstanding under the Group employee share option plans is **4,463,331** (2018: 4,465,067) and the total number of potential shares outstanding under the long term incentive plan and under the Sharebuild plan is **9,941,034** Ordinary Shares (2018: 10,897,021 Ordinary Shares). Further information on the employee share schemes is provided in note 18 and in the Directors' Remuneration Report within the Directors' and Corporate Governance Report.

33) Other equity instruments – Tier 1 notes

On 27 March 2017, the Company issued two floating rate Restricted Tier 1 (RT1) notes totalling £297m in aggregate size and with a blended coupon of c.4.7%. The notes are as follows:

Swedish Krona 2,500m at 3 month Stibor +525bps (equivalent to c.4.8% coupon on issue)

Danish Krone 650m at 3 month Cibor +485bps (equivalent to c.4.6% coupon on issue)

Interest on the notes is due and payable only at the sole and absolute discretion of the Company, subject to certain additional restrictions set out in the terms and conditions, and is non-cumulative. In addition the terms and conditions of the notes will require the Company to cancel interest payments in certain circumstances. The notes are redeemable (subject to certain conditions) at the option of the Company in whole but not in part on the first call date, being the fifth anniversary of the issue date, or any interest payment date thereafter or in the event of certain changes in the tax, regulatory or ratings treatment of the notes. Any redemption is subject, inter alia, to the Company giving notice to the relevant regulator and the regulator granting permission to redeem. The notes convert into ordinary shares of the Company, at a pre-determined price in the event that certain solvency capital requirements are breached, or in the event of a winding up occurring earlier, would be entitled to a return of capital in preference to ordinary shareholders but behind the rights of the existing preference shareholders, as more fully set out in the terms and conditions of the notes. Accordingly, the notes are treated as a separate category within equity and coupon payments are recognised as distributions, similar to the treatment of preference share dividends.

34) Non-controlling interests

The non-controlling interests (NCI) of the Group includes the interests in the following Group entities:

	NCI shares at 31 December 2019		NCI shares at 31 December 2018	
	%	**Share of net assets £m**	%	Share of net assets £m
Royal & Sun Alliance Insurance (Middle East) BSC (c)	**50**	**163**	50	158
British Aviation Insurance Company Limited	**43**	**8**	43	8

Royal & Sun Alliance Insurance (Middle East) BSC (c) owns 50% of the ordinary share capital of Al Alamiya for Cooperative Insurance Company, a company operating in the Kingdom of Saudi Arabia and 52.5% of Al Ahlia Insurance Company SAOG, a company operating in the Sultanate of Oman. They are valued in its statement of financial position at share of net assets, which are as follows:

	2019 Share of net assets £m	2018 Share of net assets £m
Al Alamiya for Cooperative Insurance Company	**40**	41
Al Ahlia Insurance Company SAOG	**34**	34

During 2019 the dividends paid to the non-controlling interests in the Middle East were **£13m** (2018: £12m) and British Aviation Insurance Company **£nil** (2018: £2m).

35) Issued debt

		Cash movements		
	2018 £m	Redemption £m	Issue £m	**2019 £m**
Subordinated guaranteed US$ bonds	6	–	–	**6**
Guaranteed subordinated step-up notes due 2039	39	(39)	–	**–**
Guaranteed subordinated notes due 2045	396	–	–	**396**
Total loan capital	441	(39)	–	**402**
Senior notes due 2024	–	–	348	**348**
Total issued debt	441	(39)	348	**750**

Loan capital

The subordinated guaranteed US$ bonds were issued in 1999 and have a nominal value of $9m and a redemption date of 15 October 2029. The rate of interest payable on the bonds is 8.95%.

The dated guaranteed subordinated step-up notes were issued on 20 May 2009 with a redemption date of 20 May 2039 and at a fixed rate of 9.375%. On 20 May 2019 the Group exercised its right to call the bonds and accordingly redeemed the outstanding £39m nominal value of these step-up notes.

The dated guaranteed subordinated notes were issued on 10 October 2014 at a fixed rate of 5.125%. The nominal £400m bonds have a redemption date of 10 October 2045. The Group has the right to repay the notes on specific dates from 10 October 2025. If the bonds are not repaid on that date, the applicable rate of interest would be reset at a rate of 3.852% plus the appropriate benchmark gilt for a further five year period.

The bonds and the notes are contractually subordinated to all other creditors of the Group such that in the event of a winding up or of bankruptcy, they are able to be repaid only after the claims of all other creditors have been met.

The Group has the option to defer interest payments on the bonds and notes, but has to date not exercised this right.

Senior notes

The nominal £350m senior notes were issued on 28 August 2019 for consideration of £349m. Interest is payable on the notes at a fixed rate of 1.625%. The notes have a maturity date of 28 August 2024 and may be redeemed at any time from a period starting 3 months prior to the maturity date.

All issued debt

There have been no defaults on any bonds or notes during the year.

36) Other borrowings

The Group's other borrowings as at 31 December 2019 are **£169m** (2018: £119m), relating to borrowings from credit institutions under repurchase agreements of **£146m** (2018: £107m) and bank accounts in overdraft **£23m** (2018: £12m).

37) Insurance contract liabilities

Estimation techniques and uncertainties

Provisions for losses and loss adjustment expenses are subject to a robust reserving process by each of the Group's business units and at Group Corporate Centre, as detailed in the risk management note (note 5).

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

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

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

- The development of previously settled claims, where payments to date are extrapolated for each prior year
- Estimates based upon a projection of claims numbers and average cost
- Notified claims development, where notified claims to date for each year are extrapolated based upon observed development of earlier years
- Expected loss ratios
- Bornhuetter-Ferguson method, which combines features of the above methods
- Bespoke methods for specialist classes of business, for example for a Legacy Children's PA product a frequency/severity model based upon transition matrices between the various stages of a claim.

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

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

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

Sensitivities

Sensitivities in the table below show the impact on the pre-taxation result considering an increase in loss ratio of 5%, and an increase in expenses of 10%.

Impact on pre-taxation result	2019 £m	2018 £m
Net loss ratio 5%	**(323)**	(327)
Expenses 10%	**(135)**	(136)

37) Insurance contract liabilities continued

Discount assumptions

The total value of provisions for losses and loss adjustment expenses less related reinsurance recoveries before discounting is **£8,081m** (2018: £8,494m).

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

	Category	Discount rate 2019 %	Discount rate 2018 %	Average number of years to settlement from reporting date 2019 Years	Average number of years to settlement from reporting date 2018 Years
UK	Asbestos and environmental	**4.0**	4.0	**8**	8
UK	Periodic Payment Orders	**4.0**	4.0	**19**	20
Scandinavia	Disability	**1.2**	1.3	**6**	6
Scandinavia	Annuities	**2.4**	2.6	**14**	15
Canada	Excess casualty	**3.5**	3.5	**7**	7

The impact of the reduction in the discount rate on long-term insurance liabilities in Denmark **(£15m)** has been recognised in unwind of discount and change in economic assumptions in the consolidated income statement.

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

As at 31 December 2019, the value of the discount on net claims liability reserves is **£69m** (2018: £92m) excluding held for sale, annuities and periodic payment orders. All other factors remaining constant, a decrease of 0.5% in the discount rates would reduce the value of the discount by approximately **£20m** (2018: £30m).

As at 31 December 2019, the value of the discount on UK and Scandinavia annuities is **£451m** (2018: 466m). A decrease of 0.5% in the real discount rate would reduce the value of the discount by approximately **£50m** (2018: £50m). The sensitivity calculation has taken into consideration the undiscounted provisions for each class of business and the respective average settlement period.

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

The Group accounting policies in respect of insurance contract liabilities are described in note 4. The gross insurance contract liabilities and the reinsurers' (RI) share of insurance contract liabilities presented in the consolidated statement of financial position comprise the following:

	Gross 2019 £m	RI 2019 £m	Net 2019 £m
Provision for unearned premiums	**3,166**	**(746)**	**2,420**
Provision for losses and loss adjustment expenses	**9,141**	**(1,580)**	**7,561**
Total insurance contract liabilities	**12,307**	**(2,326)**	**9,981**

	Gross 2018 £m	RI 2018 £m	Net 2018 £m
Provision for unearned premiums	3,244	(739)	2,505
Provision for losses and loss adjustment expenses	10,072	(2,136)	7,936
Total insurance contract liabilities	13,316	(2,875)	10,441
Less: Held for sale provisions for losses and loss adjustment expenses	604	(604)	–
Provision for unearned premiums at 31 December net of held for sale	3,244	(739)	2,505
Provision for losses and loss adjustment expenses at 31 December net of held for sale	9,468	(1,532)	7,936
Total insurance contract liabilities excluding held for sale	12,712	(2,271)	10,441

37) Insurance contract liabilities continued

Provision for unearned premiums, gross of acquisition costs

	2019 £m	2018 £m
Provision for unearned premiums (gross of acquisition costs) at 1 January	**3,919**	3,986
Premiums written	**7,461**	7,467
Less: Premiums earned	**(7,495)**	(7,528)
Changes in provision for unearned premiums	**(34)**	(61)
Exchange adjustment	**(73)**	(6)
Provision for unearned premiums (gross of acquisition costs) at 31 December	**3,812**	3,919

The provision for unearned premiums is shown net of deferred acquisition costs of **£646m** (2018: £675m). Movements in deferred acquisition costs during the year are as follows:

	2019 £m	2018 £m
Deferred acquisition costs at 1 January	**675**	670
Acquisition costs deferred during the year	**1,058**	1,035
Amortisation charged during the year	**(1,085)**	(1,028)
Exchange losses	**(2)**	(2)
Deferred acquisition costs at 31 December	**646**	675

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

Provisions for losses and loss adjustment expenses

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

	2019 £m	2018 £m
Provisions for losses and loss adjustment expenses at 1 January	**10,072**	10,113
Gross claims incurred and loss adjustment expenses	**5,059**	5,023
Total claims payments made in the year net of salvage and other recoveries	**(5,196)**	(5,123)
Disposal of UK Legacy	**(572)**	–
Exchange adjustment	**(283)**	(5)
Other movements	**61**	64
Provisions for losses and loss adjustment expenses at 31 December	**9,141**	10,072
Less: Liabilities classified as held for sale	**–**	604
Provisions for losses and loss adjustment expenses at 31 December net of held for sale	**9,141**	9,468

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 2009 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 top triangle of the tables presents the estimated provisions for ultimate incurred losses and loss adjustment expenses for each accident year as at the end of each reporting period.

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

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

37) Insurance contract liabilities continued

Consolidated claims development table gross of reinsurance

	2009 and prior £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	**2019 £m**	**Total £m**
Estimate of cumulative claims												
At end of accident year	8,718	2,794	2,983	2,838	3,147	2,821	2,917	2,821	2,988	3,264	**3,162**	
One year later	8,403	2,920	3,039	2,878	3,202	2,925	2,958	2,860	3,028	3,326		
Two years later	8,053	2,865	3,067	2,848	3,124	2,837	2,948	2,782	3,035			
Three years later	7,770	2,896	2,992	2,839	3,076	2,822	2,871	2,787				
Four years later	7,681	2,883	2,924	2,791	3,077	2,768	2,886					
Five years later	7,606	2,846	2,891	2,805	3,037	2,755						
Six years later	7,714	2,807	2,887	2,780	3,025							
Seven years later	7,897	2,793	2,850	2,771								
Eight years later	7,766	2,778	2,855									
Nine years later	7,697	2,782										
Ten years later	7,696											
2019 movement	**1**	**(4)**	**(5)**	**9**	**12**	**13**	**(15)**	**(5)**	**(7)**	**(62)**		**(63)**
Claims paid												
One year later	2,543	1,524	1,372	1,346	1,477	1,334	1,475	1,417	1,474	1,566		
Two years later	1,268	415	514	501	556	424	547	504	615			
Three years later	883	284	332	288	270	288	288	271				
Four years later	753	215	194	187	206	270	179					
Five years later	521	113	108	144	124	188						
Six years later	259	59	77	66	69							
Seven years later	216	53	49	51								
Eight years later	272	15	25									
Nine years later	93	27										
Ten years later	163											
Cumulative claims paid	**6,971**	**2,705**	**2,671**	**2,583**	**2,702**	**2,504**	**2,489**	**2,192**	**2,089**	**1,566**		
Reconciliation to the statement of financial position												
Current year provision before discounting	725	77	184	188	323	251	397	595	946	1,760	**3,162**	**8,608**
Exchange adjustment to closing rates												(161)
Discounting												(80)
Annuities												774
Present value recognised in the consolidated statement of financial position												**9,141**

37) Insurance contract liabilities continued

Consolidated claims development table net of reinsurance

	2009 and prior £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	**2019 £m**	**Total £m**
Estimate of cumulative claims												
At end of accident year	7,521	2,449	2,517	2,580	2,824	2,482	2,440	2,242	2,278	2,440	**2,229**	
One year later	7,202	2,532	2,492	2,599	2,922	2,512	2,377	2,292	2,397	2,446		
Two years later	6,866	2,494	2,471	2,578	2,848	2,468	2,336	2,247	2,396			
Three years later	6,610	2,508	2,424	2,540	2,817	2,421	2,272	2,255				
Four years later	6,542	2,515	2,379	2,499	2,779	2,390	2,270					
Five years later	6,512	2,483	2,354	2,498	2,756	2,381						
Six years later	6,569	2,460	2,340	2,479	2,743							
Seven years later	6,857	2,448	2,313	2,470								
Eight years later	6,793	2,431	2,311									
Nine years later	6,751	2,431										
Ten years later	6,743											
2019 movement	**8**	**–**	**2**	**9**	**13**	**9**	**2**	**(8)**	**1**	**(6)**		**30**
Claims paid												
One year later	2,164	1,267	1,080	1,202	1,403	1,159	1,197	1,050	1,177	1,232		
Two years later	1,068	370	408	419	430	366	320	373	408			
Three years later	776	264	267	244	240	215	214	207				
Four years later	666	212	177	192	190	188	154					
Five years later	466	98	106	121	119	126						
Six years later	212	59	64	63	66							
Seven years later	188	49	44	42								
Eight years later	249	11	21									
Nine years later	86	25										
Ten years later	94											
Cumulative claims paid	**5,969**	**2,355**	**2,167**	**2,283**	**2,448**	**2,054**	**1,885**	**1,630**	**1,585**	**1,232**		
Reconciliation to the statement of financial position												
Current year provision before discounting	774	76	144	187	295	327	385	625	811	1,214	**2,229**	**7,067**
Exchange adjustment to closing rates												(128)
Discounting												(69)
Annuities												691
Present value recognised in the consolidated statement of financial position												**7,561**

37) Insurance contract liabilities continued

Insurance and reinsurance liabilities

	2019 £m	2018 £m
Direct insurance creditors	**127**	120
Reinsurance creditors	**843**	811
Total insurance and reinsurance liabilities	**970**	931
Less: Liabilities classified as held for sale	**–**	3
Total	**970**	928

38) Post-employment benefits and obligations

Defined contribution pension schemes

Costs of **£65m** (2018: £70m) were recognised in respect of defined contribution schemes by the Group.

The Group's Swedish subsidiaries are part of a multi-employer defined benefit scheme along with other financial institutions in Sweden. As it is not possible to determine the assets and liabilities in respect of any one employer under this scheme, it is included in these accounts as a defined contribution scheme. Contributions of **£5m** (2018: £6m) were paid to this scheme during 2019 and are included in the costs shown above. The expected contributions in 2020 are **£5m**. Total estimated contributions to the scheme from all employers in 2019 were **£50m**. The latest information regarding the funding of this scheme is taken from the interim report for the first half of 2019, when the scheme funding rate was **118%** (2018: 122%).

Defined benefit pension schemes and other post-employment benefits

The amounts recognised in the consolidated statement of financial position are as follows:

	2019			2018		
	UK £m	Other £m	Total £m	UK £m	Other £m	Total £m
Present value of funded obligations	**(8,147)**	**(435)**	**(8,582)**	(7,474)	(401)	(7,875)
Present value of unfunded obligations	**(7)**	**(92)**	**(99)**	(7)	(92)	(99)
Fair value of plan assets	**8,549**	**467**	**9,016**	7,841	424	8,265
Other net surplus remeasurements	**(141)**	**–**	**(141)**	(129)	–	(129)
Net IAS19 surplus/(deficits) in the schemes	**254**	**(60)**	**194**	231	(69)	162
Defined benefit pension schemes	**254**	**(15)**	**239**	231	(21)	210
Other post-employment benefits	**–**	**(45)**	**(45)**	–	(48)	(48)
Schemes in surplus (note 30)	**261**	**29**	**290**	238	21	259
Schemes in deficit (note 39)	**(7)**	**(89)**	**(96)**	(7)	(90)	(97)

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

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

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

38) Post-employment benefits and obligations continued

UK Schemes

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

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

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

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

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

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

The Group 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 Group and the trustees of the schemes work together to reduce these risks through agreement of investment policy including the use of interest rate, inflation rate and longevity swaps.

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

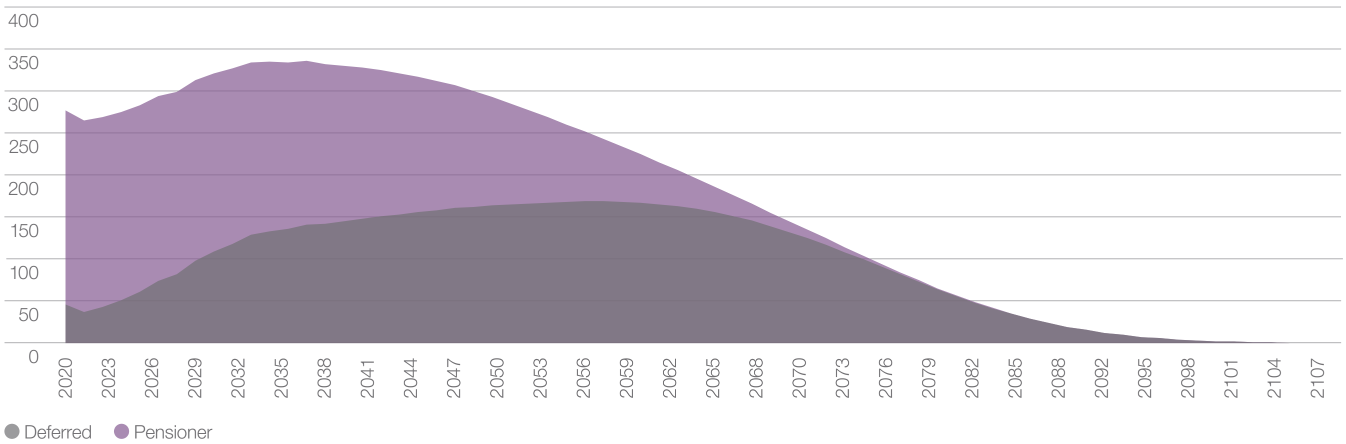
At the most recent funding valuations, the main UK funds had an aggregate funding deficit of **£468m**, equivalent to a funding level of 95%. The Group and the Trustees have agreed funding plans to eliminate the funding deficits by 2026. Details of the deficit contributions paid in 2019 and that are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

For the two main UK defined benefit schemes, the level of contributions in 2019 was **£96m** (2018: £120m) of which **£86m** (2018: £110m) were additional contributions to reduce funding deficits. Expected contributions to the two schemes for the year ending 31 December 2020 are approximately **£83m** including **£75m** of additional contributions to reduce the deficit.

38) Post-employment benefits and obligations continued

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

Cash flow – total liability £m



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

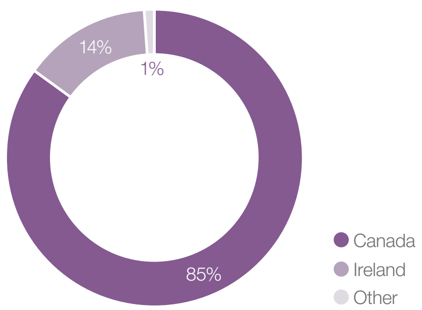
Non-UK schemes

The Group also operates defined benefits schemes in other countries. The most significant of these schemes are in Canada and Ireland.

The Group also provides post-employment healthcare benefits to certain current and retired Canadian employees. The benefits are not prefunded. Life insurance benefits, which provide varying levels of coverage, are provided at no cost to retirees. Healthcare benefits, which also provide varying levels of coverage, require retiree contributions in certain instances and benefits are generally payable for life. Certain healthcare benefits have been discontinued for active employees retiring after 1 November 2021, resulting in a **£14m** plan curtailment gain.

The split of post-employment liabilities across other countries is shown below:

Non-UK liability split by country



38) Post-employment benefits and obligations continued

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:

	2019			
	Present value of obligations £m	Fair value of plan assets £m	Other net surplus remeasurements £m	Net surplus/ (deficit) £m
At 1 January	(7,974)	8,265	(129)	162
Current service costs	(5)	–	–	(5)
Past service costs	(1)	–	–	(1)
Interest (expense)/income	(225)	235	–	10
Administration costs	–	(6)	–	(6)
Gains on settlements/curtailments	14	–	–	14
Total (expenses)/income recognised in income statement	(217)	229	–	12
Return on scheme assets less amounts in interest income	–	775	–	775
Effect of changes in financial assumptions	(888)	–	–	(888)
Effect of changes in demographic assumptions	32	–	–	32
Experience gains and losses	18	–	–	18
Investment expenses	–	(8)	–	(8)
Other net surplus remeasurements	–	–	(12)	(12)
Remeasurements recognised in other comprehensive income	(838)	767	(12)	(83)
Employer contribution	–	107	–	107
Benefit payments	352	(352)	–	–
Exchange adjustment	(4)	–	–	(4)
At 31 December	(8,681)	9,016	(141)	194
Deferred tax				17
IAS 19 net surplus net of deferred tax				211

	2018			
	Present value of obligations £m	Fair value of plan assets £m	Other net surplus remeasurements £m	Net surplus/ (deficit) £m
At 1 January	(8,878)	8,799	(62)	(141)
Current service costs	(6)	–	–	(6)
Past service costs	(1)	–	–	(1)
Interest (expense)/income	(218)	217	–	(1)
Administration costs	–	(7)	–	(7)
Gains on settlements/curtailments	2	–	–	2
Total (expenses)/income recognised in income statement	(223)	210	–	(13)
Return on scheme assets less amounts in interest income	–	(409)	–	(409)
Effect of changes in financial assumptions	515	–	–	515
Effect of changes in demographic assumptions	119	–	–	119
Experience gains and losses	25	–	–	25
Investment expenses	–	(6)	–	(6)
Other net surplus remeasurements	–	–	(67)	(67)
Remeasurements recognised in other comprehensive income	659	(415)	(67)	177
Employer contribution	–	137	–	137
Benefit payments	458	(458)	–	–
Exchange adjustment	10	(8)	–	2
At 31 December	(7,974)	8,265	(129)	162
Deferred tax				20
IAS 19 net surplus net of deferred tax				182

38) Post-employment benefits and obligations continued

The values of scheme assets are as follows:

	2019			2018		
	UK £m	Other £m	Total £m	UK £m	Other £m	Total £m
Equities	704	118	822	552	96	648
Government debt	5,919	319	6,238	5,353	163	5,516
Non-government debt	2,705	–	2,705	2,425	133	2,558
Derivatives	827	–	827	719	–	719
Property	646	–	646	644	–	644
Cash	83	7	90	194	6	200
Other (including annuity contracts, infrastructure and growth alternatives)	456	23	479	460	26	486
Investments	11,340	467	11,807	10,347	424	10,771
Value of asset and longevity swaps	(2,791)	–	(2,791)	(2,506)	–	(2,506)
Total assets in the schemes	8,549	467	9,016	7,841	424	8,265

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

	2019			2018		
	Total Quoted £m	Total Unquoted £m	Total £m	Total Quoted £m	Total Unquoted £m	Total £m
Equities	639	183	822	510	138	648
Government debt	5,773	465	6,238	5,121	395	5,516
Non-government debt	1,649	1,056	2,705	1,439	1,119	2,558
Derivatives	–	827	827	–	719	719
Property	1	645	646	–	644	644
Cash	90	–	90	200	–	200
Other (including annuity contracts, infrastructure and growth alternatives)	–	479	479	–	486	486
Investments	8,152	3,655	11,807	7,270	3,501	10,771
Value of asset and longevity swaps	–	(2,791)	(2,791)	–	(2,506)	(2,506)
Total assets in the schemes	8,152	864	9,016	7,270	995	8,265

Where assets are classified as unquoted the valuations are:

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

38) Post-employment benefits and obligations continued

Assumptions

The principal actuarial assumptions used are:

	UK		Other	
	2019 %	2018 %	**2019 %**	2018 %
Assumptions used in calculation of retirement benefit obligations:				
Discount rate	**2.05**	2.83	**2.87**	3.57
Annual rate of inflation (RPI)	**2.96**	3.18	**–**	–
Annual rate of inflation (CPI)	**1.96**	2.08	**1.27**	1.51
Annual rate of increase in salaries	**n/a**	n/a	**2.51**	2.75
Annual rate of increase in pensions[1]	**2.82**	2.97	**1.27**	1.51
Assumptions used in calculation of pension net interest costs for the year:				
Discount rate	**2.83**	2.47	**3.57**	3.35

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%. For other schemes the weighted average assumption is shown.

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.

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

Sensitivity analysis

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

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

1. The impact shown is for the appropriate increase in the revaluation of deferred pensions and the increases to pensions in payment resulting from the specified increase in RPI and CPI.
2. Reducing the core mortality rates by 12% is the equivalent of increasing the life expectancy of a male aged 60 years by 1 year.

39) Provisions

	2019 £m	2018 £m
Pensions and post-employment obligations	**96**	97
Reorganisation provisions	**13**	17
Other provisions	**38**	55
Total provisions at 31 December	**147**	169

Of the above, **£106m** (2018: £109m) is due to be settled outside of 12 months.

Other provisions includes **£14m** (2018: £13m) held relating to property 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 38 for further information regarding the pensions and post-employment benefit obligations.

Movements during the year on reorganisation and other provisions

	Reorganisation provisions 2019 £m	Other provisions 2019 £m
Provisions at 1 January 2019	**17**	**55**
Additional provisions during the year	**21**	**19**
Utilised	**(19)**	**(31)**
Released	**(6)**	**(5)**
Provisions at 31 December 2019	**13**	**38**

40) Other liabilities

	2019 £m	2018 £m
Deposits received from reinsurers	**11**	49
Derivatives designated as accounting hedges	**30**	68
Other derivatives	**65**	42
Other creditors	**387**	399
Accruals	**378**	339
Deferred income	**47**	76
Lease liabilities	**258**	–
Total other liabilities	**1,176**	973
Less: Liabilities classified as held for sale	**–**	29
Total other liabilities net of held for sale	**1,176**	944
To be settled within 12 months	**836**	837
To be settled after 12 months	**340**	107

Other creditors of **£387m** (2018: £399m) mainly includes payroll and other indirect taxes **£167m** (2018: £146m), outstanding settlements for investment purchases **£63m** (2018: £60m) and other creditors **£157m** (2018: £193m).

41) Leases

Leases as a lessee

The Group leases land and buildings and other assets such as vehicles, IT equipment, servers and mainframes (reported as other) to operate its business in each of its core regions. These leases were previously classified as operating leases under IAS 17. The remaining lease terms for the main office premises range from 3 to 19 years.

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

Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

	Land and buildings £m	Other £m	Total £m
Amounts recognised at transition on 1 January 2019	**190**	**49**	**239**
Depreciation charge for the year	**(30)**	**(12)**	**(42)**
Additions to right-of-use assets	**28**	**3**	**31**
Other[1]	**(14)**	**(1)**	**(15)**
Balance at 31 December 2019	**174**	**39**	**213**

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

Lease liabilities

Lease liabilities of **£258m** are included within other liabilities in the consolidated statement of financial position (see note 40). The maturity analysis of this balance can be found in note 5 on page 141.

Two properties in Canada have lease terms ending January 2028 and December 2033 with the option to extend the leases for two further consecutive periods of five years each. The extension options have not been included in the determination of the lease term and therefore the measurement of the lease liabilities.

A reconciliation of lease liabilities is presented below.

	£m
Non-cash movements	
Amounts recognised at transition on 1 January 2019	**279**
Additions to lease liabilities	**31**
Interest on lease liabilities	**7**
Other[1]	**(9)**
Cash movements	
Lease payments	**(50)**
Balance at 31 December 2019	**258**

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

Other amounts recognised in profit or loss

Leases under IFRS 16	2019 £m
Interest on lease liabilities	**7**
Expenses relating to short-term leases	**4**
Expenses relating to leases of low-value assets	**3**

Operating leases under IAS 17	2018 £m
Lease expense	48

Amounts recognised in statement of cash flows

	2019 £m
Total cash outflow for leases	**57**

Total cash outflow for leases primarily relates to finance leases, with the principal and interest portion recognised separately within financing activities in the consolidated statement of cash flows. It also includes short term lease payments and payments for leases of low value assets which are reported within operating activities.

41) Leases continued

Leases as a lessor

The Group leases out its investment property consisting of freehold and leasehold land and buildings as disclosed in note 24. All leases are classified as operating leases from a lessor perspective with the exception of sub-leases, which the Group has classified as finance sub-leases.

Finance leases

Prior to 2019, the Group has sub-let office floor space in Canada and UK for which the head leases have been presented as part of the land and buildings right-of-use asset 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 subleases have been reported within other debtors.

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

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

	Land and buildings 2019 £m
Less than one year	3
One to two years	3
Two to three years	3
Three to four years	3
Four to five years	3
More than five years	9
Total undiscounted lease receivable	**24**
Unearned finance income	(2)
Net investment in the lease	**22**

Operating leases

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

During 2019, the Group recognised **£19m** of rental income within its net investment return (2018: £19m).

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

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

	2018[1] £m
Less than one year	16
Between one and five years	57
More than five years	42
Total	115

1. 2018 comparatives have been presented on an IAS 17 'Leases' basis.

Notes to the statement of cash flows

42) Reconciliation of cash flows from operating activities

The reconciliation of net profit before tax to cash flows from operating activities is as follows:

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Profit for the year before tax		**492**	480
Adjustments for non-cash movements in net profit for the year			
Amortisation of available for sale assets		**44**	44
Depreciation and impairment of tangible assets	23/41	**59**	18
Amortisation of intangible assets	22	**84**	90
Fair value losses/(gains) on disposal of financial assets		**1**	(31)
Impairment charge on available for sale financial assets		**–**	10
Share of profit of associates		**(1)**	(1)
Loss on disposal of businesses		**14**	2
Other non-cash movements		**86**	7
Changes in operating assets/liabilities			
Loss and loss adjustment expenses		**(113)**	10
Unearned premiums		**(37)**	(75)
Movement in working capital		**(63)**	(199)
Reclassification of investment income and interest paid		**(319)**	(303)
Pension deficit funding		**(87)**	(111)
Cash generated from investment of insurance assets			
Dividend income		**37**	35
Interest and other investment income		**316**	293
Cash flows from operating activities		**513**	269

Other commitments and contingent liabilities

43) Other commitments

Capital commitments

The Group's significant capital commitments in respect of property and equipment and intangible assets are detailed in the table below:

	2019 £m	2018 £m
Property and equipment	**6**	7
Intangible assets	**11**	15
Total	**17**	22

Funding commitments to structured entities and invested assets

The future commitments to structured entities are disclosed in note 27 of these financial statements. In addition, the Group has committed to invest **£185m** (2018: £188m) in other classes of investments.

44) Other contingent liabilities

In Canada the Group has purchased annuities from regulated Canadian life insurers in order to pay fixed and recurring payments to certain claimants. This arrangement exposes the Group to a credit risk that the life insurers are unable to make these payments, which is mitigated by an industry compensation scheme which in that event would assume a significant majority of the remaining outstanding obligations. The likelihood of both a Canadian regulated life insurer and the industry compensation scheme being unable to pay their obligations is considered very remote and so no provision has been recognised in respect of this risk. There are no such industry compensation schemes in other regions.

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

In addition, the Group 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.

Appendices

Appendix A: Other accounting policies

Subsidiaries

Subsidiaries are entities over which the Group has control. The Group controls a subsidiary if the Group has all of the following:

- power over the subsidiary;
- exposure, or rights, to variable returns from its involvement with the subsidiary; and
- the ability to use its power over the subsidiary to affect its returns.

Subsidiaries are fully consolidated from the date on which control is entitled by the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition.

For business combinations completed on or after 1 January 2010 the cost of acquisition includes the fair value of deferred and contingent consideration at the acquisition date and subsequent changes in the carrying value of the consideration are recognised in the consolidated income statement. For business combinations completed prior to 31 December 2009, the cost also includes costs directly attributable to the acquisition and the value of contingent consideration on settlement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Changes in the ownership interests of a subsidiary between shareholders of the Group and shareholders holding a non-controlling interest are accounted for as transactions between equity holders of the Group. Any difference between the fair value of the consideration given by the transferee and the carrying value of the ownership interest transferred is recognised directly in equity.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries are aligned to ensure consistency with the policies adopted by the Group.

Investment in associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' profits or losses are recognised in the consolidated income statement and its share of comprehensive income is recognised in the consolidated statement of comprehensive income. The cumulative post acquisition movements are adjusted in the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Adjustments are made on consolidation, where necessary, to the accounting policies of associates to ensure consistency with the policies adopted by the Group.

Translation of foreign operations

The results and financial position of subsidiaries and associates whose functional currency is not Sterling are translated into Sterling as follows:

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income within the foreign currency translation reserve. Further information can be found in note 21. When a foreign entity is sold, the cumulative exchange differences relating to that foreign entity are recognised in the consolidated income statement as part of the gain or loss on disposal.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the Group'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 consolidated income statement.

Internal loans

Where non-Sterling loans are provided by RSA Insurance Group plc to its subsidiaries, the settlement of which is neither planned nor likely to occur in the foreseeable future, they are treated as part of its net investment in subsidiary in the consolidated financial statements which results in foreign exchange gains and losses being recognised in revaluation reserves.

Appendix A: Other accounting policies continued

Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the ordinary shareholders of the Parent Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by various share trusts of the Group and held as own shares.

Diluted earnings per share is calculated by increasing the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, notably those related to the employee share schemes.

Hedge accounting

Transactions are classified as hedging transactions when the following conditions for hedge accounting are met:

- There is a formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship
- The effectiveness of the hedge can be reliably measured
- The hedge is assessed on an ongoing basis and determined to have been highly effective

Hedge of a net investment in a foreign operation

Where a foreign exchange derivative is designated as a hedging instrument against a net investment in foreign operations, the effective portion of the hedge is recognised in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. At the point at which the net investment in the foreign operation is derecognised, the gains and losses accumulated in other comprehensive income are transferred to the consolidated income statement.

On designation of forward foreign exchange contracts the interest element is separated from the forward exchange rate and is excluded from the hedge relationship. Effectiveness of the hedge is then measured using the spot rate, which is also the exchange rate used when measuring the net investment in the designated subsidiaries.

For foreign exchange options the hedge designation is to hedge the value of the foreign operations at the strike price at the exercise date of the option.

Hedge of future cash flows

Where a derivative is designated as a hedging instrument against the cash flows from a fixed interest security, the gains and losses arising from the change in fair value of the derivative are recognised initially in other comprehensive income in the cash flow hedge reserve. This amount is adjusted to be the lesser of the cumulative gain or loss on the derivative and the cumulative change in fair value of the expected future cash flows of the security, both since the inception of the hedge.

The accumulated amount in the cash flow hedge reserve, is reclassified to the consolidated income statement in the period in which the hedged cash flows affect profit or loss.

Hedge of changes in fair value

Where a derivative is designated as a hedging instrument in a fair value hedge of the changes in value of a fixed interest security, the gains and losses arising from the change in fair value of the derivative are recognised in the consolidated income statement. The change in fair value of the hedged investments that are attributable to the hedged risk is transferred from the revaluation reserve to the consolidated income statement.

Property and equipment

Property and equipment is comprised of Group occupied land and buildings and other equipment (comprising of fixtures, fittings and other equipment including computer hardware and motor vehicles) and is initially recognised at cost.

Group occupied property is stated at fair value, less subsequent depreciation for buildings. The fair value methodology is set out in note 26. 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 consolidated income statement. 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 consolidated income statement except where a building has been revalued upwards, in which case the amount of the depreciation relating to the difference between the buildings revalued amount and the original cost is transferred from revaluation reserve to retained earnings. Land is not depreciated.

All other equipment is stated at cost less accumulated depreciation and accumulated impairment. 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 Group, and the cost can be measured reliably.

The estimated useful lives of property and equipment are as follows:

Group occupied buildings	normally 30 years
Fixtures and fittings	10 years
Equipment	3 – 5 years

Appendix A: Other accounting policies continued

The useful economic life and residual value are reviewed on an annual basis. Where the carrying value of an asset is deemed to be greater than its recoverable amount the asset is impaired. Gains and losses on disposal are recognised based on the carrying amount of the asset. On disposal of buildings, any associated revaluation surplus is transferred to retained earnings.

Investment property and rental income

Investment property is stated at fair value. The fair value methodology is set out in more detail in note 26. Unrealised gains and unrealised losses are recognised in net investment return in the consolidated income statement. Rental income from operating leases on investment property is recognised in the consolidated income statement on a straight line basis over the length of the lease.

Policy acquisition costs

Policy acquisition costs incurred in acquiring insurance contracts include commissions and premium levies directly related to the writing or renewal of insurance policies. These acquisition costs are deducted from unearned premiums and recognised in the consolidated income statement on the same basis as the unearned premiums.

Issued debt

Issued debt comprises subordinated bonds and senior notes which are initially measured at the consideration received less transaction costs. Subsequently, issued debt is measured at amortised cost using the effective interest rate method.

Provisions

A provision is recognised when the Group 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.

Contingent liabilities

A contingent liability is disclosed if the Group has a possible future obligation as a result of past events, and either the amount of the expected future outflow of economic resources or the likelihood of payment cannot be reliably estimated.

Termination benefits

Termination benefits are payable when either employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Termination benefit expenses are recognised in the income statement at the earlier of the date when the Group 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.

Own shares

Own shares are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of shares. Any consideration paid or received is recognised directly in equity.

Other operating income

Other operating income is comprised principally of:

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

Share-based payments

The fair value of the employee share options and other equity settled share-based payments is calculated at the grant date and recognised as an expense over the vesting period. The vesting of share awards is dependent on service and performance conditions, as well as market conditions. The assumption of the number of shares expected to vest is revised at the end of each reporting period, with the corresponding credit or charge recognised immediately in the income statement. 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 proceeds received by RSA upon exercise of share options, net of any transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised, with a corresponding increase in equity.

Dilution levels for all schemes are held strictly within limits set by the Investment Association.

Further information on the share schemes the Group operates can be found in note 18 and in the Directors' Remuneration Report.

Dividends

The final dividend is recognised as a liability when approved at the Annual General Meeting.

Operating lease commitments

The Group leases various properties and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Payments made under operating leases are charged on a straight line basis over the term of the lease.

Appendix B: Subsidiaries and associates

Unless otherwise stated, the share capital disclosed comprises ordinary shares (or equivalent) which are 100% held within the Group. All of the subsidiaries listed are wholly owned within the Group and included in the consolidated accounts.

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 (%)
Bahrain			
Royal & Sun Alliance Insurance (Middle East) BSC (c)	Impact House, Building, office no. 21, 2nd floor, Building no. 662, Road no. 2811, Black no. 428, Al Seef, Manama, Kingdom of Bahrain		50.00002
Brazil			
Royal & Sun Alliance Insurance plc – Escritório de Representação no Brasil Ltda.	Avenida Major Sylvio de Magalhães Padilha, 5200, America Business Park, Ed. Dallas, conj. 31, sala 02, Jardim Morumbi, Zip Code 05693-000, City of São Paulo, State of São Paulo, Brazil		
Canada			
10622923 Canada Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	
10622923 Canada Limited[4]	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Preferred	
3342484 Canada Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada		
8301140 Canada Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	
8301140 Canada Limited[4]	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Preferred	
Ascentus Insurance Ltd.	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada		
Roins Financial Services Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	
Roins Financial Services Limited[4]	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Preference	
Roins Holding Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada		
Royal & Sun Alliance Insurance Company of Canada[4]	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Class A Preferred	
Royal & Sun Alliance Insurance Company of Canada	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	99.996
RSA Travel Insurance Inc.	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada		
Western Assurance Company	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada		
Coast Underwriters Limited[4]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class 1 Preferred Unlimited	
Coast Underwriters Limited[4]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class 2 Preferred Unlimited	
Coast Underwriters Limited	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class A	85.42
Coast Underwriters Limited[4]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class B1	
Coast Underwriters Limited[4]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class B2	
Coast Underwriters Limited[4]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class B3	
MRM Solutions Limited	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class A Common	
MRM Solutions Limited[4]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class B Common	
Canadian Northern Shield Insurance Company	555 West Hastings Street, Suite 1900, Vancouver BC V6B 4N6, Canada		
Quebec Assurance Company	2475 Laurier Blvd., Quebec City, Québec G1T 1C4, Canada		
Shaw Sabey & Associates Ltd[3]	1800 – 401 West Georgia Street, Vancouver BC V6B 5A1, Canada	Class B Common Shares	25.00
Johnson Inc.	Fort William Building, 10 Factory Lane, St. John's Newfoundland A1C 6H5, Canada	Series A Common	
Johnson Inc.	Fort William Building, 10 Factory Lane, St. John's Newfoundland A1C 6H5, Canada	Series B Common	
The Johnson Corporation	Fort William Building, 10 Factory Lane, St. John's Newfoundland A1C 6H5, Canada		
Unifund Assurance Company	Fort William Building, 10 Factory Lane, St. John's Newfoundland A1C 6H5, Canada	Common	
Unifund Assurance Company[4]	Fort William Building, 10 Factory Lane, St. John's Newfoundland A1C 6H5, Canada	Preferred	
Unifund Claims Inc.	Fort William Building, 10 Factory Lane, St. John's Newfoundland A1C 6H5, Canada		
10122033 Canada Inc.	90 Allstate Parkway Suite 500 Markham ON L3R 6H3 Canada	Common	
10122033 Canada Inc.[4]	90 Allstate Parkway Suite 500 Markham ON L3R 6H3 Canada	Class A Preferred	
2029974 Ontario Inc.[7]	90 Allstate Parkway Suite 500 Markham ON L3R 6H3 Canada	Class A Common	
2029974 Ontario Inc.[7]	90 Allstate Parkway Suite 500 Markham ON L3R 6H3 Canada	Class B Common	
2029974 Ontario Inc.[4]	90 Allstate Parkway Suite 500 Markham ON L3R 6H3 Canada	Class C Special	
2029974 Ontario Inc.[4]	90 Allstate Parkway Suite 500 Markham ON L3R 6H3 Canada	Class D Special	
2029974 Ontario Inc.[4]	90 Allstate Parkway Suite 500 Markham ON L3R 6H3 Canada	Class E Special	
2029974 Ontario Inc.[4]	90 Allstate Parkway Suite 500 Markham ON L3R 6H3 Canada	Class N Special	
2029974 Ontario Inc.[4]	90 Allstate Parkway Suite 500 Markham ON L3R 6H3 Canada	Class S Special	
2029974 Ontario Inc.[7]	90 Allstate Parkway Suite 500 Markham ON L3R 6H3 Canada	Class V Special	
D.L. Deeks Insurance Services Inc.	90 Allstate Parkway Suite 500 Markham ON L3R 6H3 Canada		
Deeks Investments Inc.[4]	90 Allstate Parkway Suite 500 Markham ON L3R 6H3 Canada	Class A Preference	
Deeks Investments Inc.	90 Allstate Parkway Suite 500 Markham ON L3R 6H3 Canada	Class B Preference	
Deeks Investments Inc.	90 Allstate Parkway Suite 500 Markham ON L3R 6H3 Canada	Class C Preference	

Appendix B: Subsidiaries and associates continued

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding (%)
Deeks Investments Inc.[4]	90 Allstate Parkway Suite 500 Markham ON L3R 6H3 Canada	Common	
Denmark			
Codan A/S	Codanhus, Gammel Kongevej 60, DK-1790 Kobenhavn V, Denmark		
Codan Forsikring A/S	Codanhus, Gammel Kongevej 60, DK-1790 Kobenhavn V, Denmark		
Forsikringsselskabet Privatsikring A/S	Codanhus, Gammel Kongevej 60, DK-1790 Kobenhavn V, Denmark		
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			
Royal & Sun Alliance IT Solutions (India) Private Limited	Rider House, Plot No.136, Sector 44, Gurgaon, Haryana, 122002, India		
RSA Actuarial Services (India) Private Limited[8]	First Floor, Building 10 C, Cyber City Complex, DLF Phase II, Gurgaon, Haryana, 122002, India		
Ireland			
123 Money Limited[4 8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B1 Ordinary	
123 Money Limited[4 8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B2 Ordinary	
123 Money Limited[4 8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B3 Ordinary	
123 Money Limited[4 8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B4 Ordinary	
123 Money Limited[4 8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B5 Ordinary	
123 Money Limited[4 8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	C Ordinary	
123 Money Limited[8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
123 Money Limited[8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	€1 redeemable shares	
Benchmark Underwriting Limited[8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
EGI Holdings Limited[8]	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[8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
RSA Overseas Holdings (No. 2) Unlimited Company[8]	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)[8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
Isle of Man			
RSA Isle of Man No.1 Limited[8]	33-37 Athol Street, Douglas, IM1 1LB, Isle of Man		
Royal Insurance Service Company (Isle of Man) Limited[8]	Jubilee Buildings, 1 Victoria Street, Douglas, IM99 1BF, Isle of Man		
Tower Insurance Company Limited	Jubilee Buildings, 1 Victoria Street, Douglas, IM99 1BF, Isle of Man		
Luxembourg			
RSA Luxembourg S.A.[8]	19, rue de Bitbourg, L-1273 Luxembourg		
Netherlands			
IDIP Direct Insurance B.V.[8]	20 Fenchurch Street, London, EC3M 3AU, United Kingdom		
Intouch Insurance Group B.V.[8]	20 Fenchurch Street, London, EC3M 3AU, United Kingdom		
RSA Overseas (Netherlands) B.V.[8]	20 Fenchurch Street, London, EC3M 3AU, United Kingdom		
RSA Overseas Holdings B.V.[8]	20 Fenchurch Street, London, EC3M 3AU, United Kingdom		
GDII – Global Direct Insurance Investments V.O.F.[8]	Wilhelminakade 97-99, 3072 AP Rotterdam, Netherlands	Partnership Interest	
Royal Insurance Global B.V.[8]	Wilhelminakade 97-99, 3072 AP Rotterdam, Netherlands		
Oman			
Al Ahlia Insurance Company SAOG[6]	PO Box 889, 100, Oman		52.50
Russian Federation			
GDII – Rus L.L.C.[8]	Sadovay Square, 3 Office 667, 121099, Moscow, Russia		
Saudi Arabia			
Al Alamiya for Cooperative Insurance Company[6]	Office No.203, 2nd Floor, Home Centre Building, Tahlia Street, Suleymaniyah, Riyadh, Kingdom of Saudi Arabia		50.07
Sweden			
Holmia Livforsakring AB	c/o Trygg-Hansa Försäkring Filial, 10626, Stockholm, Sweden		
CAB Group AB[3]	Stortorget 11, S-702 11 Örebro, Sweden		27.27
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

Appendix B: Subsidiaries and associates continued

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding (%)
Eurotempest Limited[3]	c/o UCL Business Plc, The Network Building 97, Tottenham Court Road, London, W1T 4TP, United Kingdom		33.33
Polaris U.K. Limited[3]	New London House, 6 London Street, London, EC3R 7LP, United Kingdom		25.38
British Aviation Insurance Company Limited[8]	Fitzwilliam House, 10 St Mary Axe, London, EC3A 8EQ, United Kingdom		57.10
RSA Northern Ireland Insurance Limited[8]	Law Society House, 90-106 Victoria Street, Belfast, BT1 3GN, Northern Ireland		
Hempton Court Manco Limited[3 5]	7 Seymour Street, London, W1H 7JW		66.66
Alliance Assurance Company Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
National Vulcan Engineering Insurance Group Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Non-Destructive Testers Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
R&SA Global Network Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		64.00
R&SA Marketing Services Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal & Sun Alliance Insurance (Global) Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal & Sun Alliance Insurance plc	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Class A Ordinary	
Royal & Sun Alliance Insurance plc[4]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Class B Ordinary	
Royal & Sun Alliance Pension Trustee Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal & Sun Alliance Property Services Limited[8]	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 Holdings Limited[1 8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal Insurance (U.K.) Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal International Insurance Holdings Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	£1.00 Ordinary	
Royal International Insurance Holdings Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	US$1.00 Ordinary	
Roysun Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
RSA Accident Repairs Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
RSA Finance[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
RSA Law Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		90.00
Sal Pension Fund Limited[1 8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		99.99
Sun Alliance and London Insurance Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Sun Alliance Insurance Overseas Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Sun Alliance Mortgage Company Limited[1 8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Sun Insurance Office Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
The London Assurance[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
The Globe Insurance Company Limited[8]	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		
The Sea Insurance Company Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Westgate Properties Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
United States			
Royal & Sun Alliance Insurance Agency Inc.	Wall Street Plaza, 88 Pine Street, New York, NY 10005, United States		

1. Directly owned by the parent company RSA Insurance Group plc.
2. No subsidiary holds a disclosable interest in the shares of RSA Insurance Group plc.
3. Indicates that the holding represents an Investment or is an Associate of the Group.
4. Indicates ownership of non-voting shares.
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. In relation to Al Ahlia Insurance Company SAOG (listed on the Muscat Securities Market, Oman Stock Exchange) and Al Alamiya for Cooperative Insurance Company (listed on the Tadawul, Saudi Stock Exchange), the percentage held relates to the actual percentage of the share capital held and not the effective percentage held (which is 26.25% and 25.04% respectively).
7. Johnson Inc. holds all of the voting shares in 2029974 Ontario Inc. through the following share classes: Class A Common (0.0016% voting), Class B Common (0.0033% voting), Class V Special (99.9950% voting).
8. Indicates companies within the Group that are applying IFRS 9 and disclose relevant information in their own published financial statements in addition to that already included in these consolidated financial statements.

Parent company statement of comprehensive income
For the year ended 31 December 2019

	2019 £m	2018 £m
Profit for the year net of tax	**351**	213
Items that may be reclassified to the income statement:		
Fair value losses on debt securities net of tax	**(2)**	–
Items that will not be reclassified to the income statement:		
Fair value gains/(losses) on investment in subsidiaries	**510**	(1,292)
Total other comprehensive income/(expense) for the year	**508**	(1,292)
Total comprehensive income/(expense) for the year	**859**	(1,079)

The profit for the year net of tax includes a tax credit of **£4m** (2018: charge £1m). There is no tax relating to fair value gains/(losses).

Parent company statement of changes in equity
for the year ended 31 December 2019

	Ordinary share capital £m	Ordinary share premium £m	Own shares £m	Preference shares £m	Revaluation reserves £m	Capital redemption reserve £m	Retained earnings £m	Tier 1 notes £m	Total equity £m
Balance at 1 January 2018	1,023	1,083	(1)	125	3,208	389	1,018	297	7,142
Total comprehensive (expense)/income for the year									
Profit for the year net of tax	–	–	–	–	–	–	213	–	213
Fair value losses net of tax	–	–	–	–	(1,292)	–	–	–	(1,292)
	–	–	–	–	(1,292)	–	213	–	(1,079)
Dividends – paid (note 5)	–	–	–	–	–	–	(231)	–	(231)
Shares issued for cash (note 9)	1	4	–	–	–	–	–	–	5
Share-based payments (note 4)	3	–	–	–	–	–	9	–	12
Balance at 1 January 2019	**1,027**	**1,087**	**(1)**	**125**	**1,916**	**389**	**1,009**	**297**	**5,849**
Total comprehensive income/(expense) for the year									
Profit for the year net of tax	**–**	**–**	**–**	**–**	**–**	**–**	**351**	**–**	**351**
Fair value gains net of tax	**–**	**–**	**–**	**–**	**508**	**–**	**–**	**–**	**508**
	–	**–**	**–**	**–**	**508**	**–**	**351**	**–**	**859**
Dividends – paid (note 5)	**–**	**–**	**–**	**–**	**–**	**–**	**(242)**	**–**	**(242)**
Shares issued for cash (note 9)	**1**	**3**	**–**	**–**	**–**	**–**	**–**	**–**	**4**
Share-based payments (note 4)	**4**	**–**	**–**	**–**	**–**	**–**	**6**	**–**	**10**
Transfers	**–**	**–**	**1**	**–**	**–**	**–**	**(1)**	**–**	**–**
Balance at 31 December 2019	**1,032**	**1,090**	**–**	**125**	**2,424**	**389**	**1,123**	**297**	**6,480**

The attached notes form an integral part of these parent company financial statements.

Parent company statement of financial position
As at 31 December 2019

	Note	2019 £m	2018 £m
Assets			
Investment in subsidiaries	6	**4,986**	4,509
Investment in debt securities	6	**341**	–
Amounts owed by subsidiaries	3	**2,124**	2,220
Current tax assets	7	**4**	1
Deferred tax assets	7	**5**	4
Other debtors and other assets	8	**5**	–
Other assets		**2,138**	2,225
Cash and cash equivalents		**5**	3
Total assets		**7,470**	6,737
Equity and liabilities			
Equity			
Shareholders' equity		**6,480**	5,849
Total equity		**6,480**	5,849
Liabilities			
Amounts owed to subsidiaries	3	**209**	419
Issued debt	11	**750**	441
Accruals and other liabilities		**31**	28
Total liabilities		**990**	888
Total equity and liabilities		**7,470**	6,737

The attached notes form an integral part of these parent company financial statements.

The profit for the year net of tax was **£351m** (2018: £213m profit).

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

Charlotte Jones
Group Chief Financial Officer

Parent company statement of cash flows
For the year ended 31 December 2019

	2019 £m	2018 £m
Cash flows from operating activities		
Profit for the year before tax	**347**	214
Adjustments for non-cash movements in net profit for the year		
Share based payments	**10**	12
Other non-cash movements	**2**	2
Changes in operating assets/liabilities		
Movement in working capital	**(1)**	(10)
Reclassification of investment income and interest paid	**(331)**	(224)
Cash generated from investments		
Dividend income	**350**	216
Interest and other investment income	**6**	33
Tax recovered	**–**	10
Net cash flows from operating activities	**383**	253
Cash flows from investing activities		
Purchase of financial assets	**(541)**	–
Proceeds from sales of financial assets	**196**	–
Net movement in amounts owed by subsidiaries	**(114)**	(2)
Repayment of issued debt from subsidiaries	**32**	–
Net cash flows from investing activities	**(427)**	(2)
Cash flows from financing activities		
Proceeds from issue of debt	**348**	–
Proceeds from issue of share capital	**4**	5
Dividends paid to ordinary shareholders	**(219)**	(208)
Coupon payment on Tier 1 notes	**(14)**	(14)
Dividends paid to preference shareholders	**(9)**	(9)
Redemption of debt instruments	**(39)**	–
Interest paid	**(25)**	(25)
Net cash flows from financing activities	**46**	(251)
Net increase in cash and cash equivalents	**2**	–
Cash and cash equivalents at the beginning of the year	**3**	3
Cash and cash equivalents at the end of the year	**5**	3

The attached notes form an integral part of these parent company financial statements.

Notes to the parent company financial statements

1) Significant accounting policies

RSA Insurance Group plc ('the Company') is incorporated in England and Wales and is the ultimate Parent Company of the RSA group of companies. The principal activity of the Company is to hold investments in its subsidiaries and the receipt and payment of dividends.

These parent company financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and the Companies Act 2006 where applicable.

Except where otherwise stated, all figures included in these parent company financial statements are presented in millions of Pounds Sterling ('Sterling'), shown as £m, rounded to the nearest million.

In accordance with section 408 of the Companies Act 2006, the Company's income statement and related notes have not been presented in these parent company financial statements.

The accounting policies that are used in preparation of these parent company financial statements are consistent with the accounting policies used in preparation of the consolidated financial statements of RSA Insurance Group plc as set out in those financial statements.

The additional accounting policies that are specific to the parent company financial statements are set out below.

Significant accounting estimates

In preparing these parent company financial statements, management has made judgements in determining estimates in accordance with Group'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 estimate is in connection with fair valuing the investment in subsidiaries, details of which can be found in note 6.

Investment in subsidiaries

The Company designates its investments in directly owned subsidiaries at fair value through other comprehensive income. The fair value is determined having regard to the Company's market capitalisation at the reporting date.

Changes in the fair value of the investments in subsidiaries are recognised directly in equity in the statement of comprehensive income which is not re-classified through profit or loss on de-recognition.

Amounts owed from subsidiaries

The Company accounts for amounts owed from subsidiaries at amortised cost and determines an expected credit loss (ECL) based on those default events that are possible within 12 months after the reporting date, or where the credit risk has increased significantly since initial recognition on the basis of all possible default events over the life of debt. Specifically the probability of default is considered together with the expected subsequent loss.

It has been concluded that the value of the ECL would be insignificant and so no ECL is recognised.

Investment in debt securities

Investment in debt securities are valued at fair value through other comprehensive income (FVOCI) on the basis that their contractual cash flows are solely principal and interest and the Company's business model's objective is to hold such investments to collect their contractual cash flows and for sale.

An allowance for expected credit loss is based on those default events that are possible within 12 months after the reporting date, or where the credit risk has increased significantly since initial recognition on the basis of all possible default events over the life of debt. Specifically the probability of default is considered over the appropriate period of time together with the expected subsequent loss. For investment grade debt securities, rated BBB or above, the 'low credit risk exemption' available within IFRS 9 has been applied. For these assets, it is assumed that credit risk has not increased significantly since initial recognition. As at the balance sheet date, all of the Company's debt securities are investment grade and expected credit losses are not significant and so no ECL is recognised.

On disposal of debt securities any related balance within the FVOCI reserve will be reclassified to the income statement.

Dividend income

Dividend income from investment in subsidiaries is recognised when the right to receive payment is established.

Interest income

Interest income is recognised using the effective interest rate method.

Adoption of new and revised accounting standards

IFRS 16 Leases

IFRS 16 'Leases' which replaces the previous standard IAS 17, became effective on 1 January 2019 and did not have any impact on the Company.

There are no other new and revised accounting standards which are expected to have an impact on the Company.

2) Risk and capital management

The risks faced by the Company are derived from its investment in subsidiaries and debt securities and are therefore the same as those of the RSA Group of companies. Details of the key risks to the Group and the steps taken to manage them are disclosed in the risk and capital management section (note 5) of the consolidated financial statements.

3) Related party transactions

The following transactions were carried out with related parties:

RSA Insurance Group plc provides services and benefits to its subsidiary companies operating within the UK and overseas as follows:

- Provision of technical support in relation to risk management, information technology and reinsurance services. Services are charged for annually on a cost plus basis, allowing for a margin of **6%** (2018: 6%).
- Issue of share options and share awards to employees of subsidiaries. Costs are charged for annually, based on the underlying value of the awards granted calculated in accordance with the guidance set out within IFRS 2.

The amounts charged in respect of these services to the Company's subsidiaries totalled **£55m** (2018: £50m).

Key management compensation

	2019 £m	2018 £m
Salaries and other short term employee benefits	**8**	7
Bonus awards	**5**	1
Share-based awards	**4**	5
Total	**17**	13

Other transactions

Interest is receivable on interest bearing loans to subsidiaries, which are repayable on 24 hours written notice. The rates of interest charged are at three months LIBOR plus margins ranging from 0.60% to 2.50%.

Interest is payable on interest bearing loans from subsidiaries, which are repayable on 24 hours written notice. The rates of interest charged are at three months LIBOR plus margins ranging from 0.40% to 2.00%.

Interest income from subsidiaries is **£35m** (2018: £34m), and interest charged to subsidiaries is **£2m** (2018: £2m).

Royal & Sun Alliance Insurance plc (RSAI), a subsidiary of the Company, has provided guarantees to the Company's creditors for amounts arising from its issued debt agreements (as set out in note 35 to the consolidated financial statements) and for amounts arising from its committed credit facilities (as set out in note 36 to the consolidated financial statements). The guarantees relating to the issued debt agreements are subordinated to all other creditors of RSAI.

Related party balances

Year end balances with related parties are set out below:

	2019 £m	2018 £m
Receivable from related parties:		
Receivable from subsidiaries, interest bearing loans	**1,857**	1,857
Receivable from subsidiaries, non interest bearing loan	**267**	363
Total receivable from related parties	**2,124**	2,220
Payable to related parties:		
Payable to subsidiaries, interest bearing loans	**36**	99
Payable to subsidiaries, non interest bearing loan	**173**	320
Total payable to related parties	**209**	419

4) Share-based payments

Full details of share-based compensation plans are provided in note 18 to the consolidated financial statements.

5) Dividends paid and proposed

Full details of the dividends paid and proposed by the Company are set out in note 20 to the consolidated financial statements.

6) Investments

	2019			2018
	Debt securities £m	**Subsidiaries £m**	**Total £m**	Subsidiaries £m
Investments at 1 January	**–**	**4,509**	**4,509**	5,801
Purchases	**541**	**–**	**541**	–
Disposals	**(196)**	**–**	**(196)**	–
Settlement of loan by subsidiary	**–**	**(33)**	**(33)**	–
Total gains/(losses) recognised in:				
Income statement	**(2)**	**–**	**(2)**	–
Other comprehensive income	**(2)**	**510**	**508**	(1,292)
Investments at 31 December	**341**	**4,986**	**5,327**	4,509

Investment in subsidiaries

The investment in subsidiaries balance at 31 December comprises:

	2019 £m	2018 £m
Investment in subsidiaries	**4,986**	4,476
Loans to subsidiaries	**–**	33
	4,986	4,509

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 2 financial assets. Fair value of the Company's significant subsidiary, Royal Insurance Holdings Limited, is determined by reference to the market value (derived from relevant indices) of the Company's ordinary shares and issued debt instruments at the end of the reporting period, being the most transparent independent available indicator. The market value is adjusted for the fair value of the Company's preference shares, assets and liabilities, excluding directly owned subsidiaries. The adjusting items have been fair valued by determining the present value of future cash flow projections including projected central costs, using an appropriate arm's length discount rate. The remaining subsidiaries are held at fair value which has been determined to be net asset value.

The Directors believe that the methodology used supports the inclusion of the investments in subsidiaries in the statement of financial position, at the fair values ascribed to them. The market value of the Company's ordinary shares at 31 December 2019 was **565.6p**. A movement of 1% in the share price would have an impact of **£58m** on the fair value.

The subordinated loan to a subsidiary had the same terms as the external issued debt from which the loan to the subsidiary was financed. The fair value of the loan was based on the quoted price for the external issued debt. The nominal value of the loan at 31 December 2018 was £32m with an interest rate of 9.375%. The loan was repaid on 20 May 2019 following the redemption of the external issued debt.

Full details of the principal subsidiaries of the Company are set out in Appendix B to the consolidated financial statements.

Investment in debt securities

The investment in debt securities, all of which are listed, are classified at fair value through other comprehensive income (FVOCI) and at 31 December were neither past due nor impaired and comprise of securities with the following investment grades.

	2019 £m	2018 £m
AA	**13**	–
A	**109**	–
BBB	**219**	–
	341	–

Details about the methods and assumptions used to fair value debt securities are provided in note 26 to the consolidated financial statements. Under the fair value hierarchy, **£3m** of the investment in debt securities are classified as level 1 financial assets and **£338m** are classified as level 2.

6) Investments continued

Loss allowance

The loss allowance for debt securities at FVOCI is recognised in the income statement and reduces the fair value otherwise recognised in other comprehensive income.

	2019 £m	2018 £m
Loss allowance at 1 January	–	–
Amount charged to the income statement	–	–
Loss allowance at 31 December	**–**	–

7) Current and deferred tax

Current tax

	Asset		Liability	
	2019 £m	2018 £m	2019 £m	2018 £m
To be settled within 12 months	4	1	–	–

The current tax relating to items that are credited to equity is **£nil** (2018: £nil).

Deferred tax

Deferred tax for the current year is based on a rate of **17%** (2018: 17%). The following are the major deferred tax assets recognised by the Company and movements during the year:

	2019 £m	2018 £m
Depreciation in excess of capital allowances	5	4
Net deferred tax position at 31 December	**5**	4

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

	2019 £m	2018 £m
Net deferred tax position at 1 January	4	6
Amount credited/(charged) to income statement	1	(2)
Net deferred tax position at 31 December	**5**	4

No deferred tax has been recognised in respect of **£21m** (2018: £23m) of deferred tax reliefs due to the unpredictability of future profits streams.

Net deferred tax assets of **£5m** (2018: £4m), that relate to tax jurisdictions in which the Company has suffered a loss in either the current or preceding period, have been recognised on the basis that future taxable profits will be available against which these can be utilised. The evidence for the future taxable profits is a forecast consistent with the three year operational plans prepared by the relevant businesses, which are subject to internal review and challenge. Where relevant, the forecast includes extrapolations of the operational plans using assumptions consistent with those used in the plans.

8) Other debtors and other assets

	2019 £m	2018 £m
Other prepayments and accrued income - to be settled within 12 months	5	–
Total other debtors and other assets	**5**	–

9) Share capital

Full details of the share capital of the Company are set out in note 32 to the consolidated financial statements.

10) Tier 1 notes

Full details of the Tier 1 notes are set out in note 33 to the consolidated financial statements.

11) Issued debt

Full details of the issued debt of the Company are set out in note 35 to the consolidated financial statements.

Jargon buster and alternative performance measures

Alternative Performance Measures

Alternative performance measures ('APMs') are complementary to measures defined within International Financial Reporting Standards ('IFRS') and are used by management to explain the Group's business performance and financial position. They include common insurance industry metrics, as well as measures management and the Board consider are useful to enhance the understanding of its performance and allow meaningful comparisons between periods and business segments. The APMs reported are monitored consistently across the Group to manage performance on a monthly basis. They are reviewed across various functions and undergo rigorous internal quality assurance.

Occasionally management may also report additional or adjusted APMs when circumstance requires. Reasons for doing so, definitions and reconciliations are provided in this appendix. In Q4 2018 targeted portfolio exits were announced as part of an ongoing strategic review of the UK & International business (UK&I). Proforma APMs were therefore provided in the 2018 Annual Report excluding the impact of these exits to aid readers understanding and assessment of future performance potential. The strategic review concluded in 2019, with further portfolio exits announced. Given the changes in the exit portfolios during 2019, the 2018 reported proforma impact of the UK&I exited portfolio is no longer a comparable measure. As hindsight should not be used when presenting restated comparatives, restated 2018 APMs excluding the impact of UK&I exits have not been provided given that the information was not available on this basis in 2018 and the action to exit these portfolios was taken during 2019.

2019 APMs have been reported both including and excluding the impacts of the UK&I exited portfolios to provide measures that allow users to assess the future performance of UK&I and the Group.

The symbol ◊ has been used to identify APMs within tables of data in the 2019 Annual Report, the definitions of which are given in the jargon buster below. Further definition, commentary and outlook of those APMs considered important in measuring the delivery of the Group's strategic priorities can be found on pages 26 and 27 of the Strategic Report. Detailed reconciliations of APMs to their nearest IFRS equivalents and adjusted APMs can be found after the below jargon buster. APMs used to determine management and executive remuneration are identified below with ◊*.

The adoption of IFRS 16 on 1st January 2019 had an immaterial impact on the 2019 APMs. Details on the impact of transition can be found in note 2 of the Group Consolidated Financial Statements.

Jargon Buster

Term	Definition	APM	Reconciliation	
Affinity	Selling insurance through a partner's distribution network, usually to a group of similar customers e.g. store-card holders, alumni groups, unions and utility company customers.			
Attritional Loss Ratio	This is the claims ratio (net incurred claims and claims handling expense as a proportion of net earned premium) of our business prior to volatile impacts from weather, large losses and prior-year reserve developments.	◊	1	R
Available for Sale (AFS)	A class of financial asset that is neither held for trading nor held to maturity.			
Best	'Best' refers to the highest underwriting result when comparing underwriting performance on a like for like basis (with central costs consistently allocated to the underwriting result pre 2013 back to 2000).			
Business Operating Result	Business operating result represents profit before tax adjusted to add back other charges (previously referred to as operating result).	◊	1	AC
Claims Frequency	Average number of claims per policy over the year.			
Claims Handling Expenses	The administrative cost of processing a claim (such as salary costs, costs of running claims centres, allocated share of the costs of head office units) which are separate to the cost of settling the claim itself with the policyholder.			
Claims Ratio (Loss Ratio)	Percentage of net earned premiums that is paid out in claims and claims handling expenses.	◊	1	V
Claims Reserve (Provision for Losses and Loss Adjustment Expenses)	A provision established to cover the estimated cost of claims payments and claims handling expenses that are still to be settled and incurred in respect of insurance cover provided to policyholders up to the reporting date.			
Claims Severity	Average cost of claims incurred over the period.			
Combined Operating Ratio (COR)	A measure of underwriting performance being the ratio of underwriting costs (claims, commissions and expenses) expressed in relation to earned premiums: COR = loss ratio + commission ratio + expense ratio, where Loss ratio = net incurred claims/net earned premiums Commission ratio = commissions/net earned premiums Expense ratio = operating expenses/net earned premiums	◊*	1	Y
Commission	An amount paid to an intermediary such as a broker for introducing business to the Group.			
Constant Exchange (CFX)	Prior period comparative retranslated at current period exchange rates.	◊	4	
Controllable Costs/Expenses	A measure of operating expenses incurred by the Group in undertaking business activities, predominantly underwriting and policy acquisition costs, excluding commission and premium related costs such as levies. They are adjusted to include claims handling costs that are reported within net claims incurred.	◊*	5	
Current Year Underwriting Result	The profit or loss earned from business for which insurance cover has been provided during the current financial period. This does not include performance impacts recognised in the current reporting period relating to prior accident years.	◊	1	Q

Jargon Buster continued

Term	Definition	APM	Reconciliation	
Current Year Combined Operating Ratio (CY COR)	A measure of current year underwriting result performance calculated as per the combined operating ratio.			
Customer Retention	A measure of the amount of business that is renewed with us each year.			
Ex. Exits	Excluding exits refers to financial results adjusted for the impact of UK&I portfolio exits and business lapses targeted as part of the UK&I strategic review. The action to exit these portfolios was taken during 2019.		7	
Expense Ratio	Underwriting and policy expenses expressed as a percentage of net earned premium.	◊	1	X
Exposure	A measurement of risk we are exposed to through the premiums we have written. For example, in motor insurance one vehicle insured for one year is one unit of exposure.			
Financial Conduct Authority (FCA)	The regulatory authority with responsibility for the conduct of the UK financial services industry.			
Gross Written Premium (GWP)	Total revenue generated through sale of insurance products. This is before taking into account reinsurance and is stated irrespective of whether payment has been received.			
Group Volatility Cover (GVC)	Reinsurance purchased by the Group to protect against large losses. Individual losses are covered in full when they exceed a certain amount and the aggregate of such losses over the financial year exceed an agreed limit.			
IBNR (Incurred But Not Yet Reported)	An estimated reserve for amounts owed to all valid claimants who have had a covered loss but have not yet reported it and for claims that have been reported but the cost is not yet known.			
Interest Costs	Interest costs represent the cost of Group debt.			
Investment Result	Investment result is the money we make from our investments on a management basis. It comprises the major component of net investment return, investment income, in addition to unwind of discount and investment expenses.	◊	1	AA
Large Losses	Single claim or all claims arising from a single loss event with a net cost of £0.5m or higher.			
Large Loss Ratio	The large loss ratio is an expression of claims incurred in the period with a net cost of £0.5m or higher as a percentage of current year net earned premium over the same period.	◊	1	T
Managing General Agent (MGA)	A specialised type of insurance agent or broker that has been granted underwriting authority by an insurer and can negotiate contracts on behalf of the insurer.			
Net Asset Value (NAV) per Share	Net asset value per share is calculated as closing shareholders' funds, less preference share capital, divided by the number of shares in issue at the end of the period.	◊	3	E
Net Earned Premium (NEP)	The proportion of premium written, net of the cost of associated reinsurance, which represents the consideration charged to policyholders for providing insurance cover during the reporting period.			
Net Incurred Claims (NIC)	The total claims cost incurred in the period less any share that is borne by reinsurers. It includes both claims payments and movements in claims reserves and claims handling expenses in the period.			
Net Written Premium (NWP)	Premium written or processed in the period, irrespective of whether it has been paid, less the amount shared with reinsurers.			
Other Charges	Other charges represent items that are excluded to arrive at business operating result and underlying profit measures (previously referred to as non-operating charges).	◊	1	AD

Other Charges

Item	Reason for classification	APM	Reconciliation	
Amortisation of intangible assets	To allow meaningful assessment of segmental performance where similar internally generated assets are not capitalised.	◊	1	AD
Reorganisation costs	To allow assessment of the performance of ongoing business activities.			
Pension administration and net interest costs	Costs that are dependent on the level of defined benefit pension scheme plan funding and arise from servicing past pension commitments.			
Realised and unrealised gains and losses on investments/ foreign exchange gains and losses	To remove the impact of market volatility and investment rebalancing activity.			
Gains and losses arising from the disposal of businesses and impairment of goodwill	To allow assessment of the performance of ongoing business activities.			
Economic assumption changes	To allow assessment of performance excluding impact of a change in economic assumptions.			

Jargon Buster continued

Term	Definition	APM	Reconciliation	
Payout Ratio	Ordinary dividends expressed as a percentage of underlying profit after tax attributable to ordinary shareholders. This has also been expressed excluding the impact of UK&I exits.			
Policies in Force	The number of active insurance policies for which the Group is providing cover.			
Prior Year Underwriting Result	Updates to premium, claims, commission and expense estimates relating to prior years.	◊	1	P
Property and Casualty (P&C) (Non-Life Insurance or General Insurance)	Property insurance covers loss or damage through fire, theft, floods, storms and other specified risks. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage to the property of others.			
Prudential Regulation Authority (PRA)	The regulatory authority with responsibility for the prudential regulation and supervision of the UK financial services industry.			
Pull to Par	The movement of a bond's price toward its face value as it approaches its maturity date.			
Rate	The price of a unit of insurance based on a standard risk for one year. Actual premium charged to the policyholder may differ from the rate due to individual risk characteristics and marketing discounts.			
Reinsurance	The practice whereby part or all of the risk accepted is transferred to another insurer (the reinsurer).			
Reported Exchange (RFX)	Prior period comparative translated at exchange rates applicable at that time.			
Return on Equity	Profit attributable to ordinary shareholders (profit after tax excluding non-controlling interests, coupon on tier 1 notes and preference dividend) expressed in relation to opening ordinary shareholders' funds (opening ordinary shareholders funds less preference share capital).	◊	2	F
Return on Tangible Equity	Profit attributable to ordinary shareholders (profit after tax excluding non-controlling interests, coupon on tier 1 notes and preference dividend) expressed in relation to opening tangible net asset value.	◊	2	H
Solvency II/Coverage Ratio	Capital adequacy regime for the European insurance industry which commenced in 2016 and is based on a set of EU wide capital requirements and risk management standards. The coverage ratio represents total eligible capital as a proportion of the Solvency Capital Requirement (SCR) under Solvency II.			
Scrip Dividend	Where shareholders choose to receive the dividend in the form of additional shares rather than cash. The Group would issue new shares to meet the scrip demand.			
Tangible Net Asset Value (TNAV)	Tangible net asset value comprises shareholders' equity, less preference share capital and goodwill and intangible assets.	◊*	3	C
Tangible Net Asset Value (TNAV) per Share	Tangible net asset value, divided by the number of shares in issue at the end of the period.	◊	3	F
Underwriting Result	Net earned premium less net claims and underwriting and policy acquisition costs.	◊	1	Z
Underlying Profit before Tax	Profit before tax adjusted for the add back of all other charges except finance costs.	◊	6	B
Underlying Tax Rate	The Group underlying tax rate mainly comprising the local statutory tax rates in the Group's territories applied to underlying regional profits (operating profits less finance costs).	◊	6	A
Underlying Profit after Tax	Profit after tax, less the proportion that is attributable to non-controlling interests, preference shareholders and tier 1 note holders, plus the add back of all other charges except finance costs (reasons for exclusion above) before an adjustment for the tax difference between effective and underlying rate.	◊*	2	B
Underlying Return on Tangible Equity	Underlying profit after tax expressed in relation to opening tangible net asset value.	◊*	2	I
Underlying Return on Equity	Underlying profit after tax expressed in relation to opening shareholders' funds excluding preference share capital.	◊	2	G
Underlying Earnings per Share (EPS)	Underlying profit after tax divided by the weighted average number of shares in issue during the period.	◊	2	K
Unearned Premium	The portion of a premium that relates to future periods, for which protection has not yet been provided, irrespective of whether the premium has been paid or not.			
Weather Losses	Weather claims incurred with a net cost of £0.5m or higher and losses of less than £0.5m where extreme weather has been identified over an extended period.			
Weather Loss Ratio	The weather loss ratio is an expression of weather losses in the period as a percentage of earned premium.	◊	1	S
Yield	Rate of return on an investment in percentage terms. The dividend payable on a share expressed as a percentage of the market price.			

Alternative Performance Measures Reconciliations

1. IFRS reconciliation to management P&L

For the 12 months ended 31 December 2019

£m	IFRS		Underwriting result	Investment result	Central costs	Business operating result	Other charges	Profit before tax
					Management			
Income								
Gross written premiums	7,461		7,461					
Less: reinsurance premiums	(1,044)		(1,044)					
Net written premiums	6,417		6,417					
Change in the gross provision for unearned premiums	34		34					
Change in provision for unearned reinsurance premiums	11		11					
Change in provision for unearned premiums	45		45					
Net earned premiums, analysed as	6,462	A	6,462					
Current year		B	6,442					
Prior year		C	20					
			6,462					
Investment income	306	D		306				
Realised gains on investments	15						15	
Gains on forex derivatives	1						1	
Unrealised losses	(26)						(26)	
Net investment return	296							
Other insurance income	135	E	135					
Pension net interest and administration costs	4						4	
Foreign exchange gain	1						1	
Other operating income	140							
Total income	6,898							
Expenses								
Gross claims incurred	(5,059)		(5,059)					
Less: claims recoveries from reinsurers	727		727					
Net claims, analysed as	(4,332)	F	(4,332)					
Attritional		G	(3,540)					
Weather		H	(167)					
Large		I	(645)					
Prior year		J	20					
			(4,332)					
Earned CY commission	(830)	K	(830)					
Earned PY commission	(1)	L	(1)					
Earned CY operating expenses	(1,081)	M	(1,081)					
Earned PY operating expenses	(7)	N	(7)					
Underwriting and policy acquisition costs	(1,919)		(1,919)					
Unwind of discount[1]	(46)			(31)			(15)	
Investment expenses	(12)			(12)				
Central expenses	(13)				(13)			
Amortisation of intangible assets	(12)						(12)	
Reorganisation costs	(27)						(27)	
Other operating expenses	(64)							
	(6,361)							
Interest costs	(25)						(25)	
Interest on lease liabilities	(7)						(7)	
Finance costs	(32)	O					(32)	
Acquisitions and disposals	(14)						(14)	
Net share of profit after tax of associates	1				1			
Profit before tax	492		346	263	(12)	597	(105)	492
Income tax expense	(109)		**Z**	**AA**	**AB**	**AC**	**AD**	
Profit for the year	383							
	C+J+L+N	P	32	PY Underwriting				
	Z – P	Q	314	CY Underwriting				
			346					
Attritional loss ratio	G/B	R	55.0%					
Weather loss ratio	H/B	S	2.6%					
Large loss ratio	I/B	T	10.0%					
Prior year effect on loss ratio	V-R-S-T	U	(0.6%)					
Loss ratio	F/A	V	67.0%					
Commission ratio	(K+L)/A	W	12.9%					
Expense ratio	(E+M+N)/A	X	14.7%					
Combined operating ratio	V+W+X	Y	94.6%					

1. 2019 also includes change in economic assumptions.

Alternative Performance Measures Reconciliations continued

1. IFRS reconciliation to management P&L continued

For the 12 months ended 31 December 2018

£m	IFRS		Underwriting result	Investment result	Central costs	Business operating result	Other charges	Profit before tax
			Management					
Income								
Gross written premiums	7,467		7,467					
Less: reinsurance premiums	(997)		(997)					
Net written premiums	6,470		6,470					
Change in the gross provision for unearned premiums	61		61					
Change in provision for unearned reinsurance premiums	6		6					
Change in provision for unearned premiums	67		67					
Net earned premiums, analysed as	6,537	A	6,537					
Current year		B	6,506					
Prior year		C	31					
			6,537					
Investment income	322	D		322				
Realised gains on investments	22						22	
Unrealised gains	9						9	
Impairments	(10)						(10)	
Net investment return	343							
Other insurance income	138	E	138					
Other operating income	138							
Total income	7,018							
Expenses								
Gross claims incurred	(5,023)		(5,023)					
Less: claims recoveries from reinsurers	543		543					
Net claims, analysed as	(4,480)	F	(4,480)					
Attritional		G	(3,630)					
Weather		H	(242)					
Large		I	(758)					
Prior year		J	150					
			(4,480)					
Earned CY commission	(870)	K	(870)					
Earned PY commission	(16)	L	(16)					
Earned CY operating expenses	(1,059)	M	(1,059)					
Earned PY operating expenses	–	N	–					
Underwriting and policy acquisition costs	(1,945)		(1,945)					
Unwind of discount	(33)			(33)				
Investment expenses	(14)			(14)				
Central expenses	(9)				(9)			
Amortisation of intangible assets	(13)						(13)	
Impairment of goodwill	(7)						(7)	
Pension net interest and administration costs	(6)						(6)	
Regulatory costs	(4)						(4)	
Foreign exchange losses	(1)						(1)	
Other operating expenses	(54)							
	(6,512)							
Interest costs	(25)						(25)	
Finance costs	(25)	O						
Acquisitions and disposals	(2)						(2)	
Net share of profit after tax of associates	1				1			
Profit before tax	480		250	275	(8)	517	(37)	480
Income tax expense	(108)		**Z**	**AA**	**AB**	**AC**	**AD**	
Profit for the year	372							
	C+J+L+N	P	165	PY Underwriting				
	Z – P	Q	85	CY Underwriting				
			250					
Attritional loss ratio	G/B	R	55.8%					
Weather loss ratio	H/B	S	3.7%					
Large loss ratio	I/B	T	11.6%					
Prior year effect on loss ratio	V-R-S-T	U	(2.6%)					
Loss ratio	F/A	V	68.5%					
Commission ratio	(K+L)/A	W	13.6%					
Expense ratio	(E+M+N)/A	X	14.1%					
Combined operating ratio	V+W+X	Y	96.2%					

Alternative Performance Measures Reconciliations continued

2. Metric calculations

			2019 £m	2018 £m
		Profit after tax	**383**	**372**
		Less: non-controlling interest	(24)	(23)
Note 20		Less: tier 1 notes coupon payment	(14)	(14)
Note 20		Less: preference dividend	(9)	(9)
	A	**Profit attributable to ordinary shareholders**	**336**	**326**
APM Rec 1		Add: other charges	105	37
APM Rec 1		Less: finance costs	(32)	(25)
APM Rec 6		(Less)/add: underlying tax differential	(3)	12
	B	**Underlying profit after tax attributable to ordinary shareholders**	**406**	**350**
		Opening shareholders' funds	**3,786**	**3,653**
		Less: preference share capital	(125)	(125)
	C	**Opening ordinary shareholders' funds**	**3,661**	**3,528**
Note 22		Less: opening goodwill and intangibles	(794)	(763)
	D	**Opening tangible ordinary shareholders' funds**	**2,867**	**2,765**
	E	**Weighted average no. share issue during the period (un-diluted)**	**1,031**	**1,026**
		Return on equity		
A/C	**F**	**Reported**	**9.2%**	**9.2%**
B/C	**G**	**Underlying**	**11.1%**	**9.9%**
		Return on tangible equity		
A/D	**H**	**Reported**	**11.7%**	**11.8%**
B/D	**I**	**Underlying**	**14.2%**	**12.6%**
APM Rec 7	**J**	**Underlying ex exits**	**16.0%**	
		Earnings per share		
A/E	**K**	**Basic earnings per share**	**32.6**	**31.8**
B/E	**L**	**Underlying earnings per share**	**39.4**	**34.1**
APM Rec 7	**M**	**Underlying earnings per share ex exits**	**44.5**	

Alternative Performance Measures Reconciliations continued

3. Balance sheet reconciliations

			2019 £m	2018 £m
	A	**Closing shareholders' funds**	**3,872**	**3,786**
		Less: preference share capital	(125)	(125)
	B	**Ordinary shareholders funds**	**3,747**	**3,661**
Note 22		Less: closing goodwill and intangibles	(837)	(794)
	C	**Tangible net asset value**	**2,910**	**2,867**
Note 32	D	**Shares in issue at the period end**	1,032	1,027
B/D	E	**Net asset value per share**	**363**	**357**
C/D	F	**Tangible net asset value per share**	**282**	**279**

4. Net written premium movement and constant exchange

			2019 £m	2018 £m
Note 8	A	**Net written premiums**	**6,417**	**6,470**
		Year-on-year movement	(53)	(208)
		Comprised of:		
		Volume change including portfolio actions and reinsurance	(373)	(153)
		Rate increases	330	238
	B	**Movement at constant exchange**	**(43)**	**(93)**
	C	Foreign exchange	(10)	(115)
		Total movement	**(53)**	**(208)**
B/(2018A-C)	D	**% movement at constant exchange**	**(1)%**	**(1)%**

Alternative Performance Measures Reconciliations continued

5. Controllable expenses

			2019 £m	2018 £m
		Underwriting and policy admin costs	**(1,919)**	**(1,945)**
APM Rec 1		Less: commission	831	886
		Less: non controllable premium related costs e.g. levies	146	139
		Add: claims expenses within net claims	(379)	(397)
		Add: other	(25)	(26)
	A	**Written controllable expense base**	**(1,346)**	**(1,343)**
	B	(Add)/less: controllable deferred acquisition costs	(4)	11
A+B	**C**	**Earned controllable expense base**	**(1,350)**	**(1,332)**
APM Rec 1	**D**	Add: investment expenses	(12)	(14)
APM Rec 1	**E**	Add: central costs	(13)	(9)
A+D+E	**F**	**Total written controllable expense base**	**(1,371)**	**(1,366)**
C+D+E	**G**	**Total earned controllable expense base**	**(1,375)**	**(1,355)**
	H	Net written premiums	6,417	6,470
	I	Net earned premiums	6,462	6,537
A/H	**J**	**Written controllable expense ratio**	**21.0%**	**20.8%**
F/H	**K**	**Total written controllable expense ratio**	**21.4%**	**21.1%**
C/I	**L**	**Earned controllable expense ratio**	**20.9%**	**20.4%**
G/I	**M**	**Total earned controllable expense ratio**	**21.3%**	**20.8%**

6. Underlying tax rate

			2019 %	2018 %
		Effective tax rate (ETR)	**22**	**23**
		Less tax effect of:		
		Unrecognised tax losses	(2)	(2)
		One off impact of Swedish law change	–	(1)
		Underlying versus IFRS regional profit mix	(1)	–
		Other	1	–
	A	**Underlying tax rate**	**20**	**20**

			£m	£m
		Profit before tax	**492**	**480**
APM Rec 1		Add: other charges	105	37
APM Rec 1		Less: finance costs	(32)	(25)
	B	**Underlying profit before tax**	**565**	**492**
AxB	**C**	**Underlying tax**	**(112)**	**(96)**
APM Rec 1	**D**	Income tax expense	(109)	(108)
C-D	**E**	**Underlying tax differential**	**(3)**	**12**

Alternative Performance Measures Reconciliations continued

7. Adjusted APMs

Management report adjusted APMs when circumstance requires to further enhance understanding of reported results and of future performance potential. Adjusted profitability metrics provided show:

- The results for our ongoing business given the portfolio exits undertaken in the UK&I business
- The impact of reinsurance purchases

Impact of UK&I exits

The UK, Europe, UK & International and Group results for the 12 months ended 31 December 2019 have been presented excluding the impact of the strategic portfolio exits, primarily including London Market portfolios and a number of UK MGA schemes.

£m (unless stated)			UK	Europe	UK & International	Central functions	Group
2019 reported							
	A	**Net written premium**	**2,120**	**237**	**2,881**	**37**	**6,417**
	B	Net earned premium	2,215	238	2,981	(9)	6,462
	C	**Underwriting result**	**(5)**	**5**	**77**	**(48)**	**346**
(C/B)-1		**COR**	**100.2%**	**97.6%**	**97.4%**		**94.6%**
	D	**Business operating result**	**116**	**5**	**212**	**(60)**	**597**
	E	**Profit before tax**					**492**
	F	**Underlying profit before tax**					**565**
	G	**Underlying profit after tax**					**406**
		Underlying earnings per share					**39.4p**
		Underlying return on tangible equity					**14.2%**
	H	Weighted average shares					1,031
	J	Opening tangible ordinary shareholders' funds					2,867
GVC reallocation to UK&I exit portfolio[1]							
	K	GVC recoveries in relation to UK exit portfolio	8		8	(8)	
Adjusted for GVC reallocation to UK&I exit portfolio							
C+K	**L**	**Underwriting result**	**3**	**5**	**85**	**(56)**	**346**
(L/B)-1	**M**	**COR**	**99.9%**	**97.6%**	**97.1%**		**94.6%**
D+K	**N**	**Business operating result**	**124**	**5**	**220**	**(68)**	**597**
UK&I exits							
	P	Exited net written premium	10	7	17		17
	Q	Exited net earned premium	77	11	88		88
	R	Underwriting result	(47)	(12)	(59)		(59)
	S	Tax impact thereon[2]					6
Excluding exits							
A-P	**T**	**Net written premium**	**2,110**	**230**	**2,864**	**37**	**6,400**
B-Q	**U**	Net earned premium	2,138	227	2,893	(9)	6,374
L-R	**V**	**Underwriting result**	**50**	**17**	**144**	**(56)**	**405**
(V/U)-1	**W**	**COR**	**97.7%**	**92.6%**	**95.0%**		**93.6%**
N-R	**X**	**Business operating result**	**171**	**17**	**279**	**(68)**	**656**
E-R	**Y**	**Profit before tax**					**551**
F-R	**Z**	**Underlying profit before tax**					**624**
(G-R-S)/H	**AA**	**Underlying earnings per share**					**44.5**
(G-R-S)/J	**AB**	**Underlying return on tangible equity**					**16.0%**

1. £8m of prior year GVC recoveries relating to UK exited business has been reallocated from Central Functions to UK Exits and therefore to total UK&I.
2. UK underlying tax rate 10% applied, reducing Group underlying tax rate from 20% to 19% due to an increase in the UK share of Group profit mix.

Alternative Performance Measures Reconciliations continued

7. Adjusted APMs continued

Impact of reinsurance adjustments

In 2018, the Group purchased a three year Group Volatility Cover ('GVC') and, in 2019, the Group purchased new reinsurance covers to provide additional protection for short tail lines. 2018 NWP and attritional loss ratio comparatives have been restated accordingly to allow direct comparison.

			Scandinavia	Canada	UK&I	Group Re	Group
	A	2018 net written premium	1,817	1,652	3,100	(99)	6,470
	B	Foreign exchange	(53)	33	10	–	(10)
	C	Add: 2019 new treaty purchase	(11)	(2)	(12)	(4)	(29)
	D	Less: 2018 GVC purchase				138	138
A:D	E	**2018 net written premium at constant exchange restated**	**1,753**	**1,683**	**3,098**	**35**	**6,569**
	F	2019 net written premium	1,764	1,735	2,881	37	6,417
F/E-1	G	**Net written premium movement restated**	**1%**	**3%**	**(7)%**		**(2)%**
	A	2018 CY net earned premium	1,802	1,607	3,104	(7)	6,506
	B	2019 new treaty purchase	(11)	(2)	(12)	(4)	(29)
	C	Foreign exchange	(52)	32	10	–	(10)
A:C	D	**2018 net earned premium at constant exchange restated**	**1,739**	**1,637**	**3,102**	**(11)**	**6,467**
	E	2018 attritional claims	(1,141)	(934)	(1,556)		(3,630)
	F	Foreign exchange	33	(19)	(4)		10
E+F	G	2018 attritional claims at constant exchange	(1,108)	(953)	(1,560)		(3,620)
G/D	H	**2018 attritional loss ratio restated (%)**	**63.8%**	**58.2%**	**50.3%**		**56.0%**
	J	2019 attritional loss ratio (%)	63.4%	56.0%	49.1%		55.0%
H-J	K	**Attritional movement restated (%)**	**0.4%**	**2.2%**	**1.2%**		**1.0%**

Shareholder **information**

Further information and help

The Company's corporate website provides shareholders with a broad range of information about the Group's heritage, social and environmental responsibilities and investor information such as the Group's financial statements, current and historic share prices, Annual General Meeting (AGM) materials, events, governance information and answers to frequently asked questions in respect of shareholder matters. Visit the investor website at www.rsagroup.com/investors for further information.

The Company's share register is maintained by Equiniti Limited (Equiniti). Any administrative enquiries relating to shareholdings, such as dividend payment instructions or a change of address, should be notified to:

- Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
- Telephone: 0371 384 2048
- To securely email Equiniti with an enquiry, visit www.shareview.co.uk.

When contacting Equiniti, please quote your shareholder reference number which can be found on your share certificate or dividend documents.

Telephone lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding public holidays in England and Wales. Overseas callers should use +44(0) 121 415 7064. Shareholders with a text phone facility should use +44(0) 371 384 2255 or use the Text Relay service by dialling 18001 0121 415 7064 directly from the text phone.

Managing your shareholding

Information on how to manage your shareholding can be found at www.help.shareview.co.uk.

Amalgamation of accounts

Shareholders who receive duplicate sets of Company mailings owing to multiple accounts in their name may contact Equiniti to request that their accounts be amalgamated.

Electronic communications

You can elect to receive email notification of shareholder communications by registering at www.shareview.co.uk, where you can also set up a bank mandate to receive dividends directly to your bank account and submit proxy votes for shareholder meetings. Shareholders may elect to receive a printed copy of the Annual Report and Accounts at any time by contacting Equiniti.

Additionally, if you wish to register for the Company's investor news service to receive the latest news and press releases by email, visit www.rsagroup.com/investornewsalert.

Low-cost share dealing facilities

Shareholders may purchase or sell their RSA Ordinary Shares through their stockbroker, a high street bank or one of the providers detailed below.

Equiniti offers a telephone and internet dealing service. Commission is 1.5% (rate quoted as at 7 February 2019 and may be subject to change) on amounts up to £50,000 and 0.25% on the excess thereafter, with a minimum charge of £60 for telephone dealing and £45 for internet dealing. For telephone sales, call +44(0) 345 6037 037. Lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding public holidays in England and Wales. For internet sales log on to www.shareview.co.uk/dealing. Please quote your shareholder reference number.

Dividends

Shareholders are encouraged to have their dividends paid directly into their bank account. It is a more secure and faster way to receive dividend payments, with cleared funds available to shareholders on the dividend payment date. Shareholders who have their dividends paid directly into their bank account receive annual dividend confirmations once a year, showing payments received in the respective tax year. Alternatively, individual dividend confirmations are available upon request. To take advantage of this convenient method of payment, visit www.shareview.co.uk or contact Equiniti.

Financial calendar

5 March 2020
Ex-dividend date for the ordinary final dividend for 2019 and the first preference dividend for 2020

6 March 2020
Record date for the ordinary final dividend for 2019 and the first preference dividend for 2020

1 April 2020
Payment date for the first preference dividend for 2020

7 May 2020
Q1 Trading Update

7 May 2020
Annual General Meeting

14 May 2020
Payment date for the ordinary final dividend for 2019

30 July 2020*
Announcement of the half-year results for the six months ended 30 June 2020

13 August 2020*
Ex-dividend date for the second preference dividend for 2020

14 August 2020*
Record date for the second preference dividend for 2020

3 September 2020*
Ex-dividend date for the ordinary interim dividend for 2020

4 September 2020*
Record date for the ordinary interim dividend for 2020

1 October 2020*
Payment date for the second preference dividend for 2020

9 October 2020*
Payment date of the ordinary interim dividend for 2020

5 November 2020*
Q3 Trading Update

* Provisional date

Annual General Meeting

The 2020 AGM will be held at 200 Aldersgate, St Paul's, London EC1A 4HD on Thursday 7th May 2020 at 11.00am.

A letter from the Chairman and the notice convening the AGM (Notice) is made available to all ordinary shareholders at least 20 working days before the meeting and can be found on the Company's website at www.rsagroup.com/agm2020.

Ordinary Share performance

The opening market price of an ordinary share on 2 January 2019 was 508.8 pence and the closing market price on 31 December 2019 was 565.6 pence. The highest daily closing price of an Ordinary Share during 2019 was 597.0 pence on 16 July 2019 and the lowest daily closing price was 501.6 pence on 26 March 2019 and 9 October 2019.

Share register fraud: protecting your investment

UK law requires that our shareholder register is available for public inspection. We are unable to control the use of information obtained by persons inspecting the register. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website.

Always be wary if you're contacted out of the blue (by telephone, email, post or in person) and pressured to invest quickly or promised returns that sound too good to be true. Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. If you receive any unsolicited advice, make sure you get the correct name of the person and organisation and check that they are appropriately authorised by the FCA by visiting www.fca.org.uk/scamsmart. It is advisable to check the URL on websites and check the contact details of a firm in case it's a 'clone firm' pretending to be a real firm, such as your bank or a genuine investment firm.

More information on protecting your investment can be found at www.fca.org.uk/consumers. If you do receive a fraudulent approach, please advise the FCA using the share fraud reporting form at www.fca.org.uk/scams or call the FCA Consumer Helpline on 0800 111 6768.

Tips on protecting your shares

- Keep any documentation that contains your shareholder reference number in a safe place and destroy any documentation you no longer require by shredding.
- Inform Equiniti promptly when you change your address.
- Be aware of dividend payment dates and contact Equiniti if you do not receive your dividend cheque or, better still, make arrangements to have the dividend paid directly into your bank account.
- Consider holding your shares electronically in a CREST account via a nominee account or in the Corporate Sponsored Nominee.

ShareGift

Shareholders with a small number of shares, the value of which makes it uneconomic to sell them, may wish to consider donating them to charity through ShareGift, a registered charity (number 1052686). The relevant share transfer form can be obtained from Equiniti. Further details can be obtained from www.sharegift.org or by calling + 44(0) 20 7930 3737.

American Depositary Receipts

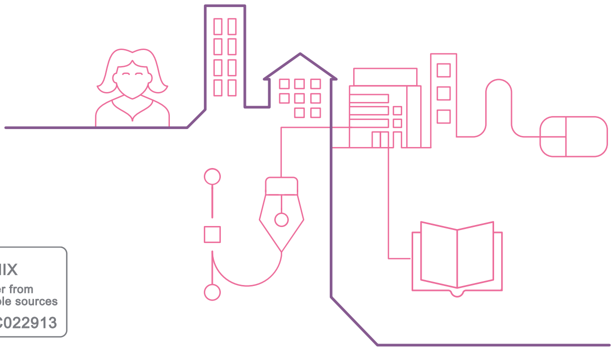
The Company operates a sponsored American Depositary Receipts (ADRs) programme which is managed by JPMorgan Chase Bank, NA. The programme allows shareholders to invest in the Company through US dollar denominated funds. One ADR represents one Ordinary Share of £1.00 each.

For other information or help, please contact:

- JPMorgan Chase Bank, NA, Shareowner Services, PO Box 64504, St. Paul, MN 55164-0504
- Telephone:
  Toll-free number: Phone: 1 800 990 1135
  Hearing impaired: Phone: 1 866 700 1652
  Outside the U.S.: Phone: +1 651 453 2128
- Email: StockTransfer@equiniti.com

Registered Office

The Company is registered in England and Wales under Company No. 2339826. Its registered office address is 20 Fenchurch Street, London EC3M 3AU.



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Important disclaimer

This document contains 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. Generally, words such as 'may', 'could', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'aim', 'outlook', 'believe', 'plan', 'seek', 'continue', 'potential', 'target', 'reasonably possible' or similar expressions, are intended to identify forward-looking statements.

By their nature, all forward-looking statements involve risk and uncertainty because they relate to, and may be impacted by, future events and circumstances which are beyond the Group's control, including amongst other things, UK domestic, European and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of governments, central banks and regulatory authorities (including changes related to capital and solvency requirements whether in the UK, Europe or globally), the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation or regulations in the jurisdictions in which the Group and its affiliates operate.

The Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in such forward-looking statements and, as a result, these forward-looking statements are not guarantees of future performance of the Group and undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Neither the content of RSA's website nor the content of any other website accessible from hyperlinks on RSA's website is incorporated into, or forms part of, this document.

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