RSA Insurance Group plc

Annual Report and Accounts 2018

WHO WE ARE

RSA is a leading international general insurer, focused on three complementary markets: Scandinavia, Canada, and the UK & International[1].

With strong regional brands and emphasis on operational and performance improvement, we are proud to be a customer focused, agile and resilient business.

We are one of the world's longest-standing general insurers, providing peace of mind to individuals and protecting businesses from risk for more than 300 years.

FINANCIAL HIGHLIGHTS

£6.5bn

Net written premiums

-3.1%

96.2%

Combined operating ratio ◊

+2.2%

34.1p

Underlying earnings per share ◊

-9.4p

£372m

Profit after tax

+15.5%

EXPLORE ONLINE

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

◊ 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 in the appendix on pages 177 to 186.

1 Includes Ireland, Middle East and European branches.

OUR STRATEGY

Focused on our customers

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

Page 16

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.

Page 18

Managing our cost base efficiently

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

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Our 2018 Strategic Report, on pages ifc to 43, has been reviewed and approved by the Board of Directors on 27 February 2019 and signed on its behalf by Stephen Hester, Group Chief Executive.

We are seeking to transform RSA with the ambition of best-in-class performance in all our markets.

WHAT WE DO

RSA is a leading international general insurer, operating in Scandinavia, Canada, and the UK & International (including Ireland, Middle East and European branches). We are focused on strengthening our existing areas of market leadership and growing profitable lines.

OUR KEY STRENGTHS

- Simplified, focused, agile company
- Market-leading positions
- Respected consumer and commercial brands
- Excellent broker relationships
- Appeal to affinity partners
- Strong customer satisfaction
- High and stable customer retention
- Technical know-how

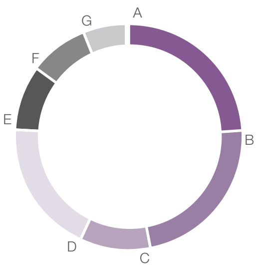
RSA GROUP

£6.5bn
Net written premiums
-3.1%

96.2%
Combined operating ratio
+2.2%

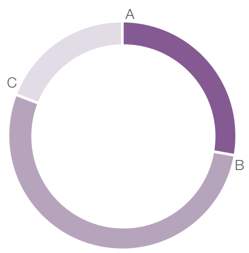
12,244
Employees
-3.1%

2018 Net written premiums by product



A. Household	24%
B. Motor	23%
C. Other Personal Lines	10%
D. Property	19%
E. Liability	9%
F. Commercial Motor	9%
G. Marine and other	6%

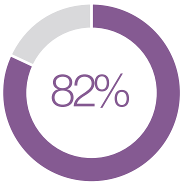
2018 Net written premiums by distribution



A. Direct	28%
B. Broker	53%
C. Agent/Affinity	19%

SCANDINAVIA

Customer retention



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

BRANDS

60% Personal: | 40% Commercial:

Personal:
TRYGG HANSA

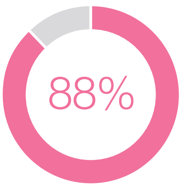
Personal and Commercial:
CODAN FORSIKRING

£1.8bn
Net written premiums
-0.9%

86.8%
Combined operating ratio ◊
+3.9%

CANADA

Customer retention



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

BRANDS

70% Personal: | 30% Commercial:

Personal:
JOHNSON
WA

Commercial:
RSA INSURANCE

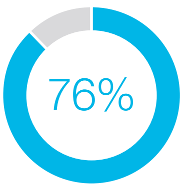
Personal and Commercial:
CNS

£1.7bn
Net written premiums
+2.0%

98.5%
Combined operating ratio ◊
+4.6%

UK & INTERNATIONAL

Customer retention



In the UK and Europe, we operate through our MORE TH>N and RSA brands and in Ireland through our 123.ie and RSA brands. 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:
العالمية AL ALAMIYA
الأهلية Al Ahlia
TOWER INSURANCE
INSURANCE CORPORATION Here, by your side.

£3.1bn
Net written premiums
-3.1%

101.4%
Combined operating ratio ◊
-1.2%

RSA's strategy is the **right one**

Despite challenges, we see good reasons for optimism for the future.

Dear shareholders,

2018 was a mixed year for RSA. Whilst we did not achieve targeted improvements in our Group underwriting result, there were some significant positives in our performance, and good reasons for optimism for the future. We have continued to show growth in our most profitable areas, set in train actions to address areas of persistent underwriting challenge, and maintained a strong balance sheet.

Importantly, RSA's strategy is the right one. The Group continues to be well-balanced across geographies, business lines and distribution channels, and focused on achieving outperformance by pursuing excellence in customer service, underwriting and cost.

The world we are in

RSA and our customers operate within a turbulent and challenging landscape. The Group is responding to a changing macroeconomic, political and competitive environment with focus and agility.

Brexit and changes in international trading norms continue to generate political and economic uncertainty. In December 2018, we completed the transfer of our European branches into a newly established Luxembourg entity, ensuring our European businesses can continue to concentrate on their core offering, mitigating risk of disruption arising from the UK's exit from the EU. We continue to plan for and mitigate other potential implications. Around 70% of RSA operates outside the UK, and is locally incorporated, reducing our exposure to depreciation in sterling, and our vulnerability to protectionist activity.

Consumer confidence faces various challenges, and data suggests that the economy is slowing somewhat in many geographies. In this context, we are focused on maximising the efficiency of our operations alongside the quality of our customer offer and experience, to maintain our competitiveness.

The growing frequency, severity and sophistication of cyber-attacks has implications for all businesses. While no business is immune, RSA has a strong framework in place to understand and mitigate the potential threats, spanning the risks associated with theft or loss of customer information as well as disruption to business operations. We continue to invest in people and technology to enhance our cyber security capabilities and protect the Group from evolving threats. For our clients, we have developed several cyber specific insurance products, which include risk assessments and data breach response planning.

Alongside new risks, the old remain: we bore our share of weather-related claims during the year, with extremes of cold and heat affecting our core markets of the UK and Canada. This had an adverse impact on our combined ratio as we helped our customers return to normal.

RSA's response

Despite challenges, now is a time of opportunity for insurers to do our job more effectively than ever. New developments in data and technology help us to get to know our customers better, serve them more quickly, price more precisely, and support efforts to manage risks more proactively.

Increasingly, RSA works with our customers to help them understand the risks they face and encourage mitigating actions – for example, through the application of telematics and connected technology, and risk consulting services that enable Commercial Lines clients to benchmark their risk profile against peers and identify opportunities for improvement. The industry also has an important role to play in supporting innovations that tackle challenges on a wider scale, exemplified by RSA's long standing leadership in insuring renewable energy projects.

Addressing these opportunities means dedicating our resources to business lines where we have the expertise and capacity to deliver sustainable value for our customers and shareholders. RSA's successes in the last five years have been underpinned by a focus on those areas where we have the strength and expertise to deliver best-in-class performance. In recognition of recent poorer than targeted underwriting results, particularly in the UK business, we took steps in the second half of 2018 to exit a number of portfolios where we no longer see this opportunity. Most significantly, we have streamlined our London Market business to focus on a smaller number of core specialisms.

A confident future

RSA is focused not only on delivering great performance, but on doing business in the right way. As a large business, employer and insurer, we recognise our influence and know that our actions matter to the communities and partners we work with.

In 2018 we developed a new Customer Policy, and established a UK Customer Committee with Board oversight, in order to promote and secure positive outcomes for our customers in their interactions with RSA.

We continue to prioritise improvements to diversity around the Group. We published our UK Gender Pay Gap figures, accompanied by a robust set of actions intended to improve the opportunities for women across our business.

I'm delighted that this focus has been reflected in our Board appointments: we have welcomed Charlotte Jones and Sonia Baxendale to RSA as Non-Executive Directors, each bringing significant financial services and accounting experience. Following Scott Egan's appointment as CEO of our UK & International division, Charlotte will take up the position of Group CFO later this year. In her new role she retains her position on the Board, now as an Executive Director, as does Scott.

"RSA is focused not only on delivering great performance, but on doing business in the right way."

Meanwhile, Joseph Streppel, Chair of RSA's Investment Committee, will retire from the Board in May. We thank Jos for his considerable contribution over the last seven years. Thanks and best wishes are also due to Steve Lewis, who led our UK & International business for the past four years, and left RSA in February.

2018 was also the final year of our Group corporate responsibility strategy, 'Making things better, together'. We undertook a wide review of RSA's responsible business activities to develop our new five-year strategy, 'Confident Futures', of which more details can be found later in this report and in our accompanying corporate responsibility report.

Moving forward

RSA is the product of our strong relationships with our customers, employees and broader stakeholder groups. I am delighted to outline the plans of the Board for ongoing engagement with all of our stakeholders as part of this report. Dialogue with employees and customers will continue to be a particular focus for the Board in 2019.

For our shareholders, we are pleased to propose a final dividend of 13.7 pence per share, making a total of 21.0 pence per share for the year. This is a 7% increase on 2017, reflecting the confidence we have in the business and its future prospects.

Thanks to our leadership and wider team

On behalf of the Board, I would like to extend thanks to our Chief Executive, Stephen Hester, and all our executive management teams for their thoughtfulness, rigour and positivity over the course of 2018. Together they have taken decisive action when required, and their continued focus on building the underlying capabilities needed to develop our business for the long-term gives me great optimism. It is a privilege to work with expert and motivated colleagues, who I am sure will secure RSA's ongoing success. I thank all employees for their hard work this year.

I would also like to thank all our shareholders for your continued support, and look forward to welcoming you to our Annual General Meeting in May.

Martin A Scicluna

Martin Scicluna
Chairman

27 February 2019

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 ambition 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.
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.

We **protect** our customers **against risk**

The resources we rely on

Financial: £4.7bn of capital is employed within RSA to support customers and generate shareholder returns.

Expertise: Our intellectual capital is found in the underwriting expertise of our people, enhanced through ongoing technical training and capability building.

Relationships and partnerships: Our relationships with brokers and partner organisations help us to distribute 53% of our business.

People: We have 12,244 employees worldwide, whose skills we value and invest in.

Technology: We use technology to digitise and automate our operations and services, so we can support our customers and remain competitive.

Data: Advancements in data and analytics help us to improve our pricing speed and accuracy, as well as the efficiency of our operations.

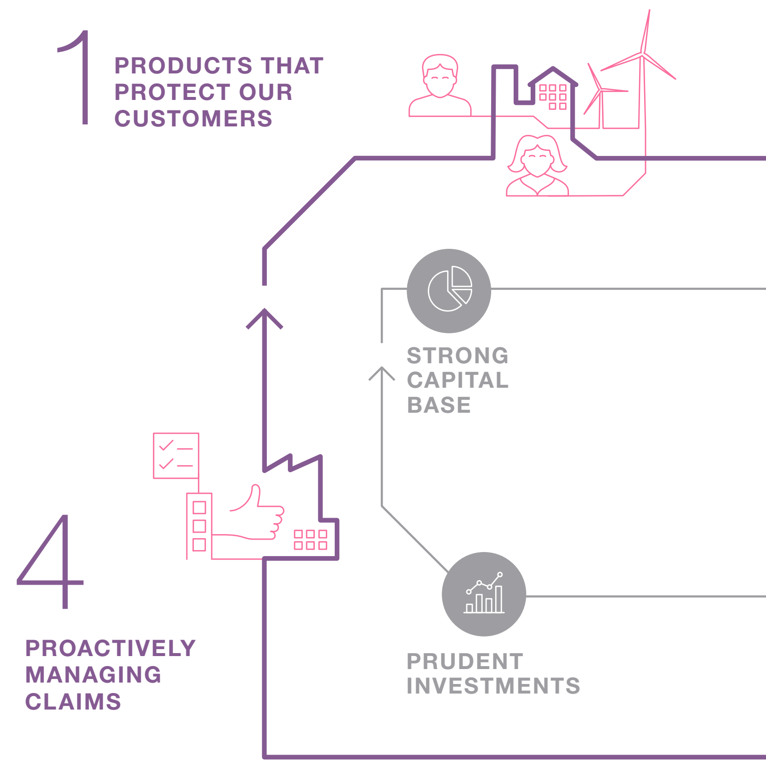
What makes RSA different

A balanced portfolio: We have complementary leadership positions in the major general insurance markets of Scandinavia, Canada and the UK, together with our international business. We are well balanced between personal and business customers, across our geographies, product lines and distribution channels. This scale and breadth help us manage the impact of volatility on the Group more effectively.

Best-in-class ambition: We have an outward looking, high performance culture, aiming to consistently invest in our people and their development. The collective drive of our workforce supports our ambition and potential to continue improving and benchmark alongside the best in our chosen markets.

Brand quality and customer franchise: With over 300 years of experience, we have developed trusted and recognisable brands in our markets, supporting our strong customer franchise.

WHAT WE DO AND HOW WE CREATE VALUE



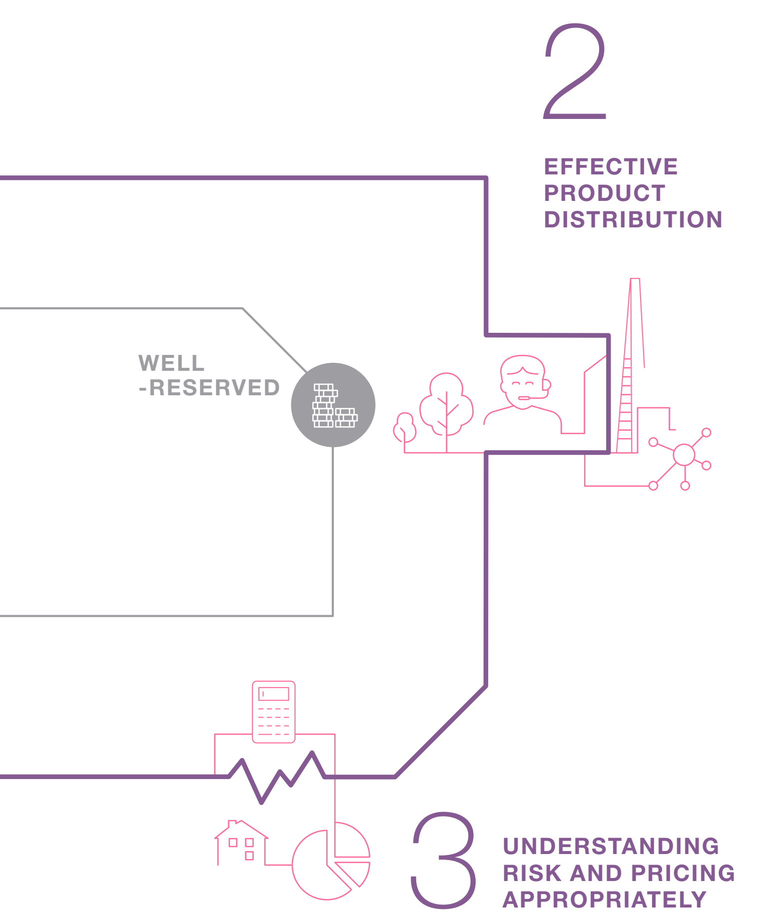
Our strategy

Our strategy is to concentrate on the regional insurance markets where we are strongest and sustain a platform of financial strength that enables our ambition. We do this through a focus on improving operational delivery and investments in our people and capabilities.

Our strategy is executed within a robust risk management (see pages 40 to 43) and governance framework (see page 55).

1 **Products that protect our customers:** Our business is built around our customers. We constantly challenge ourselves to serve them better and address their evolving needs.

2 **Efficient multi-channel distribution:** Efficient access to our chosen customers is key to continuing to develop our business. We distribute our products in two ways: directly to customers, and through brokers and affinity partnerships.



3 Understanding risk and pricing appropriately: To make sure that our prices and terms are accurate, competitive and sustainable, we are always working to better understand the risks our customers face.

4 Proactively managing claims: We are committed to settling claims quickly and smoothly. We carefully manage our indemnity spend to keep the cost of claims efficient.

To serve customers well, we need to be resilient ourselves. This means having a strong capital base and being well-reserved. Those funds are prudently invested in low-risk assets, and reserves are available to pay claims when the worst happens.

The value we create for our stakeholders

VALUE FOR OUR CUSTOMERS

We aim to be proactive and digitally enabled, providing tailored products that address evolving customer requirements and concerns.

80%

Customer retention

VALUE FOR OUR PEOPLE

Our People Principles help us build a culture of high performance, working together effectively to sustain the capabilities we require to succeed.

c.90%

Percentage of RSA employees who believe there is good collaboration and teamwork

VALUE FOR OUR COMMUNITIES

We are committed to making a positive impact on the communities in which we operate.

£1.8m

Value of community contribution[1]

8,200

Volunteer hours in our local communities

1 Payments to charities, employee fundraising, value of volunteering and gifts in kind

VALUE FOR OUR INVESTORS

We seek to deliver value to our shareholders by generating attractive sustainable returns.

£517m

Operating profit ◊

12.6%

Underlying ROTE ◊

An **open and collaborative approach** to stakeholder engagement

The Board recognises the importance of positive relationships between RSA and 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. During 2018, the Board undertook work to map the current engagement between the Board and its stakeholders and to identify opportunities to improve further. In 2018, the Board took steps to further improve its engagement with stakeholders, including more direct interaction with employees in Canada during the Board's visit in September.

In approving the 2019 stakeholder engagement plan, the Board confirmed that the key priorities for stakeholder engagement in 2019 are shareholders, customers, employees and regulators, and its commitment to continuing with the current level of direct and indirect engagement with other stakeholders. Pages 50 and 51 provide highlights of the Board's activities during the year in relation to engagement with stakeholders, together with details of how the Board's decisions are informed by the interests and views of its shareholders and other stakeholders.

SHAREHOLDERS

Our performance target of 13–17% return on tangible equity represents an attractive shareholder return both relative to cost of capital and insurance industry norms. RSA's shareholders have benefited from a strong combined operating ratio, dividend growth of 7% and an increase in share price over the past five years of 20%[1]. The business model on pages 06 and 07 provides the framework to deliver value to our shareholders.

Details of the Board's engagement with shareholders are set out on **page 56**.

"We have an extensive engagement programme with our shareholders and analysts to ensure that the Company has access to capital it requires."

Martin Scicluna
Chairman

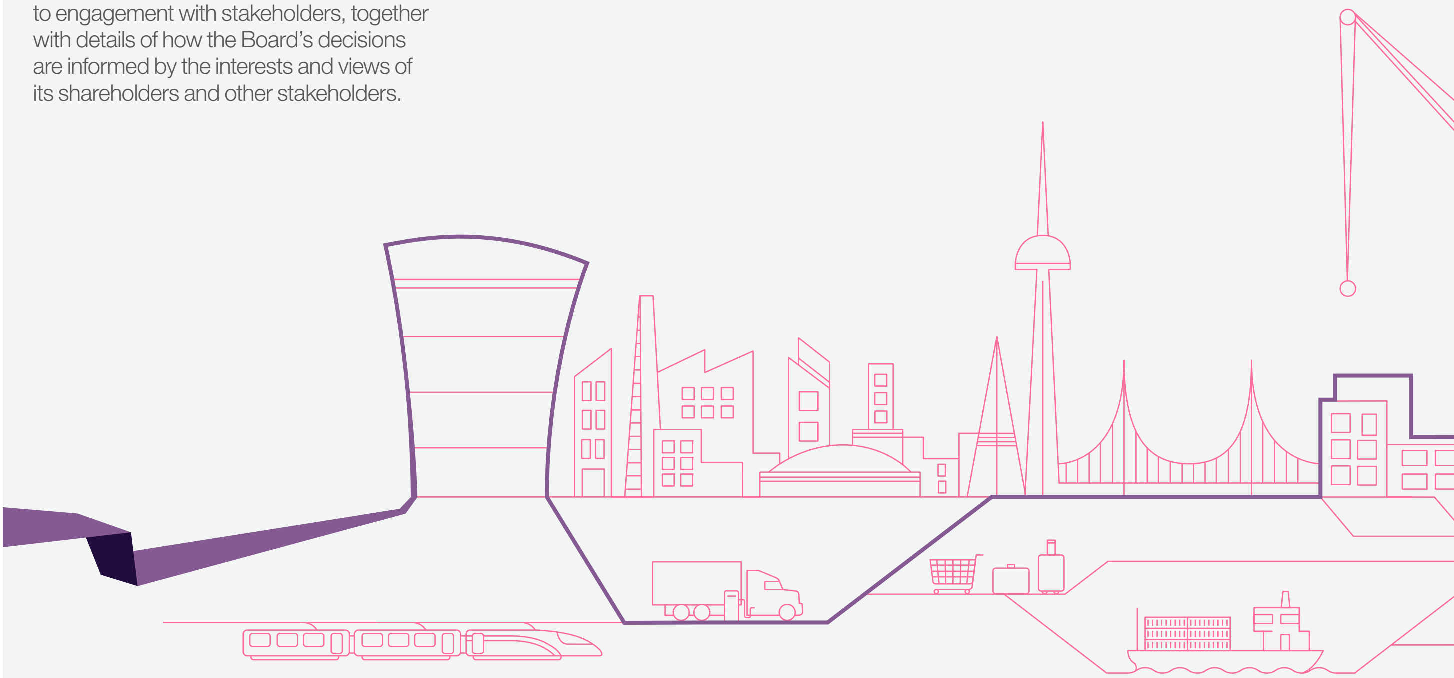
CUSTOMERS

Good business starts with our customers and we strive to keep them at the heart of what we do. 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. We aim to be proactive and digitally enabled and provide tailored products that address evolving customer demands and needs. We also created a UK Customer Committee which was established to help ensure we promote and secure positive outcomes for our customers.

For more information on engagement with customers see **page 56**.

"Getting it right for customers is at the heart of our business strategy."

Stephen Hester
Chief Executive



1 Share price movement from 25 February 2014–25 February 2019 inclusive.

EMPLOYEES

RSA is a people-centred business, with an ambition to perform at best-in-class levels. We have 12,244 employees and we aim to recruit and retain talented individuals from diverse backgrounds by offering them fulfilling careers. We aim for a culture of high performance, where working together as a team is valued and the business invests in its people. We want our culture to be inclusive, where we can all bring our very best selves to work every day. During 2018, we launched our new People Strategy architecture under the Employer brand 'Your Best U', details of which can be found on page 38. We also developed and implemented several new leadership training programmes, enhanced our approach to performance management and created our Group-wide diversity and inclusion vision.

Details of the Board's engagement with employees are set out on **page 56**.

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REGULATORS AND RATING AGENCIES

RSA is committed to working with the regulators in an open, cooperative and transparent manner. We seek to ensure a strong regulatory compliance culture throughout the Company in order to resolve regulatory issues and to avoid or minimise business impact and surprises. Senior management interacts regularly with Standard & Poor's and Moody's, two key rating agencies.

Further details of the Board's engagement with the regulators and rating agencies are set out on **page 56**.

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"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."

Isabel Hudson
Senior Independent Non-Executive Director

FURTHER STAKEHOLDER GROUPS

Environment and communities

In 2018, the Group invested £1.8m in local communities through payments to charities, employee fundraising and supporting employee volunteering. To find out more on engagement with communities and our impact on the environment see pages 35 to 37.

Suppliers

Our suppliers are critical to our business. We aim to treat suppliers fairly and consistently, for example by offering equal payment terms between suppliers.

Pensions

RSA is committed to supporting fully the pension schemes and, in 2018, approved the funding agreements for the Group's two defined benefit pension schemes.

Governance

To find out more about how the RSA Group board engages with stakeholders, you can read our Governance Report:
see pages 44 to 95

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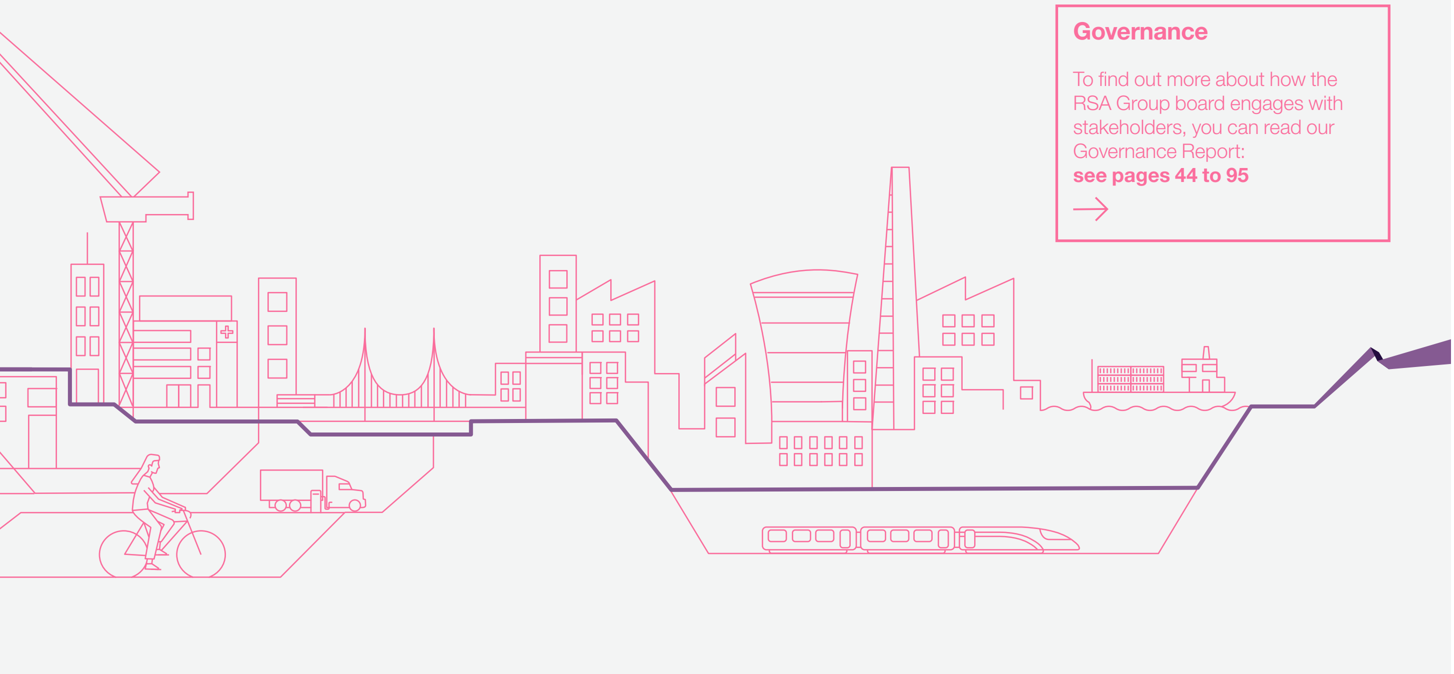
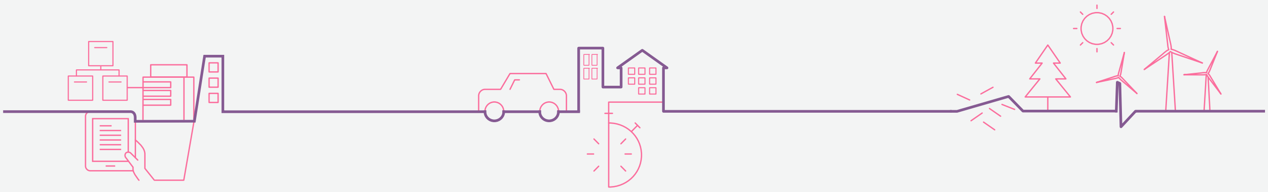


Responding to changing market dynamics and insurance themes

Well placed to support customer and industry needs now and into the future

GLOBAL MACRO TRENDS		RSA PERSPECTIVE
POLITICAL	**Protectionism is straining global relations** More protectionist policies are straining relations between countries. These rising tensions, overlaid with existing tensions in Russia, the Middle East and Asia, could impact on global growth, introduce economic or financial shocks, or fuel social unrest.	· Our balanced regional footprint enables us to be resilient to macro-political risks, and most of our business is local and locally incorporated. · Our international Commercial Lines business is only modestly exposed to trade volumes. · Our new Luxembourg hub helps insulate our UK business from the potential operational risks of Brexit.
ECONOMIC	**Growth in global economies remains good, but with some signs of slowing** The global economy continues to show good growth, projected to reach 3.5% in 2019 according to the International Monetary Fund. However, growth patterns are becoming less predictable and the tightening of financial conditions and ongoing global tensions are affecting the longer-term outlook. The US is expected to continue to grow well, while Europe, China and emerging economies are showing signs of slowing. Some central banks are tightening domestic monetary policy.	· Global insurance volumes are relatively insensitive to normal fluctuations in GDP growth. · We are focused on a small number of core, mature markets. Our businesses are diversified and low risk, and we maintain a well-matched approach to investments, which provides some resilience against negative economic developments.
SOCIAL	**Societal changes are driving changes in consumer expectations and business needs** Societal change continues apace as developments in technology and growing interconnectivity drive changes in customer behaviour. Consumers now expect a seamless digital service, with quick responses and at a time that suits them. In addition, urbanisation and an aging population have driven changes in the demographics of those seeking cover for their risks.	· RSA's core values and social purpose are to protect our customers against risk and ensure that the products and services we offer them meet their changing needs. Our telematics, cyber insurance and commercial e-trade propositions are examples of how we are adapting our offer to match customer demand. · Our business serves a mainstream customer base in personal insurance across the age spectrum. Our focus is on building our digital approach while continuing to differentiate our support for vulnerable customers. · We are also building our digital and product proposition in the commercial space to ensure that we address the changing needs of business. · Our telematics proposition provides affordable insurance for young drivers.
TECH	**Digitisation, big data and new technologies are creating opportunities and threats for incumbents** Digitisation and the growing availability and complexity of data is enabling operational improvements, shifting customer expectations, and introducing new areas for regulatory scrutiny. Developments in data analytics, artificial intelligence and automation can provide new opportunities for more sophisticated risk management and efficient customer services, but also provide challenges as the insurance industry seeks to keep up with innovations. Traditional products and business models are being challenged as new entrants focus on bespoke propositions, personalisation, ease and simplicity.	· We are continuing to invest for our customers through better customer journeys and new products or digital interfaces. · We are working to become more competitive through harnessing big data and advanced modelling capability to assess and price risk more efficiently. · We are also evolving our technical capability strategy and staff development programmes to build the skills required to address these new opportunities. · RSA takes the protection and integrity of customer data very seriously and has a strong framework in place to understand potential threats, as well as to manage and mitigate potential risks.

KEY INSURANCE THEMES AND HOW WE'RE RESPONDING



Disruptors

New entrants and disruptive technology are changing business models and the value chain:

Global Fintech investment has been high for several years. UK Personal Lines has already seen disruption with aggregators enabling consumers to seek the lowest possible price at the touch of a button.

With the level of investment in the US and Europe, the expectation is that disruptors will gain momentum in selected areas.

RSA continues to track new technologies and to innovate, particularly connected products like Sm>rt Wheels, LeakBot or PitPat.

Automation

New technologies are enabling efficiency gains through increased automation and self-service:

Automation and robotics are increasingly driving efficiency and supporting an enhanced customer experience. For example, automation can enable self-service, while robotics can be used to support customer interaction.

Automation is also affecting customer needs, e.g. vehicles we insure become autonomous or commercial customers become reliant on technology for their operations.

RSA continuously invests in technology, increasing data analytics capabilities, increasing pricing sophistication and digitising operations.

RSA is actively investing in and supporting innovation through projects like the UK GATEway Project, which explores the potential impact of autonomous vehicles on our cities.

Climate change and extreme weather

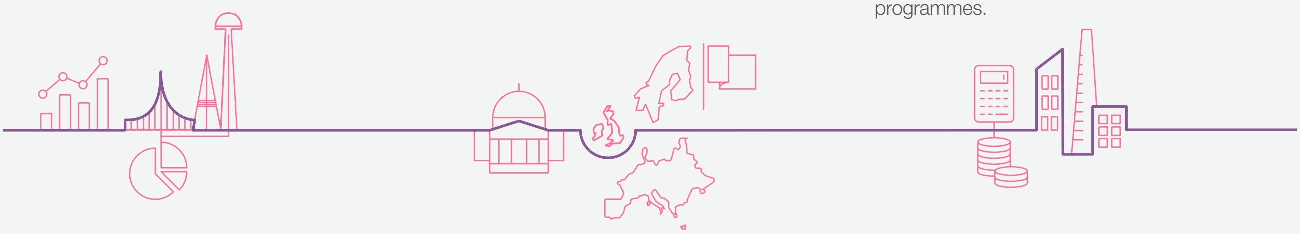
Climate change poses short-term physical risk and mid-term transition risk:

Catastrophic weather and wildfires have increased in frequency and intensity.

Significant action is needed to achieve targets set by the 2015 Paris Agreement[1], and this may incur transition risk.

RSA's reinsurance treaties ensure our exposure to weather events remains within appetite. We also promote preventative action and invest in risk pooling schemes to preserve access to insurance.

We work to reduce our own environmental impact, support our customers to respond to climate change and use our expertise to assist transition to a low-carbon economy. We are a specialist in insurance for renewable energy programmes.



Economic

Sterling has continued to remain weak and, despite some build in inflationary pressures, yields remain low:

The continuation of the low yield environment mandates a higher focus on underwriting discipline and cost management for all insurers.

Weaker sterling benefits our income statement while balance sheet and capital exposure to FX is well-matched.

Our business is alert to inflationary pressures in terms of both claims and operational costs.

We seek to reflect emerging inflation quickly in pricing or management of claims supply chain.

Post-Brexit transition

Leaving the European Union could extend economic uncertainties and introduce new challenges, especially if disorderly:

Brexit continues to generate uncertainty, with potential for economic shocks, capital impacts, claims inflation and supply chain disruption.

We have planned for a range of potential impacts on customers, compliance, strategy and structure, including those associated with a no-deal Brexit.

Sensitivities to potential macroeconomic shocks are considered in the Risk and Capital Section of Financial Report (pages 118 to 126).

Scenario analysis indicates capital measures remain inside risk appetite even in adverse outcomes.

Creation of RSA Luxembourg helps to insulate our European operations from disruption.

We are confident in our preparations and continue to monitor developments to refine our plans, although some impacts cannot be meaningfully anticipated and mitigated at this stage.

Cyber risk

The cyber insurance market is rapidly expanding as the frequency, severity and sophistication of attacks increases:

RSA takes protection and integrity of customer data very seriously. We have a strong framework in place to understand potential threats, and to manage and mitigate potential risks.

The Group has extended its suite of cyber products for business, and continues to engage with customer demand.

We have strengthened our cyber underwriting capability, including recruiting a new Group Cyber Director.

Cautious reinsurance arrangements ensure RSA has some protection against volatility and large losses, as industry experience and knowledge grows.

1 The Paris Agreement is an agreement within the United Nations Framework Convention on Climate Change (UNFCCC) to combat climate change and to accelerate and intensify the actions and investments needed for a sustainable low-carbon future.

Delivering profit growth in a challenging market

In the face of some disappointments in 2018, we have taken decisive actions to improve performance and we expect a good recovery in 2019.

In 2018, RSA delivered growth in profits and earnings per share, further dividend growth and underlying return on tangible equity of 12.6%, substantially above our cost of capital.

However, for us 2018 was a disappointing year since RSA posted the first decline in underwriting profits since 2013, driven primarily by higher weather costs and a range of loss challenges in our Commercial Lines businesses, most notably through our London Market results. While we can never be immune from external volatility, we have taken decisive action to address these losses and expect a good recovery in 2019.

Since 2013, a wide range of fundamental improvements have transformed RSA's competitive position and capabilities. These programmes, aimed towards our best-in-class strategic ambitions, continued to deliver across 2018. While there are many positive examples, the strong results from our Personal Lines businesses (57% of the Group) are a fine example – delivering for both customers and shareholders despite weather headwinds.

Strategy and focus

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

Our business strategy is to sustain a disciplined focus on RSA's existing areas of market leadership, whilst driving operating improvements in pursuit of best-in-class performance levels.

RSA's strategy remains a strong one, best suited for our markets. However, tough conditions in Specialty and Wholesale insurance markets in 2017 and 2018 have prompted a reassessment and substantial cutback of our London Market presence (4% of 2018 Group premiums) which forms part of the UK & International Commercial Lines business.

External conditions

General insurance markets are relatively mature, consolidated and stable, though with some intrinsic underwriting volatility. Attractive performance can be achieved through intense operational focus within a disciplined strategic framework.

2018 was a year with some major external underwriting challenges for the insurance industry. In common with 2017, it was an unusually poor year for both 'Nat Cat' losses and commercial large loss activity. Other weather related losses were also higher than long-term averages. Additionally, selected insurance lines continue to see claims inflation higher than CPI, motor most notably. Despite this backdrop, for many participants overall profitability is robust and hence competitive intensity remains high. Nevertheless, there are now real signs of pricing increases and capacity withdrawals in the worst performing lines which should help portfolio remediation where necessary.

Insurers are exposed to financial markets, and through them to political and macroeconomic challenges, despite core insurance activities being relatively well insulated in themselves. From RSA's perspective, 2018 was comparatively uneventful in financial market impacts; although there was an adverse FX translation effect (4% of underlying EPS) from sterling strength, and bond yields did not hold the increases initially forecast as political and trade worries impacted markets in the second half of the year. Volatility remains a risk for 2019, not least in the UK via the continuing Brexit debate. RSA earns the large majority of its profits overseas which is at least a comfort.

2018 actions

2018 was an active year at RSA with our actions falling broadly into two categories – continued operational improvement in pursuit of our best-in-class ambitions and specific underwriting actions to address the underperforming areas of our business.

Financial strength: RSA's 'A' grade credit ratings are where we want them. The Solvency II capital ratio strengthened further during 2018 (170% versus 163% in 2017). We also successfully negotiated a longer term funding settlement for our UK pension plan liabilities, designed to provide a more stable, lower risk future for the plans themselves and for RSA as sponsor.

Business improvement: our pursuit of best-in-class operating metrics and capabilities continues to drive much activity. This is grouped across three areas – customer service, underwriting and cost efficiency – and enabled by data, technology and our own human capital.

Where underlying profitability is good, we have been successful at growing our business and receiving positive customer support. Personal Lines policy counts rose in 2018 in all regions. We also were successful in winning a major bancassurance partnership in Canada with Scotiabank.

Cost efficiency remains a critical element of competitiveness. RSA's excellent progression continued in 2018 and our cost programmes reached gross annual savings of £460m, meeting our > £450m target a year early. This effort now becomes 'business as usual' but has contributed a 4 point improvement to our combined ratio since 2013.

Insurers are the original 'data scientists' – that is what actuaries do – and capability development through technology and data remains at the heart of our improvement efforts. Hand-in-hand goes the contribution of our people who are increasing productivity every year through technology and better ways of working, and in so doing raising their own skills and value-added contribution.

Underwriting actions: substantial actions were taken in 2018 and are continuing to address areas of underperformance in underwriting:

- In Personal Lines, the primary challenge was weather volatility which is hard to specifically manage. Canada was our worst affected territory. Auto Lines claims inflation also remains a market challenge. Extensive rate increases are going through in affected portfolios, together with selected broker cancellation where rate alone is unlikely to have the required result.
- In Commercial Lines more extensive action is needed. We announced portfolio exits for c.50% of our London Market business and the two remaining UK generalist MGAs. Across all our remaining Commercial Lines businesses, underwriting action and rate increases are being deployed against underperforming areas. And for 2019 we have added new reinsurance aggregate covers aiming to reduce large loss volatility in each of our regional businesses.

Financial results: at a headline level, pre-tax profits rose 7% to £480m and earnings per share rose 21%. Underlying return on tangible equity was 12.6% (versus 13-17% target range).

Nevertheless, it was a disappointing year financially with the first decline in underlying profits since 2013. Underlying EPS was 34.1p per share (2017: 43.5p), although proforma results were c.42p[1].

The fundamentals of our business are solid. Overall premiums rose 1%[2,3] on an adjusted basis (down 3% on a reported basis), driven by growth in Personal Lines.

Our Personal Lines businesses (57% of total) showed a combined ratio of 92.4% despite higher weather costs than 2017.

In Commercial Lines we had poor results – a combined ratio of 101.9%. Proforma for portfolio exits and 2019 reinsurance additions, the ratio would have been 97.6%[1], and a range of other improvements are targeted for 2019.

On a geographic basis, our Scandinavian business continues to be the most important profit contributor. A combined ratio of 86.8% was behind the 2017 record, held back by Commercial Lines large losses, but strong nevertheless. Canada fell back due to adverse weather costs and poor Commercial Lines results. A significant recovery is targeted for 2019.

As in 2017, our UK & International business recorded poor results – a combined ratio of 101.4%. Proforma for business exits, this improves to 97.4%[1] and within it were excellent Ireland and Middle East performances.

We have proposed a final dividend of 13.7p per share making 21p per share total for 2018, up 7%. This represents a 62% payout of underlying EPS and a 50% payout of proforma EPS[1] and in so doing we are aiming to smooth the impact on shareholders of underwriting volatility in the light of our belief in improved future results. Our strong capital position and in-year free capital generation support this stance. RSA's dividend policy is unchanged, targeting 40-50% 'normal' payout levels with additional possible where free capital generation so supports.

Looking forward

2018's challenges have not changed our view of RSA's attractive performance potential or any of our targeted financial metrics. We recognise the importance of demonstrating resumed progress in 2019 and believe the actions are in place to support that. No business is free of challenge, and the insurance industry will undoubtedly continue to present volatility. We nevertheless are confident that good improvement can be achieved.

Thanks

RSA benefits enormously from the support of our stakeholders every year. Customers and shareholders represent our key audience. However, the contributions of my colleagues are what makes possible all we accomplish. My sincere thanks to them for their efforts in 2018. The future for RSA is bright if we make it so.

Stephen Hester
Group Chief Executive

27 February 2019

1 Proforma for UK exits and/or reinsurance, see definition on page 185.
2 At constant FX.
3 Underlying measure, refer to page 183 for further information.

34.1p

Underlying earnings per share

-19%[1]

21.0p

Total dividend per share

+7%

"Insurers are the original 'data scientists' – and capability development through technology and data remains at the heart of our improvement efforts."

Disciplined, expert underwriting on **page 18**

→

1. RSA's strategy is to build up best-in-class capabilities. Why do you see that as the best course to follow?

Like many other industries, Personal and Commercial insurers operate in relatively mature and consolidated business lines, and without patents. The result is that undiscovered market segments are rare and leading players operate with very similar business models. Despite this, there are widely differing performance levels across competitors. The most successful are set apart by consistently superior and focused execution, rather than a differentiated strategy.

RSA is set up as a leader in three complementary geographies, with excellent business balance. This gives us the focus and platform to succeed. We aim to create and sustain high performance through consistent development of our customer appeal, underwriting skills and cost efficiency to achieve best-in-class performance in each of our markets.

2. Insurance markets present a range of challenges from natural catastrophes to high levels of competition and overcapacity in some areas. How is RSA responding to these challenges?

We exist to absorb losses on behalf of customers when needed, and so underwriting will always be the key battleground for general insurers. To be there for our customers as well as succeed for our shareholders, we need advanced skills in risk assessment and pricing, strong discipline in portfolio management and balance in our business. In addition, we can actively use reinsurance markets to further manage volatility.

But all this has its limits. We are inescapably in a capital deploying, risk absorbing business that will have some volatility.

As outlined in this report, RSA is intensively managing its portfolio to move away from business areas and individual risks that offer poor returns and expand where we can grow profitably. We are steadily advancing our underwriting and pricing skills and tools, using the best of modern data science and insights. And, reinsurance purchases have been increased to mitigate particular areas of volatility.

3. Is technology a threat or an opportunity for RSA?

The evolution of mankind is a story of growth and development through automation and greater information usage. At every stage, opportunities have outweighed threats but there have always been both losers and winners. Insurance is the original 'data science' industry and if we fail to make the most of technology and data to improve, we will fall back.

Across all our businesses we are determined to grasp technology's opportunities in our mission to perform well for customers and shareholders. It is a tool to enhance customer service and convenience, it helps us to improve underwriting and pricing speed and accuracy, and it enables us to simplify and automate business processes.

4. Where do you see growth coming from?

Our business can only do well in those areas where we combine serving customers well with attractive profitability for shareholders. Our industry is relatively mature and unlikely to grow fast. We therefore see growth not as a primary target, but as an outcome of success in delivering for our customers and shareholders.

We are growing in many parts of our business where the combination is right – for example, Personal Lines in Sweden and Denmark and our Johnson business in Canada. In other areas, such as London Market Specialty and Wholesale Lines, we are trimming back activities in the face of difficult market conditions. Here, our goal is to rebuild the shareholder result, so we have a stable platform to grow customer business once more.

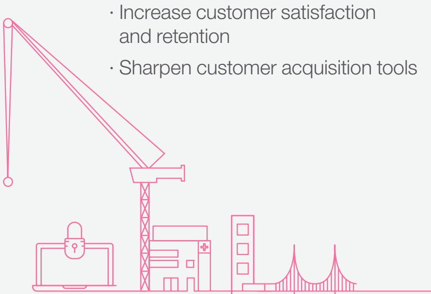
1 At constant FX.

PERFORMANCE IMPROVEMENT LEVERS

There are three levers we can pull to improve performance...

1 CUSTOMER SERVICE

- Digital platforms for convenience, flexibility and speed
- Increase customer satisfaction and retention
- Sharpen customer acquisition tools



3 COST EFFICIENCY

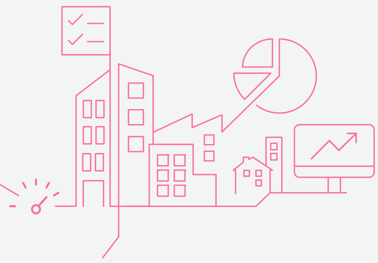
- Deploy 'lean', robotics and process redesign
- Optimise overheads and procurement
- Site consolidation and outsourcing
- Automation

2 UNDERWRITING

- Elevate underwriting disciplines
- Ongoing 'business as usual' portfolio re-underwriting
- Invest in tools and technology
- Optimise reinsurance

...and we have several critical assets which help us to create value...

- Technology
- Focused performance culture
- Strong balance sheet
- Excellent capital management



...the combination of which results in our ambition to achieve best-in-class combined operating ratio (COR) performance...

<85% **Scandinavia**

<94% **UK & International**

<94% **Canada**

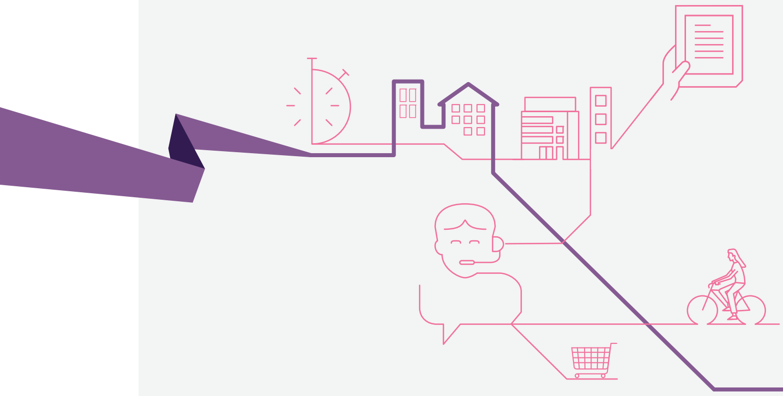
...with high-quality, repeatable earnings, and excellent returns for shareholders.

- Return on Tangible Equity **13–17% or better**
- Regular dividend payout of **40–50% of earnings**

1 2 3

Focused on our customers

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



OUR FOCUS

- Digital platforms for convenience, flexibility and speed
- Increase customer satisfaction and retention
- Sharpen customer acquisition tools
- Enhance IT capability

OUR PROGRESS

- RSA is committed to treating customers fairly. This year we established a new UK Customer Committee to further strengthen the voice of the customer in our decision-making.
- In Personal Lines, we are improving retention and sales efficiency by investing in digital: an IT-hub is being established in Malmö to build capabilities for the future with a primary objective of creating an effortless customer experience in Scandinavia; Auto Express was launched in Canada to fast track simple claims; and in the UK, we migrated c.600,000 affinity and M> customers over to Unity our new digital servicing platform. New business and migration for our major Home distribution deals will be live in 2019. Unity has supported very positive feedback, evidenced by a strong retention rate of 85% for our Nationwide customers, the first partner to migrate to the platform.
- We continue to sustain positive customer satisfaction: in Denmark, Codan has made impressive gains in 2018, improving from a CSAT[1] score of 77 to 81; our Johnson business in Canada is performing well on loyalty measures and customer satisfaction with an agent NPS[2] of +70; and in the UK, our intermediated brand Nationwide has maintained strong NPS[2] scores.

- In July 2018, we announced an exciting new distribution partnership between Johnson and Scotiabank, one of the largest banks in Canada. They cited Johnson's commitment to customers as a key factor in selecting RSA.
- In Canada, where the broker channel makes up 67% of the business, RSA PRO[3] was launched in May and is on track to drive a channel shift to 60% digital interaction by the end of 2021.
- Our UK GRS segment upgraded RSAred[4] which uses real-time data and our insight to give customers greater visibility and control over risks.

Case study

Sorting out pet prescriptions in under half an hour

It used to take over three weeks to process simple repeat prescription claims. In 2018, we introduced a process to automate them, which means that customers can now process a claim in as little as 12 minutes, from registering the claim to approval of the payment. We're now focusing on maximising adoption across all our affinity partners.

12 minutes

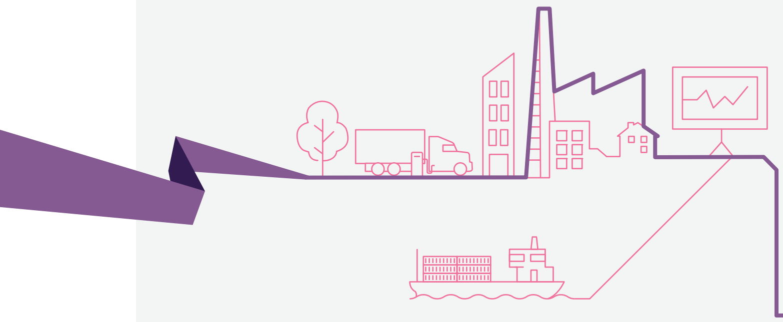
Average processing time for pet repeat prescription claims

1 Industry-wide customer satisfaction measure as at 2017 and 2018.
2 Net promoter score.
3 Web-based application that enables direct submissions and servicing by brokers for SME policies.
4 Web-based application that allows customers to manage risk engineering data in real time.

1 2 3

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.



OUR FOCUS

- Elevate underwriting disciplines
- Ongoing portfolio re-underwriting
- Invest in tools and technology
- Optimise reinsurance

OUR PROGRESS

- The 2018 underwriting result was heavily impacted by adverse weather and large losses, which were 2.6% higher in aggregate than the 5 year average[1].
- However, we are confident that we are taking the right actions. We are exiting underperforming lines of business and improving underwriting, pricing accuracy and risk management in areas where sustained profitability can be achieved.
- We are already starting to see the benefits of this disciplined approach. Attritional ratios in Danish Personal Lines have improved 1.1% in the year and the UK Household attritional loss ratio has improved 4.1% compared with 2017, following rating and claims indemnity actions.
- Our large loss triage process shows that underwriting quality was significantly improved in 2018, notwithstanding that we have more work to do to reach our targets.
- Our three-year aggregate reinsurance cover was renewed at the beginning of 2018 on competitive terms and protects us well from frequency in super-large losses.
- We seek to capture any changes in weather patterns or trends in our pricing.
- Premiums in our most profitable lines are growing, with Swedish Personal Lines up 8%[2], Johnson up 6%[2] and 123.ie Motor up 2%[2].

1 2014 to 2018 average.
2 At constant FX.

- We have successfully rolled out Radar Live to all Swedish Personal Lines and 85% in Canada Personal Lines. This enables more complex algorithms in rating and significantly increases speed to market.
- We have delivered capability enhancements to our people, with twice as many employees trained in 2018 compared with 2017. We introduced a mandatory training module relating to a key element of the underwriting process. We also developed RSA's first Group-wide technical induction programme.

Case study

Identify and Evaluate (I&E) eLearning module

The I&E phase of underwriting is where the underwriter determines the overall quality of the case based on an evaluation of the information provided. Throughout 2018, the RSA Technical Academy has significantly increased the number of training sessions delivered on I&E.

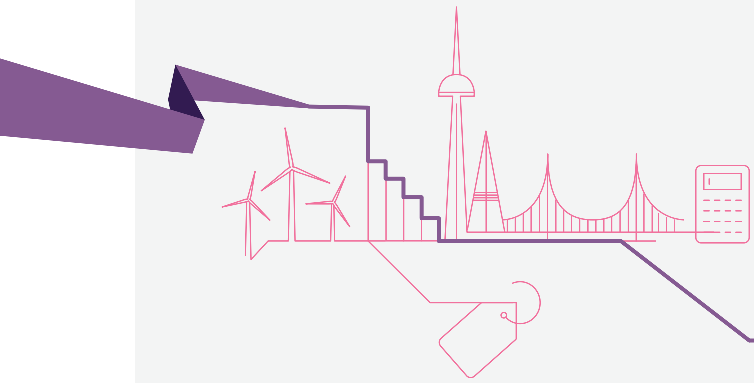
In addition, we have developed a mandatory eLearning module with real case examples to ensure we are reaching all underwriters globally. All underwriters will undertake this training on an annual basis starting in early 2019. By better understanding the nature of the risk, we can better support our customers by ensuring they have the most appropriate risk mitigation plans in place.

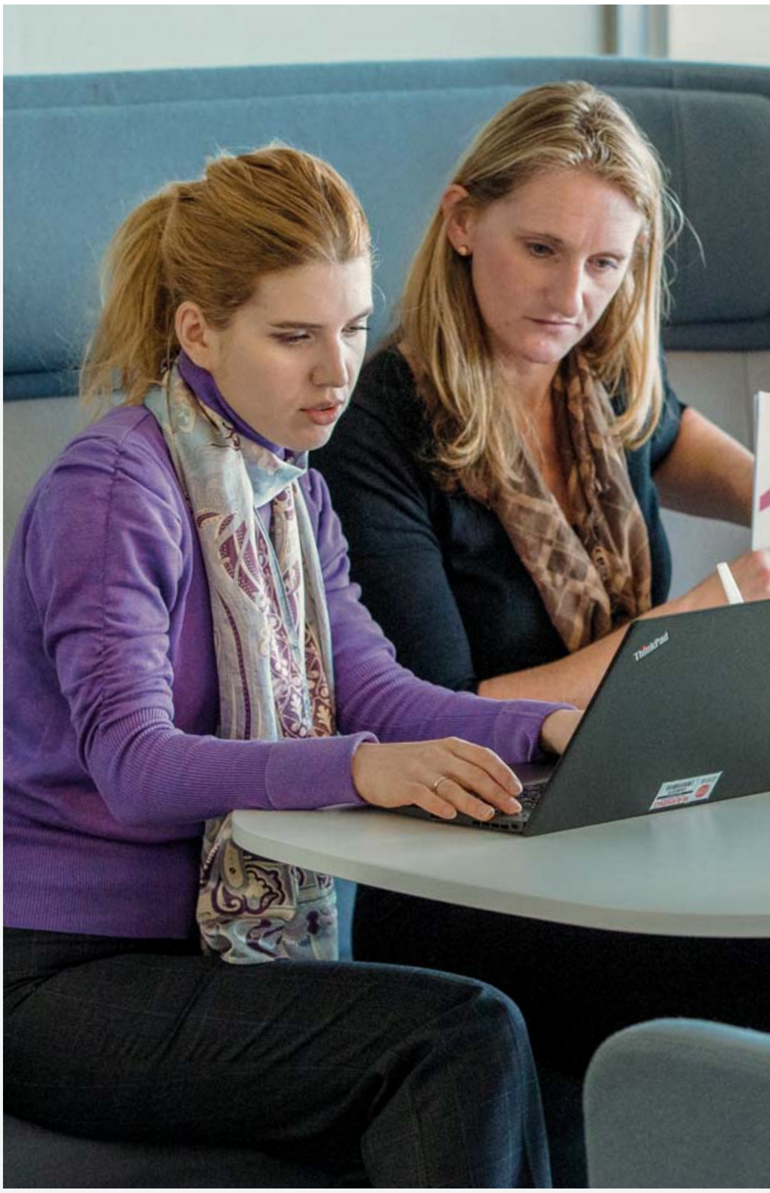
1 2014-2018 average.

1 2 3

Managing our cost base efficiently

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





OUR FOCUS

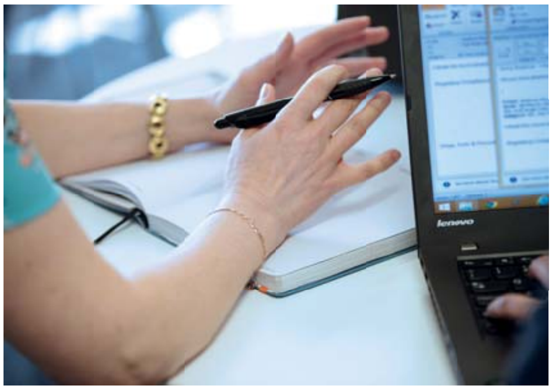
- Deploy 'lean', robotics and process redesign
- Optimise overheads and procurement
- Site consolidation and outsourcing
- Automation and IT improvements

OUR PROGRESS

- In 2018, Group written underwriting controllable costs of £1,343m were down 2%[1].
- RSA have achieved the Group target of > £450m savings a year early and will now move cost efficiency into 'business as usual' mode.
- In 2018, the Group earned underwriting controllable cost ratio of 20.4% was 0.6% lower than 2017 and has improved by over 4 points[1] since 2013.
- Scandinavia earned controllable expense ratio down 2 points versus 2017; costs still higher in Norway.
- Controllable expense ratio improved in Canada as well, despite the costs of capability investments coming through.
- UK & International controllable expense ratio up due to premium contraction after pricing actions but down c. 3 points since 2013.
- Cost mix changing: Product development and IT costs increasing in the short term, but offset by savings elsewhere in the value chain.
- Lean management showing material improvements in efficiency across the Group: now implemented in c. 95% of our Canadian operations.
- Selective outsourcing (BPO[2]): Outsourced voice calls in UK Motor and BPO projects implemented in Canada and Scandinavia for the first time.

Our people have helped us save costs by implementing more efficient business processes

- Improved digital and online self-service capabilities driving lower call volumes: use of Johnson self-service facilities increased 34% year-on-year; Claims Automation in the UK is powered by nearly 30 robots (generating an overall FTE saving of 18); and online sales in Sweden rose by 53%.
- Site consolidation programmes optimising geographical footprint: Canadian operations consolidated into two major hubs and five key branches and relocations in Europe have facilitated premises cost savings.
- Zero based budgeting (ZBB) is being implemented across regions to drive deeper understanding and stronger control of our cost base. ZBB is building a culture of ongoing cost management and continuous improvement.



Case study

Scandinavia's BPO journey

Our Scandinavian operations established a dedicated BPO management function to identify operational expenditure savings. Working towards a target run rate saving of c.£7m, the business has standardised processes to lower the cost base and engage staff in a cost-saving culture.

c.£7m

Run rate saving in Denmark

1 At constant FX Group and ex. disposals.
2 BPO: Business Process Outsourcing.

KEY PERFORMANCE INDICATORS

Measuring our progress towards best-in-class

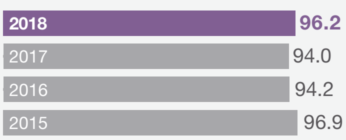
The following nine key performance indicators are important in measuring the delivery of our strategic priorities.

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 turn to pages 66 to 91.

COMBINED OPERATING RATIO ◊

96.2%

up 2.2pts



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 efficiency across the industry. The aim is to achieve a COR as sustainably low as possible – that is without uncompetitive pricing or compromising reserves.

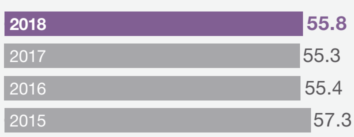
Outlook

We target improvements in the combined ratio.

GROUP ATTRITIONAL LOSS RATIO[1] ◊

55.8%

up 0.5pts



Definition

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

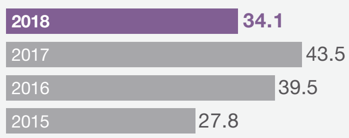
Outlook

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

UNDERLYING EARNINGS PER SHARE ◊

34.1p

down 22pts



Definition

Operating profit less interest costs, tax, non-controlling interests, preference dividends and coupon on 2017 issued restricted Tier 1 instrument, 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, such as impairment of goodwill.

Outlook

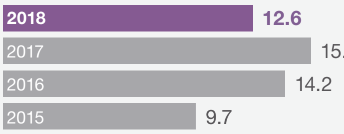
We target continued growth in underlying EPS as performance improvement actions take effect.

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

UNDERLYING RETURN ON TANGIBLE EQUITY ◊

12.6%

down 2.9pts



Definition

Operating profit attributable to ordinary shareholders less interest 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.

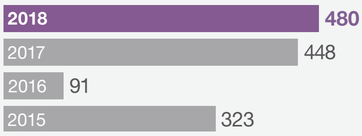
Outlook

Targeting 13–17% in the medium term.

PROFIT BEFORE TAX

£480m

up 7%



Definition

The net profit generated before taxes has been deducted.

Commentary

This is a key statutory measure of the overall earnings performance of the Group that can be retained or distributed.

Outlook

We target continued growth as performance actions take further effect.

Note:

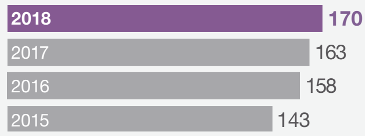
For the executive remuneration an underlying measure of profit before tax is used. See page 72 for further detail.

→

SOLVENCY II COVERAGE RATIO[2]

170%

up 7pts



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.

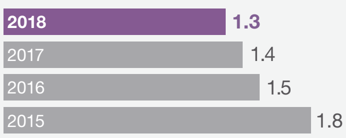
Outlook

We target a Solvency II coverage ratio in the range of 130–160%.

CONTROLLABLE EXPENSES ◊

£1.3bn

down 4%



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.

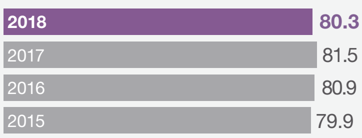
Outlook

Our cost reduction programme has now delivered total gross cost reductions of £460m since 2013, reaching our target of £450m in savings a year early, and we have moved cost efficiency into 'business as usual' mode. We target continued progress towards our ambition of an earned controllable expense ratio of less than 20%.

CUSTOMER RETENTION

80.3%

down 1.2pts



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.

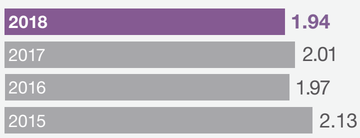
Outlook

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[3]

1.94t

down 3.5pts



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

In 2019 we will be setting a new carbon emissions target in line with our Confident Futures corporate responsibility strategy. We will continually seek opportunities to improve energy efficiency and reduce our environmental impact.

1 Group excluding disposals, at constant FX.
2 Coverage ratio under Solvency II introduced in 2015.
3 Emissions data for 2016-2017 has been restated in accordance with GHG protocol guidelines.

A **strong and resilient** balance sheet

We remain confident in our strategy and determined to deliver

RSA has seen increases in both headline profit after tax and dividends in 2018. Profit after tax is at its 3rd highest level for the past 10 years, demonstrating the progress we have made as a Group. However, our underwriting profit is down for the first year since 2013 which is disappointing given the high expectations we have set ourselves. Some of the decrease is down to the nature of insurance, as best demonstrated by weather (£76m[1] higher than 2017). There will always be some volatility, but there are also areas across our businesses where we know we can do better, particularly in the UK.

Our strategy remains unchanged and we believe in it. Our execution capability needs to continue to improve and we are determined to do this. We have already taken strong action to target improved performance levels in 2019.

2018 has also seen successes for RSA and we mustn't forget this. Overall, our Personal Lines businesses (which represent 57% of the Group) are performing well with a combined ratio of 92.4% despite 2.5% higher weather costs over 2017.

Customer satisfaction measures, such as net promoter score (NPS), and sales and service metrics are generally good, although with improvement still targeted. We continue to see a strengthening of underlying customer activity where capability improvements take effect.

Scott Egan
Group Chief Financial Officer

Scott Egan was appointed CEO of RSA's UK & International division on 5 February 2019.

For example, in Canada, our direct and affinity channel, Johnson, reported customer retention of 90%. We also announced our important new partnership with Scotiabank on 31 July and expect to start writing new business in Q2 2019. In Scandinavia, our profitable Swedish Motor portfolio reported policies in force (PIFs) growth of 4%. In the UK, Personal Lines PIFs are up 2% primarily driven by our new partnership with Nationwide.

Commercial Lines business remains challenging, particularly in the UK but also across our other regions. Market conditions continue to be tough and large losses have been elevated. This has driven some of our decision making to exit certain portfolios. These decisions have not been taken lightly but we believe they are required for us to reduce our exposure to volatility in the UK.

We have also added new reinsurance covers to try and reduce volatility of claims between £1m and £10m in each of our regions for 2019. Had these covers been in place in 2018, they would have had a net benefit of over £10m on continuing portfolios.

A year ago I reported that I expected the use of underlying measures to reduce significantly. In 2018, we have seen a significant reduction in the value of adjustments to IFRS statutory measures. Adjustments to operating profit have reduced from £215m to £37m, more closely aligning underlying to statutory measures.

In addition to our existing metrics, this year we have provided additional proforma profitability metrics to show the result for our ongoing businesses, given the significant portfolio exits undertaken in the UK Commercial Lines businesses and our reinsurance programme changes. The aim of this is to enable better assessment of potential future performance, although recognising that the full benefit of our exits will only be realised in 2020. This of course doesn't change the 2018 reported numbers.

2018 financial highlights

- **Profit after tax of £372m, up from £322m in 2017** Underlying earnings per share of 34.1 pence (2017: 43.5 pence) but c.42 pence on a proforma basis[2].
- **Underlying return on tangible equity 12.6% (2017: 15.5%)** versus 13-17% target range.
- **Underwriting profits** at £250m (2017: £394m) down 33% at constant FX. Proforma underwriting profit was £344m[2] excluding losses on exit portfolios and adjusting for reinsurance additions in 2019.
- **Net written premiums** down 1% at constant FX but up 1%[3] net of changes in reinsurance.
- **Group written controllable costs down 2% to £1,343m at constant FX**. With gross annual savings of £460m since the beginning of 2013, we have achieved the Group target of £450m savings a year early and will now move our cost efficiency efforts into 'business as usual' mode.
- **Investment income was resilient**, despite the continuing market uncertainty and low yield environment.
- **Capital levels remain strong** with a Solvency II coverage ratio of 170% (31 December 2017: 163%) and tangible equity of £2.9bn (31 December 2017: £2.8bn).
- **Triennial UK pension review concluded successfully**, stable medium-term agreement in place until the schemes are fully funded on a lower-risk basis.
- **Final dividend** of 13.7 pence per ordinary share bringing total 2018 dividends to 21 pence per ordinary share (up 7%) representing a 62% payout ratio of underlying earnings.

Premiums

Group net written premiums of £6.5bn were down 3% at reported FX, but up 1%[3] at constant FX and excluding the impact of changes in reinsurance.

Reported premiums were dampened by c.£180m due to costs for the triennial Group Volatility Cover renewal and a reduction in retention levels for certain reinsurance programmes. These were budgeted in our plans. Foreign exchange movements provided a 2% headwind to premiums.

We continue to see strong underlying customer activity where capability improvements take effect. Customer satisfaction measures, such as net promoter score (NPS) and sales and service metrics, are generally good although with improvement still targeted. Group retention was slightly lower at 80% (2017: 81%). In Personal Lines, Canada was up, Scandinavia was flat and UK & International was down as a result of underwriting and rating action.

Scandinavian premiums were down 1% at reported FX but up 2% at constant FX. Attractive growth in Sweden was partly offset by contraction in Norway. Personal Lines policies-in-force (PIFs) were up 1%, while Commercial Lines volumes (excluding rate) were down 8%.

Canadian premiums were up 2% at reported FX and 6% at constant FX. The region continued the positive growth trends seen in 2017, with Personal Lines PIFs up 1% and Commercial Lines volumes up 1% (excluding rate). Retention is particularly strong with both Johnson, our direct and affinity channel, and Personal broker improving over the last year to 90% and 89% respectively.

UK & International premiums were down 3% at reported FX and down 1% at constant FX and excluding reinsurance changes. Personal Lines PIFs were up 2%, and Commercial Lines volumes (excluding rate) were down 8%. Our partnership with Nationwide in the UK is doing well; retention was 85% in 2018 and NPS scores remained strong. However, overall premiums were down as we re-priced and re-underwrote certain portfolios, exited two domestic schemes and commenced the portfolio exits and changes in underwriting appetite which we announced for our Specialty and Wholesale London Market business. Net written premiums in Ireland were up 2% at constant FX, while premiums in the Middle East were down 1%.

Underwriting result

The Group underwriting profit was £250m (2017: £394m) with a combined ratio of 96.2% (2017: 94.0%).

Current year underwriting profit was £85m (2017: £237m). The Group attritional loss ratio of 55.8% was 0.5 points higher than 2017. However, this reduces to 0.2 points[4] higher when adjusted for the impact of changes in 2018 reinsurance. There were increases in Scandinavia (0.7 points), improvement in Personal Lines more than offset by deterioration in Commercial Lines and Canada (1.3 points) due to higher mid-sized losses in Household and claims inflation in Commercial Auto. The UK & International loss ratio reduced by 0.8 points[4] in 2018, when adjusted for changes in reinsurance, and includes a 4.1 point improvement in Household reflecting our actions to address the 'escape of water' issues in H2 2017. Any claims inflation experienced in 2019 as a result of 'no deal' Brexit due to exchange rate volatility or supply chain difficulties will be monitored closely, with pricing action taken where appropriate.

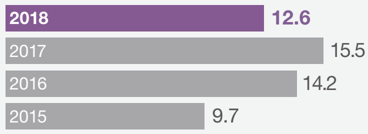
Weather, large losses and prior year development

Group weather costs were £242m or 3.7% of net earned premiums (2017: 2.6%; five-year average[5]: 3.1%) with Canada most affected with a weather ratio of 6.8%. Insured damage for severe weather events across Canada in 2019 reached $1.9bn[6] for the industry, the fourth-highest loss year on record. UK and Ireland experienced a series of severe winter storms, with Storm Emma costing an estimated £50m. Finally, the UK experienced an increase in subsidence claims as a result of the hot and dry summer weather.

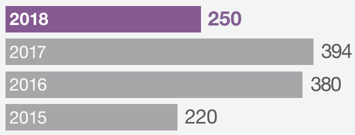
Large losses were £758m or 11.6% of net earned premiums (2017: 10.8%; five-year average[5]: 9.6%). Losses increased by 3.2 points in Scandinavia in 2018, mainly driven by the Interconnector segment (now exited) and a Commercial Property fire loss in Denmark. Large losses were 1.7 points higher in Canada, with Property classes seeing an increase in the second half of the year. The UK & International ratio was down 1.3 points, although disappointingly it remained elevated versus our plans and the five year average. This reflected large loss volatility, mainly in Specialty and Wholesale, in addition to the need to improve underwriting in certain areas.

Group prior year profit of £165m provided a 2.6 point benefit (2017: 2.8 points) to the combined ratio, and included positive development from each region.

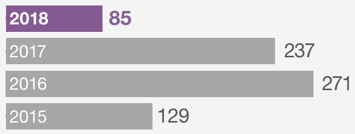
UNDERLYING RETURN ON TANGIBLE EQUITY ◊ %



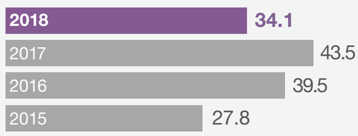
GROUP UNDERWRITING RESULT ◊ £M



CURRENT YEAR UNDERWRITING RESULT ◊ £M



UNDERLYING EARNINGS PER SHARE ◊ p



Find out more about the changes we have made to our UK business on pages **32** to **34**

1 At constant FX.
2 Proforma for UK exits and/or reinsurance, see definition on pages 185 to 186.
3 Underlying measure, please refer to page 183 for further information.
4 Underlying measure, please refer to pages 177 to 186.
5 2014 to 2018.
6 Source: Catastrophe Indices and Quantification Inc.

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 5% of best estimate claims reserves.

On a proforma basis the combined ratio for the UK & International was 97.4%[1], Canada was 96.7%[1] and the Group was 94.6%[1].

Underwriting expenses and commissions

The Group underwriting expense ratio of 14.1% was 0.3 points better than 2017 at constant FX. Scandinavia improved by 0.9 points and Canada improved by 1.3 points. The expense ratio in UK & International increased by 0.5 points, mainly due to a contraction in premiums. The Group commission ratio of 13.6% decreased slightly (0.3% at constant FX), mainly due to a lower proportion of Commercial Lines in the business mix.

Controllable costs

Group written controllable costs were down 2% at constant FX to £1,343m. This comprised 4% cost reductions, offset by 2% inflation.

Scandinavia delivered year-on-year 'real' cost reductions of 10%, with 2% in Canada and 3% in UK & International.

Group FTE[2] is down 26% (excluding disposals) since the start of 2014 to 12,244 at 31 December 2018. FTE decreased by 3% during the course of 2018.

Our cost reduction programme has now delivered total gross annualised cost reductions of £460m since 2013, reaching our target of £450m in savings a year early, and we have moved cost efficiency into 'business as usual' mode.

Investment result

The investment result was £275m (2017: £284m) with investment income of £322m (2017: £331m), investment expenses of £14m (2017: £13m) and the liability discount unwind of £33m (2017: £34m).

Investment income was down 3% 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 2.5% (2017: 2.5%). At current market forward rates, we expect investment income of c.£285-300m in 2019.

Non-operating items

Interest costs were £25m (£39m including the Tier 1 issuance), down from £43m in 2017. The reduction reflects the debt restructuring actions taken in 2016 and 2017. From 2019, changes to lease accounting (IFRS 16), mainly on properties, will add c.£7m to this line. Coupon costs of £14m (2017: £11m) 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 non-operating charges were £12m (2017: £172m). Net gains of £47m in 2017 included a £66m gain relating to the UK Legacy disposal (mainly mark-to-market of the assets transferred to the buyer) and a £22m charge relating to the commutation of the Group's adverse development reinsurance cover. 2017 also included a charge of £59m relating to the premium paid on the retirement of c.£600m in high coupon debt.

No non-operating reorganisation costs were incurred during the year (2017: £155m).

A goodwill impairment charge of £7m relating to the Group's investment in Norway was recognised in 2018. The goodwill write-back of £17m in 2017 reflected the re-measurement of the fair value of the Oman business following its IPO process.

1 Stated on a proforma basis. See pages 185 and 186 for further details.

2 Full-time equivalent employees.

SEGMENTAL INCOME STATEMENT – MANAGEMENT BASIS

	Scandinavia £m	Canada £m	UK & International £m	Central functions £m	**Group 2018 £m**	Group 2017 £m
Net written premiums	**1,817**	**1,652**	**3,100**	**(99)**	**6,470**	**6,678**
Net earned premiums	1,807	1,607	3,129	(6)	**6,537**	6,605
Underwriting result[1] ◊	**238**	**25**	**(43)**	**30**	**250**	394
Investment result ◊	**68**	**59**	**148**	**–**	**275**	**284**
Central expenses	–	–	–	(8)	**(8)**	(15)
Operating result ◊	**306**	**84**	**105**	**22**	**517**	**663**
Interest					**(25)**	(43)
Other non-operating charges					**(12)**	(172)
Profit before tax					**480**	**448**
Tax					**(108)**	(126)
Profit after tax					**372**	**322**
Non-controlling interest					**(23)**	(33)
Other equity costs[2]					**(23)**	(20)
Net attributable profit					**326**	269
Underlying profit before tax ◊					**492**	620
Combined ratio (%)[1] ◊	**86.8**	**98.5**	**101.4**	**–**	**96.2**	**94.0**
Tangible net asset value (£m) ◊					**2,867**	2,765
Underlying earnings per share (p) ◊					**34.1**	43.5
Underlying return on tangible equity (%) ◊					**12.6**	15.5

1 Underwriting result for Canada & UK & International stated on a proforma basis is £53m and £77m respectively (combined ratio 96.7% and 97.4%). See pages 185 and 186 for further details.

2 Preference dividends of £9m (2017: £9m) and coupons on Tier 1 securities of £14m (2017: £11m).

SOLVENCY II COVERAGE RATIO WALK

	%
At 1 January 2018	**163**
Underlying capital generation[1]	22
Net capital investment after amortisation	(3)
Pull-to-par on unrealised bond gains	(5)
2018 dividends	(12)
Market movements including IAS 19 and other	5
At 31 December 2018	**170%**

Tax

The Group reported a tax charge of £108m for 2018, giving an effective tax rate (ETR) of 23% (2017: 28%). The tax charge largely comprises tax payable on overseas profits. The Group underlying tax rate for 2018 was 20% (2017: 22%).

The carrying value of the Group's deferred tax asset at 31 December 2018 was £234m (2017: £276m), of which £189m (2017: £217m) was in the UK. The decrease in 2018 is mainly due to a reduction in the IAS 19 deficit on a UK pension fund. At current tax rates, a further c.£261m (2017: £229m) of deferred tax assets remain available for use but not recognised on balance sheet; these are predominantly in the UK and Ireland.

In 2019, we continue to expect the Group's ETR and underlying tax rate to trend towards 20% given the scale of the unrecognised UK tax assets.

Tax strategy and contribution

Our tax strategy supports our Group objective to be a responsible business with a positive impact on society. We pay and collect tax in the markets where we operate and comply with all statutory obligations. We understand the importance of transparency and seek to have an open relationship with the tax authorities.

The taxes borne by the Group in 2018 were a total of £355m from our four largest territories (UK £88m, Ireland £9m, Scandinavia £147m and Canada £111m). Taxes collected by the same territories were an additional £607m.

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

Balance sheet and capital

RSA's balance sheet is strong and our capital has demonstrated its resilience to market volatility. Tangible net assets increased by 4% to £2.9bn at 31 December 2018.

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 surplus[2] increased to £1.2bn (2017: £1.1bn) with the coverage ratio of 170%, up 7 points.

The key drivers of the increase in the year included underlying capital generation which added 22 points of coverage. Market movements, including IAS 19 and other, added 5 points. Pull-to-par on unrealised bond gains accounted for a 5 point reduction and net capital investment after amortisation accounted for a 3 point reduction. The 2017 interim and final dividends reduced the coverage ratio by 12 points.

We have considered the impact of a no-deal Brexit scenario on the Group capital position based on externally published views of possible market movements and key risks to RSA and are comfortable that capital measures remain inside risk appetite even in adverse outcomes. This reflects our high quality asset portfolio, well matched interest rate position and significant overseas assets. Given our UK pension schemes, we are, however, exposed to any tightening of long dated corporate bond yields on an accounting basis. As such we remain alert to the potential secondary risks such as the impact of downgrades or an increase in quantitative easing by the Bank of England.

Pensions The IAS 19 pension valuation generated a gain of £161m and this was primarily as a result of an increase in 'AA' corporate bond spreads.

We are also pleased to have reached agreement with the Trustees of RSA's main UK pension schemes on the results of the latest triennial valuations. The two schemes had an aggregate funding deficit at 31 March 2018 of £468m, equivalent to 95% funding adequacy (2015: 95%).

Core deficit contributions are to remain at £65m per annum, with the potential for additional contributions of £10m per annum, to be paid, dependent on Group capital levels. The Group has made a further one-off payment of c.£65m, reducing the aggregate funding deficit to c.£400m all things remaining equal. The majority of this was paid in 2018. In addition, the Group has further committed to pay contributions at this level until the schemes are fully funded on a lower-risk basis; something we will work with the Trustees' on over time.

These commitments provide the pension scheme with greater security, while reducing the level of pension risk for the Group.

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 13.7 pence per ordinary share (2017: 13.0 pence). Together with the interim dividend of 7.3 pence, this brings the total dividend for the year to 21 pence (up 7%), representing a 62% payout of underlying EPS. Our medium-term policy of ordinary dividend payouts of between 40–50% of earnings remains, with additional distributions where justified.

Summary

The challenges encountered have not changed our view of RSA's performance potential or financial targets. 2018 has seen growth in headline profit and attractive return on shareholder capital despite disappointing underlying results. We have been decisive and taken action where appropriate, and target substantially improved results in 2019 and beyond.

Scott Egan
Group Chief Financial Officer

27 February 2019

1 Capital generation represents profit after tax attributable to ordinary shareholders, adjusted for changes in intangible assets, deferred acquisition costs and other non-capital items.

2 The Solvency II capital position at 31 December 2018 is estimated.

Focus on

SCANDINAVIA

Patrick Bergander
CEO, Scandinavia

PERFORMANCE

86.8%
Combined ratio
+3.9%

£1.8bn
Net written premiums
-0.9%

"A strong year in Scandinavia – our trusted brands have continued to thrive, as we invest in areas where we see growth."

BRANDS

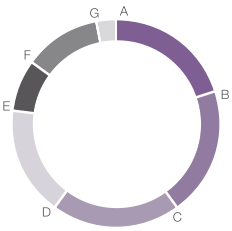
Personal:

TRYGG HANSA

Personal and Commercial:

CODAN FORSIKRING

TYPE OF BUSINESS



A. Household	20%
B. Motor	20%
C. PA and other	20%
D. Comm. Property	17%
E. Liability	8%
F. Comm. Motor	12%
G. Marine and other	3%

FINANCIAL SUMMARY

	2018 net written premiums		Underwriting result		COR
	£m	% change[1]	2018 (£m)	2017 (£m)	2018 (%)
Personal	1,081	6	222	240	78.9
Commercial	736	(4)	16	75	97.9
Total	1,817	2	238	315	86.8

Our operations in Scandinavia

RSA is the only international insurer operating within the top five in Scandinavia. In Sweden, we operate as Trygg-Hansa, and in Denmark and Norway as Codan.

Our business is split into approximately 60% Personal and 40% Commercial Lines. We distribute mainly direct to customers, but also leverage strong agency relationships.

Scandinavian market context and risk profile

Overall, the Scandinavian economy is strong, despite individual challenges within each of the countries we operate in. In Sweden, there was robust GDP growth of 2.5% during 2018, while Denmark and Norway grew at lower but stable levels.

Against this backdrop, insurance markets remained resilient, with incumbents maintaining a competitive position against market challengers despite increased competition in Commercial Lines.

Customer demand for online access to insurance has increased, prompting widespread digitisation. The popularity of tech-enabled cars and electric vehicles in Scandinavia puts upward pressure on claims costs, though we expect this to be offset by reducing frequency of claims.

Financial performance

Scandinavia delivered operating profit of £306m, down 19%[1]. The combined ratio of 86.8% was 3.9 points higher than last year and just above our <85% best-in-class ambition. Personal Lines continued to deliver excellent performance with a combined ratio of 78.9% (2017: 77.0%), however, Commercial Lines increased by 7.3 points to a combined ratio of 97.9%. The Interconnector segment of 'Tech Lines' contributed 4.7 points to the Commercial Lines combined ratio and is being exited, while a property fire in Denmark added 1.6 points.

Regional net written premiums of £1,817m were down 1% at reported FX and up 2% at constant FX, with Personal Lines premiums up 6%[1]. Swedish Personal Lines grew by 8%[1] and policies-in-force ('PIFs') were 2% higher year-on-year. Commercial Lines premiums were down 4%[1] with volumes down 8%. A non-recurring 2017 risk, together with a 2017 large scheme exit, accounted for 3%[1] of the reduction in Commercial Lines premiums (both in Norway).

The current year attritional loss ratio of 63.3% was 0.7 points worse than 2017. While Sweden was in line with 2017, Danish Commercial Property increased. Norway was impacted by higher weather-related frequency, Motor claims inflation, mid-sized Commercial Property losses and underperforming schemes currently in remediation. Large losses were elevated at 8.9% compared to the five year average of 6.1% (2017: 5.7%). This was dominated by the (exited) Interconnector segment and by a Commercial Property fire in Denmark.

Written controllable expenses were down 8% year-on-year[1], with 10% cost reductions absorbing 2% inflation. The earned controllable cost ratio of 21.1% improved by 2 points.

Sweden generated an underwriting profit of £251m (2017: £245m[1]) and a combined ratio of 75.7% (2017: 75.3%). The movement was mainly driven by the weather loss ratio which was 0.6 points higher than last year. Denmark produced a combined ratio of 99.0% (2017: 90.3%[1]). The Commercial Lines ratio deteriorated by 15.6 points due to elevated large losses, and, to a lesser extent a lower prior year result. Norway recorded an underwriting loss of £19m (2017: £4m[1] loss) reflecting a deterioration in attritional claims, higher large losses and higher operating costs.

Responding to customer needs

Our brands in Scandinavia are well-known and trusted, providing a strong trading basis on which to expand our business across the region. However, customers' demands are changing as they seek to interact with us online. Recognising the need to adapt, we are upgrading our digital capabilities and increasingly allowing customers to buy and manage policies online and via mobile. In late 2018, we established an IT-hub in Malmö, Sweden, to increase our technical capabilities and accelerate our digital transition.

As a result of this strategy, we have seen a substantial growth in digital sales in Sweden. Trygg-Hansa customers are now able to self-serve online, with customer visits to the online portal increasing 53% year-on-year. More customers than ever now rate their engagement with us as 'effortless', recording a better than the industry score (72% vs 69% overall benchmark). We gather daily customer feedback to guide us on where we can make further improvements.

We have also used digital tools to target sustainable customer base growth in Sweden, rolling out live pricing tool Radar Live for our Personal Lines customers. By enabling us to assess and segment risks in a more sophisticated way, the tool has helped us offer more competitive prices and reduced the time it takes us to provide quotes.

STRATEGY AND OUTLOOK

Our strategy

Since 2014, our focus on improving profitability and reducing costs has resulted in a stronger, more stable Scandinavian business, despite a disappointing Commercial Lines performance in 2018.

Moving forward, we will focus investment for growth in our most profitable segments and portfolios, targeting improvements in four key areas: customer experience; excellence in underwriting and claims; continued cost efficiency; and innovation and agility.

Outlook

Our 2018 result is just outside the target combined ratio of <85% but we see scope for further improvements as we build the appeal of our brand, customer service levels, operational excellence and underwriting skills. We expect our Scandinavian operations to achieve medium-term growth in line with local economies.

Sales go digital
Online became the largest sales channel during 2018 for Swedish Personal Lines.

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

1 At constant FX.

Focus on
CANADA

Martin Thompson
President and
CEO, RSA Canada

PERFORMANCE

98.5%
Combined ratio ◊
+4.6%

£1.7bn
Net written premiums
+2.0%

"A year dominated by adverse weather, but solid foundations provide optimism for the future."

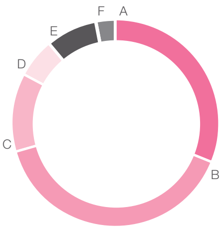
BRANDS

Personal:
JOHNSON, WA

Commercial:
RSA INSURANCE

Personal and Commercial:
CNS

TYPE OF BUSINESS



A. Household	31%
B. Motor	39%
C. Comm. Property	13%
D. Liability	6%
E. Comm. Motor	8%
F. Marine and other	3%

FINANCIAL SUMMARY

	2018 net written premiums		Underwriting result ◊		COR ◊
	£m	% change[1]	2018 (£m)	2017 (£m)	2018 (%)
Personal	1,153	6	29	75	97.4
Commercial	499	3	(4)	23	100.9
Total	1,652	6	25	98	98.5

Our operations in Canada

RSA is the sixth largest general insurer in Canada. We operate across all provinces, with a broad offering of products and channels to both Personal and Commercial customers. Our portfolio is balanced at around 70% Personal and 30% Commercial Lines. Our Johnson brand is market leading, with an agent NPS[2] of +70.

Our multi-channel distribution model means we are in a good position to take advantage of shifting consumer behaviour. Today, affinity partnerships and direct channels deliver the majority of our Personal Lines premiums, though broker distribution remains an important channel here as well as in Commercial Lines.

Canada market context and risk profile

The Canadian market remains competitive, with modest economic growth. Despite online and digital entrants driving pricing pressures, rate is hardening in both Personal and Commercial Lines as claims costs increase.

Regulation in Canada differs by region: in a number of our larger provinces, auto insurance pricing is tightly regulated, creating a more challenging and less dynamic pricing environment for all insurers.

Weather events have increased in severity and frequency. Property damage from severe weather has been the leading cause of insurance claims in 2018. Auto Lines have seen rising repair costs impact on profitability.

Financial performance

In 2018, our Canadian business delivered operating profit of £84m, down from £153m[1] in 2017. The combined ratio of 98.5% was 4.6 points higher than last year. Adverse weather was the dominant feature, while large losses also increased. The combined ratio improves to 96.7%[3] proforma for net GVC recoveries and for new 2019 reinsurance additions.

The weather loss ratio increased by 3.1 points to 6.8%, compared to a five year average of 4.7%. Insured damage for severe weather events in 2018 reached $1.9bn[4] for the industry, the fourth-highest loss year on record. The large loss ratio was 9.4% for 2018, compared to a five year average of 6.4%; losses increased in H2 mainly in the Property classes. The attritional loss ratio of 58.1% increased by 1.3 points.

Net written premiums of £1,652m were up 6% at constant FX (2017: £1,565m[1]). In Personal Lines, policy counts were up 1% and Johnson, our direct and affinity business, continued to grow organically (up 4%). Volumes also increased by 1% in Commercial Lines.

Retention remained strong, with both Johnson and Personal broker improving over last year to 90% and 89% respectively. We held our pricing discipline in both Auto and Household, achieving rate above our plans and last year.

Written controllable expenses were down 2%[1] excluding inflation.

Underwriting discipline

In our ongoing efforts to balance and respond to weather impacts, we are advancing a tighter pricing strategy and implementing more sophisticated predictive models.

In 2018, we made good progress in the implementation of our Radar Live tool, which enables the use of more complex algorithms in rating and significantly increases speed to market with new prices. More than 85% of our Personal Lines business now uses this tool.

Strong partnerships

Our Personal insurance brand Johnson is a market leader in the affinity space and a brand refresh completed in 2018 will help us to cut through to stand out and elevate our positioning. Johnson secured a national white-label partnership to underwrite Home risks with InsureLineBrokers, a partner to Dominion Lending Centres and one of Canada's largest mortgage broker networks.

We also secured an important partnership with Scotiabank, one of Canada's leading retail financial services providers, making Johnson the exclusive service provider for their Home and Auto insurance products from April 2019.

A customer first approach

We continued to invest in customer experience to secure long-term customer loyalty. For our Personal Lines customers we have continued to offer support at their times of greatest need: in May we rallied to provide additional call and online support for customers affected by windstorms in Ontario that saw us handle 40,000 calls, a quarter of which were out of hours.

For brokers, we have worked to simplify our claims process and this year we piloted a new claims management tool, Claims Point, using our Guidewire software, which reduces wait times and provides customers with immediate access to claims details without having to wait in a phone queue.

Digital innovation

We have also expanded our digital capabilities to maintain our high retention levels. Chat volumes increased 107% (85K) with high FCR[5] and NPS (+52 NPS for WebChat in 2018).

For brokers, we have had positive feedback on our digital tool, RSAPro, which enables brokers to service their clients remotely and provides on-the-spot communication with RSA underwriters. This has driven improvements to underwriting as well as cost efficiencies, and Commercial Lines customers score their interaction with RSA highly at 74%.

STRATEGY AND OUTLOOK

Our strategy

Our business in Canada is well balanced by province, customer, channel and product. However, we face challenges such as continued weather volatility, rising claims costs and the burden of operating in an increasingly regulated environment. It is also clear that, while we have made great strides in cost and underwriting discipline, there is more to be done.

In order to maintain momentum on positive premium and underwriting trends, we will concentrate on three key areas: we will look to expand our successful affinity partnerships through Johnson, we will focus on our pricing, underwriting and analytics, and we will continue to enhance our digital capabilities, improving efficiency and customer experience.

Outlook

Our investment in our relationships with brokers, customers and employees will continue to be the foundation of our success. We continue to target a best-in-class combined ratio, underpinned by steady growth and continued cost effectiveness over the next three-year period.

1 At constant FX.
2 Net promoter score, Q4 2018.
3 Stated on a proforma basis. Please refer to pages 185 and 186 for further details.
4 Source: Catastrophe Indices and Quantification Inc.
5 First Contact Resolution.

Focus on

UK & INTERNATIONAL

Scott Egan
CEO, UK & International

Scott Egan was appointed CEO of RSA's UK & International division on 5 February 2019.

PERFORMANCE

101.4%
Combined ratio ◊
-1.2%

£3.1bn
Net written premiums
-3.1%

"Despite a challenging year for UK&I, we have refocused on lines of business where we can grow and thrive."

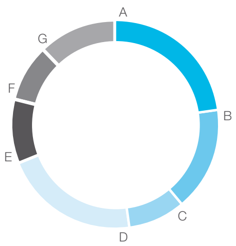
BRANDS

Personal:
MORE TH>N® 123.ie

Commercial:
RSA INSURANCE

Personal and Commercial:
TOWER INSURANCE
INSURANCE CORPORATION Here, by your side.
العالمية AL ALAMIYA
الأهلية Al Ahlia

TYPE OF BUSINESS



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

FINANCIAL SUMMARY

	2018 net written premiums		Underwriting result ◊		COR ◊
	£m	% change[1]	2018 (£m)	2017 (£m)	2018 (%)
Personal	1,167	2	(23)	10	102.0
Commercial	1,422	(8)	(83)	(126)	105.7
Total UK	2,589	(4)	(106)	(116)	104.0
Ireland	312	2	30	9	90.2
Middle East	199	(1)	33	25	83.4
Total UK&I	3,100	(3)	(43)	(82)	101.4

Our operations in UK & International

RSA's UK & International division spans Personal and Commercial Lines, with Personal Lines accounting for just under half of annual premium in 2018.

In the UK, our Commercial Lines business is split between our Commercial Risk Solutions business (CRS), which supports UK-based businesses and schemes, and Global Risk Solutions (GRS), which caters for large and multinational customers and risks written through the London Market and European branches.

In late 2018, we refocused our GRS portfolio to concentrate on a core set of Specialty Lines, exiting business experiencing persistent volatility and poor profitability. We also established an office in Luxembourg as the headquarters for our European branches, enabling us to minimise disruption to our EU-based customers as a result of Brexit.

In Personal Lines, we are best known to customers through our direct insurance brand, MORE TH>N, which has strength in Pet and Household insurance, and is a leading insurer of young drivers through our telematics product, SM>RT WHEELS. Partnerships with some of the UK's major retailers, banks and building societies make up the balance of our Personal Lines business.

In Ireland, we are a leading Personal and Commercial insurer distributing through affinity partners, brokers and our direct to consumer business, 123.ie.

Our Middle East operations, of which we own 50%, cover Bahrain, the United Arab Emirates, Oman and Saudi Arabia. 60% of the business is in Personal Lines.

UK & International financial performance

UK & International delivered an operating profit of £105m in 2018, up 60%[1]. The combined ratio (101.4%) improved by 1.2 points, despite a 0.9 points increase in weather costs.

UK market context and risk profile

In the UK and Ireland, Personal insurance is price-sensitive as a result of comparison websites and a growing number of digital-only entrants. Motor insurance is particularly competitive. In addition, the digital capabilities required to support policy administration and claims to meet with customer expectations are increasing.

The UK Commercial market has experienced prolonged soft conditions, increasing the importance of brand reputation, strong broker relationships and differentiating focused expertise for successful players.

UK financial performance

The UK generated an underwriting loss of £106m in 2018 (2017: £116m loss). London Market portfolio exits, together with a number of domestic exits, would have improved the 2018 underwriting result by £120m had they been in effect for the full year. The combined ratio would have improved by 4.6 points to 99.4%[2]. Net GVC recoveries were £25m, but this would be zero proforma for portfolio exits, so has no impact on the proforma numbers.

Net written premiums were down 2% excluding reinsurance changes. Headline premiums were dampened by £44m due to higher reinsurance costs. Personal Lines premiums were up 2% as reported or up 4% excluding reinsurance changes. Household premiums were up 16%. Our Nationwide partnership is doing well and generated premiums of £170m in its first year of trading; retention was 85% and NPS scores remain strong (claims +63; sales and service +65). On the wider book, we held our discipline on rate to mitigate the 'escape of water' issues which presented in H2 2017. However, rate of between 3% and 19%, depending on the channel, drove a decrease in retention and new business.

Commercial Lines premiums were down 6% excluding reinsurance changes. Rate has been positive in all major classes; for example, Motor achieved rate of 5% and Marine achieved 6%. However, this has meant a trade-off with top line (volumes down 9%) in ongoing soft market conditions. The decrease in premiums also reflected our exit from certain large schemes as we restructure our delegated authority book, underwriting decisions on some large individual risks (notably in Property and Marine) and the restructuring of Specialty and Wholesale. The latter is expected to reduce premiums written through the London Market by c.£150m per annum versus 2017.

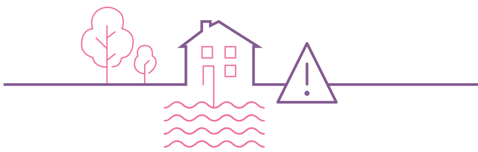
The combined ratio of 104% improved by 0.3 points in 2018. The weather loss ratio increased by 0.9 points. Storm Emma cost c.£45m and subsidence claims increased as a result of the unusually hot and dry summer weather. While large losses reduced by 1.2 points, they remained elevated in Specialty and Wholesale (particularly Marine). Excluding the impact of reinsurance changes, the attritional loss ratio of 48.5% reduced by 0.3 points in 2018. Improvements in Household and Pet were dampened by increases in Marine and Motor.

Underwriting and pricing improvement

High quality underwriting and pricing is critical for all insurers. In 2018, we undertook a series of immediate actions and initiated a long-term investment programme to improve our capabilities.

In Household, we tightened claims handling processes and applied rate to address escape of water inflation, helping to return attritional losses to healthier levels. In Commercial Lines, we took a more robust approach with our partners and brokers on rate and underwriting terms, to ensure that we remain competitive but sustainable in our pricing. Recognising an unacceptable underwriting performance, in November we announced we would move away from broad servicing of the London Market, focusing our international Specialty and Wholesale portfolio on core lines where we have or see the potential to achieve a profitable leadership position.

Finally, we mobilised an important long-term programme to improve our underwriting capability through enhanced data infrastructure, integration and storage, improved portfolio management and more advanced real-time pricing models.



Protecting our customers
Our use of data to identify 'farmed' motor injury claims was recognised at the British Insurance Awards.

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

1 At constant FX.
2 Proforma for UK exits and/or reinsurance, see definition on pages 185 and 186.

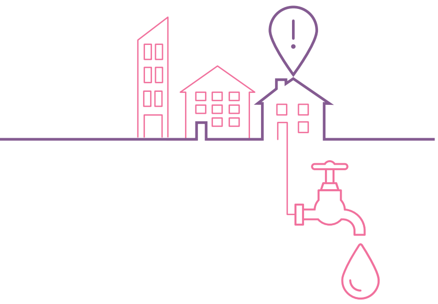
Adapting to a digital world

We continue to invest significantly in our digital capability and services, with an emphasis on reducing complexity for our customers and our employees.

In 2018, we continued the implementation of our new digital policy-servicing platform Unity, which brings Personal Lines customer policies and servicing onto one easy-to-use platform. Initially launched alongside our Nationwide Building Society partnership, Unity will be expanded across our Personal insurance products in 2019, with a particular focus on our MORE TH>N business.

Unity enables online claims tracking, video calling and self-serve claims settlement, helping to meet customer expectations for fast digital service and freeing up employee time for higher value and specialist work.

We are also progressing wider digitisation of claims processes and improvements to management information to deliver benefits for customer service and productivity. For example, our online pet insurance platform now allows owners to claim for their animals' repeat prescriptions, turning a process which once took weeks into a simple transaction that can be completed in minutes, improving customer experience and reducing operating costs.



Pulling the plug on escape of water
We're researching new ways to detect and alert homeowners to leaks before they become floods.

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

Focusing on customer needs

Digitisation is also affecting our product mix as customers seek support in new areas. Reflecting increasing demands for support beyond risk transfer and protection, we released an improved version of our award-winning risk management software, RSAred. The service allows Commercial customers, brokers and RSA underwriters to manage risk engineering data in real time, and offers the ability to benchmark against peers.

In Personal Lines we have begun using smart data technology to help our Household customers minimise escape of water, the most costly category of home claims that we process. We have partnered with LeakBot to identify leaks before they become more serious, minimising potential damage to homes and associated claims costs. We have trialled the tool with 2,000 customers to gather insight and feedback ahead of a wider roll out in 2019.

Recognising the risks that our customers need to protect against are changing, we strengthened our support for those facing cyber risks, releasing an end-to-end product for global businesses, which offers proactive risk management support, full loss cover and post-event crisis management.

Active in our communities

Our relationship with the communities we work in is important to our business and to our people. Our network of champions across all offices support the valuable link to our local communities, working closely with local groups and charitable organisations.

Volunteering is at the heart of our community investment work in the UK, with colleagues donating 5,080 hours during the year and supporting over 445 charities. This year, we highlighted the value of skills-based and practical volunteering opportunities in our first dedicated Community Action Month, which inspired 330 colleagues to get involved and give their time to worthy causes.

Our five-year partnership with the School for Social Entrepreneurs continues to encourage entrepreneurship and provide valuable mentoring opportunities. We highlighted some of the milestones of this partnership in our recent impact report, published on our website. We also recognise the importance of supporting the next generation in the communities we operate in. To that end, we continue to partner with Enabling Enterprise, hosting eight events across the country in 2018, positively impacting 215 young people and highlighting the opportunities available in the insurance industry to children of all ages.

Ireland financial performance

Ireland's performance improved strongly in 2018, generating an underwriting profit of £30m (2017: £9m), and reporting a combined ratio of 90.2% (2017: 97.0%). The attritional loss ratio of 57.6% was 2.8 points better, while the large loss ratio improved by 1.7 points. Prior year development was a favourable 3.7%, compared to adverse development of 0.2% in 2017.

Middle East financial performance

The Middle East delivered an underwriting profit of £33m (2017: £25m) and another record combined ratio of 83.4% (2017: 87.7%). The attritional loss ratio improved by 2.5 points.

STRATEGY AND OUTLOOK

Our strategy

We will continue to improve our customer proposition and develop our technical insurance capability, focusing our attention more rigorously on scaling our most profitable portfolios and direct businesses. Our ongoing investments in digital and data infrastructure are required to improve our productivity, adapt and succeed in markets that will remain highly competitive. Over the next plan period, we must redouble our efforts to streamline and automate manual processes, replace our legacy technology and draw on new pricing and underwriting tools to deliver consistent and sustained profitability.

Outlook

Digital investment and actions to reshape our UK Commercial portfolio, combined with a relentless focus on quality of execution, should return the business to better profitability in 2019. Our medium-term ambition for a sustainable best-in-class combined ratio of <94% in UK & International remains.

CORPORATE RESPONSIBILITY

Our contribution in a changing world

We seek to create sustainable value for shareholders and society by managing our operations ethically, ensuring financial strength and transparency, putting our customers first, supporting our employees and minimising our impacts on the environment.

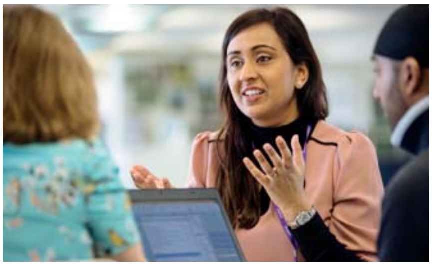
The information contained in the Corporate Responsibility and People sections of this report on pages 35–39, together with the description of our business model on pages 6–7 and our principal risks on pages 40–43 form our non-financial information statement.

Corporate responsibility at RSA

Over the past five years, our corporate responsibility strategy 'Making things better, together' has played an important role in addressing the key social, environmental and ethical risks and opportunities that affect our business and customers. Our achievements and actions in 2018 are set out against the four pillars of our strategy on page 37.

During 2018, we undertook a broad consultation with internal and external stakeholders to reflect on the knowledge we have gained and review our response to key responsible business issues. We have used this to develop our Confident Futures strategy which will guide the actions we take over the next five years to drive further progress.

To support the implementation of this Group-wide strategy, we have established a Group Corporate Responsibility Committee. During 2019, we will be transitioning our programmes and delivering against a new roadmap to help us achieve our Confident Futures objectives.



Doing the right thing

Operating ethically is an important part of our company culture and we have robust governance structures in place to support this. Our Group policies and standards, including our values and codes of conduct, set clear expectations on behaviour and are monitored as part of our risk appetite and policy framework.

Respecting human rights

Our Group-wide Human Rights policy commits us to the principles set out in the Universal Declaration of Human Rights (UDHR) and the International Labour Organization (ILO) core conventions on labour rights, covering freedom of association, the abolition of forced labour, equality and the elimination of child labour.

As signatories to the UN Global Compact, we set clear expectations for our employees, business partners and suppliers, and empower them to operate in a way that respects and protects human rights. We do this by raising awareness of issues, ensuring procedures are in place to prevent breaches, conducting due diligence and reporting on progress.

All employees must comply with Human Resources policies and procedures which ensure human rights principles are upheld. Our procurement teams consider human rights when reviewing new supplier tenders, third-party contracts and business partners. Our human rights due diligence processes include a supplier questionnaire requiring information on human rights policies and management practices which is reviewed by procurement teams during the tender process and ongoing supplier monitoring. To help ensure our suppliers meet our ongoing expectations on human rights, they are expected to comply with our 'Supplier Code of Conduct' which is embedded in new contracts.

In the UK in 2018, our supplier due diligence assessments covered 330 suppliers (58% of our total spend), to help ensure the organisations we work with meet our expectations. Further information can be found in our Modern Slavery Statement on our website.

Anti-bribery and corruption

Bribery and corruption are not tolerated anywhere in our operations. Our 'Anti-bribery and corruption' and 'Conflicts of interest, gifts and hospitality' policies cover all parts of our business and set out detailed guidance on facilitation payments, gifts and hospitality and relationships with third parties, as well as establishing systems and controls to ensure effective implementation. These policies are supported by our 'Broker remuneration' and 'Third-party contracts' policies which set out specific requirements for payments to brokers and procurement, including conducting appropriate due diligence on business partners and suppliers.

Our policies are communicated to all employees through our company intranet and mandatory eLearning modules; this is supplemented by additional resources such as our anti-bribery toolkit and targeted training for employees in higher risk roles. All employees complete training on whistleblowing and are equipped with tools to identify and escalate concerns, including access to a confidential third-party 24/7 whistleblowing helpline in line with our 'Whistleblowing policy'.

Our Group-wide risk management framework sets the policies and standards we expect of our employees in all markets. We monitor completion of mandatory training, and operating countries complete risk assessments that are regularly reviewed and updated, supported by a central team to enable continuous improvement to controls.

Environment

The insurance sector plays an important role in responding to the risks and opportunities presented by climate change through the data and insight we generate, products covering natural catastrophes and our influence within the financial system. We consider the risks associated with persistent or more extreme weather patterns through our risk management function and support clean growth by providing insurance products for renewable energy projects.

Our environmental policy sets out our commitment to reducing our environmental impact, engaging relevant stakeholders to adapt and respond to climate change and working with industry peers through our memberships of ClimateWise and the UN Principles for Sustainable Insurance (UN PSI) to integrate consideration of environmental, social and governance issues into business decisions.

Our direct environmental impact is limited to our building portfolio and business travel associated with our work. We regularly monitor and review our energy use, business travel, water use and waste to ensure we manage our own operations efficiently, and our reported carbon emissions are subject to independent assurance by PwC.

In 2018, we reduced our own carbon emissions by 3.4% per FTE against a target of 4%; full emissions data can be found on page 94. During 2018, we reduced our environmental impact through a focus on using online meeting software to avoid business travel, programmes to reduce paper use and working with our supply chain in Scandinavia to improve reuse of waste materials.

Social matters

We work with charitable organisations and causes around the world to support activities that promote employability, entrepreneurship and benefit local communities, investing £1.8m in 2018 in support of 785 organisations. Our community contributions also play a practical role in supporting our customers to avoid risks through awareness campaigns and partnerships focused on topics such as road safety, mental health and online safety.

Our investments are governed by our Group Community and Charitable Donation policy, which is monitored through our corporate responsibility function to ensure compliance and that no conflicts of interest exist. During 2018, we reviewed and updated this policy to follow best practice guidelines in our reporting of community investments. No political donations are made by RSA Group.

OUR NEW FIVE-YEAR CORPORATE RESPONSIBILITY STRATEGY

Our new corporate responsibility strategy, Confident Futures, will launch in 2019.

Managing the everyday well

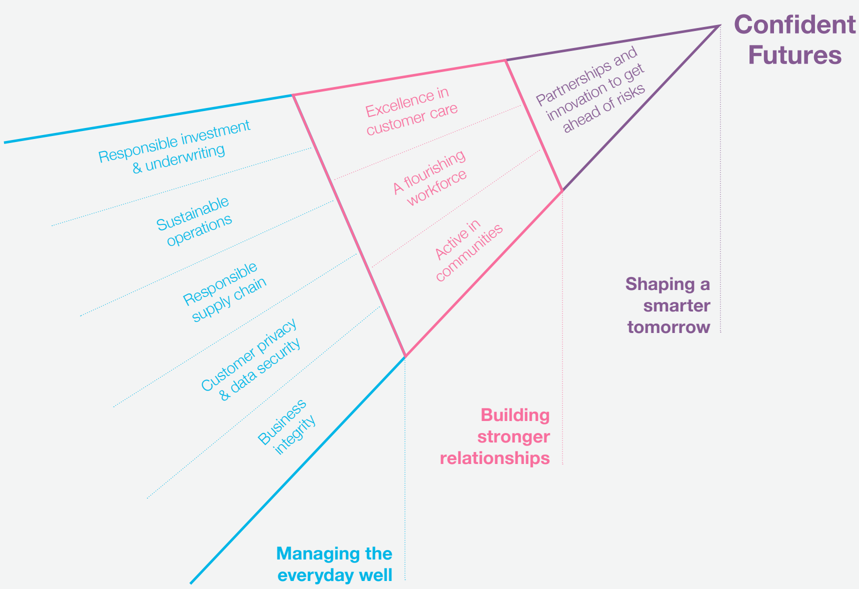
We manage our operations responsibly and sustainably. Our focus areas: responsible investment & underwriting, sustainable operations, responsible supply chain, customer privacy & data security, business integrity.

Building stronger relationships

We develop supportive and enduring relationships with our customers, colleagues and communities. We do this by providing customers excellent care and support, developing our people, and making a positive contribution to the communities we're part of.

Shaping a smarter tomorrow

As experts in risk, we know there are many ways for people and businesses to protect the things they care about. We can use our products, services and partnerships to help people and businesses to learn about the risks they face, and how to manage them more effectively.



Read more online **rsa.com/cr**

PROGRESS AGAINST OUR CR STRATEGY

ACHIEVEMENTS

SAFE, SECURE WORLD

120,000

people reached through safety campaigns

People and businesses face a wide range of risks every day. We can play a powerful role in helping our customers avoid risks by sharing our skills and expertise.

We work across our business and collaboratively with partners to raise awareness of risks through engaging safety campaigns. These cover a diverse range of topics, including keeping people safe on the roads, in their homes and at work, and responding to the risks presented by changing environments, including the natural and digital world.

- Launched TruceTO road safety campaign in Toronto to promote safe behaviours among cyclists, pedestrians and motorists.
- Developed an online safety education package for Danish teachers to use in classrooms with 7–10 year-olds, reaching 12,500 young people.
- Organised Sweden's largest 'Cardiovascular rescue course' to teach resuscitation techniques.
- Collaborated with BRIS Sweden (Children's Rights in Society) to raise awareness of mental health issues among young people.

THRIVING COMMUNITIES

£1.8m

invested in local communities

Our business will not be successful unless the communities we operate in also flourish and thrive. We use our skills and experience to support communities in areas we operate.

Our focus themes are supporting education and employability, working with social enterprise and social entrepreneurs, and enabling our employees to support local causes they are passionate about. We work in partnership with charities and enable our employees to contribute to their local communities by sharing skills, volunteering up to two days of time and fundraising for local causes.

- Hosted our first UK-wide Community Action Month, volunteering 2,000 hours and fundraising over £40,000.
- Five-year partnership with the School for Social Entrepreneurs in the UK and Canada, mentoring social entrepreneurs, supporting 58,500 beneficiaries.
- Partnered with 'Welcome' to assist the integration of new immigrants into Swedish society through events and other support.
- Coordinated 'National Reflector Day' with the Children's Accident Prevention Foundation to distribute 74,000 reflectors in Denmark.
- 300 volunteers participated in WWF's 'Great Canadian Shoreline Clean Up'.

SUSTAINABLE FUTURE

-3.4%

reduction in carbon emissions

As an insurer we are well aware of the risks presented by climate change. We are working actively to support the transition to a low-carbon economy and improve society's resilience to extreme weather.

We manage the impact of our business on the environment by committing to reducing our own carbon emissions. We're supporting our customers to adapt and respond to climate change and insuring renewable energy projects around the world, using our knowledge to help reduce risks and costs associated with technologies and enable the transition to a low-carbon economy.

- Celebrated our worldwide renewables insurance business covering wind, solar and bioenergy projects in support of 'Green GB Week'.
- Canadian colleagues adopted the 'Print Responsibly Challenge', achieving a 40% reduction in paper use.
- Trygg-Hansa continued its commitment to 'paper-free', reaching 790,000 customers.
- Engaged in industry-wide discussions on climate change through ClimateWise, the ABI and CBI.
- Chaired the CRO Forum 'Emerging Risk Initiative' producing an industry-leading paper on climate change and the role of insurance in supporting resilience.

RESPONSIBLE BUSINESS

330

supplier due diligence assessments completed

We are open and transparent about how we manage our operations. We work collaboratively with customers, employees and suppliers to deliver positive outcomes.

For our customers this means striving to keep them at the heart of what we do and achieve fair outcomes for all. For our employees this means being inclusive, investing in training and development, and promoting health and well-being. In our supply chain this means ensuring ethical behaviours and high standards of conduct on social and environmental issues.

- 330 suppliers assessed against due diligence questions on environmental, social and ethical issues.
- Reviewed our framework for assessing ESG (environmental, social, governance) issues related to our investment portfolio.
- Signatory to the UN Global Compact.
- Contributed to the UN Principles on Sustainable Insurance working group developing guidance on ESG considerations in underwriting.

A valued, capable 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 ambition is to perform at best-in-class levels and in so doing to deliver well for our customers and our shareholders. We recognise that we can only achieve this if our people share this ambition and feel that RSA is offering them a fulfilling career. We want a culture of high performance, where working together as a team is valued and the business invests in its people, so we all have the capabilities to embrace the future. We use 'Your Best U' to articulate our aspiration to have an organisational culture that allows us all to bring our very best selves to work every day.

People Principles

Our People Principles underpin the people strategies in each of our three regions and inform all people decisions across the Group. They provide the foundations of our people proposition and ensure consistency of approach across RSA, under our Group-wide employer brand 'Your Best U'. Our People Principles cover three key areas: how we approach performance, how we work and how we build capability.

How we approach performance

We seek to build a culture of high performance driven by passionate team players who earn their place in the team by pushing their own individual performance. We believe collective success and individual success go hand in hand. Decisions about how we achieve high performance among our people are shaped by three principles: Performance management, Pay and reward, and Celebrating success. During 2018, we made several changes to how we approach performance.

Performance management

The UK and Group Corporate Centre have introduced 'Your Best Performance'. This enhanced approach to performance management includes process improvements such as rating 'What' and 'How' separately to increase focus on behaviour and values and using a five-point scale to better support differentiation.

Pay and reward

The UK has introduced 'Your Best Award' which is a new bonus structure for UK customer operations, technical and business support roles. It is designed to recognise and reward individual performance and commitment to delivery in role (including levels of attendance). From 2019, awards will be made twice a year with the first payment in June and the second in December.

Celebrating success

In Canada, the CEO has spent time in 2018 visiting several regional offices to deliver a personal thank you to employees for their achievements.

The UK has established Your Best U Shining Stars awards in all large site locations to recognise and celebrate colleagues who demonstrate exceptional performance, embody our values and are driving our best-in-class ambitions. All category finalists of the Shining Stars Awards are invited to a dinner where the winners are announced and everyone celebrates the achievements of all the finalists.

How we work

We want to build an organisation in which our people can work together effectively – with our values guiding everything we do. Decisions about how our people work are guided by four principles: Delivering our promises to customers, Leadership, Collaboration and Flexibility. During 2018, we made several changes to how we work.

Delivering our promises to customers

During 2018, the Middle East (RSA Oman) worked towards implementing an Automated Insurance Machine which is now ready to be deployed at the Hafeet border post in Oman. The machine is an end-to-end system that will assist travellers from all neighbouring countries to purchase the mandatory insurance required to enter Oman while they drive in. This is the first such initiative pioneered by RSA Oman for its customers, providing an easy insurance purchase.

Canada has empowered its Accident Benefits claims adjusters to pilot innovative ways to better deliver for customers (Take Flight project). Employees are given dedicated time to work on an idea to better investigate, adjudicate, process or settle claims. They hang a paper airplane above their desk to symbolise they have 'taken flight' and to encourage colleagues to ask questions about their idea. The hope is that it will inspire others to find efficiencies for customers in their own areas of the business.

Leadership

The UK has created and launched a Connected Leaders programme in collaboration with Cranfield University. This programme mirrors the quadrants in our capability framework and is designed to disrupt thinking and be a catalyst for action. The programme is designed for senior management and 120 leaders have participated in the programme so far, with the remaining to be included in 2019.

TOTAL NUMBER OF EMPLOYEES[1] AT THE END OF 2018

	Employees	% of Group Total
UK & International	6,422	52%
Canada	2,932	24%
Scandinavia	2,629	22%
GCC	175	1%
Other	86	1%
	12,244	**100%**

Note:
1 Full time equivalent employees.

Scandinavia is running a mandatory leadership programme with almost 300 leader participants so far. The programme focuses on the transition between different leadership roles (leading others, leading leaders, functional leader and business leader) and what behaviours, work values and time application a leader needs to apply to be successful in a role.

During 2018, Canada launched an innovative executive development programme in partnership with a leading Canadian Business School. This programme reflects and embeds Canada's Leader Expectations which were created in collaboration with senior leaders. To complement this, a 360 assessment process has been launched for all senior leaders designed to address specific capability gaps in relation to the Leader Expectations.

Collaboration

Since January 2018, there has been increased focus and investment on technical capability across the Group, with the launch of a Technical Capability Programme. This additional investment has provided the technical community with enhanced tools and the environment needed to deliver towards the overall best-in-class ambition. This has led to increased collaboration across all regions in terms of knowledge and experience sharing. In 2019, we will continue to heavily invest in our technical capability.

Throughout 2018, Ireland has continued to collaborate across the regions by being an incubator of talent, importing and exporting talent across the Group, supporting greater collaboration and a culture of working together.

The Middle East encourages collaboration across regions wherever possible. It has been collaborating with the UK on its digital journey and has been sharing best practices and encouraging employee development by assigning employees to support the region in RMS, RI and Broker relationships.

Flexibility

Ireland has introduced a new relaxed dress code to celebrate 'Your Best U' where people now have the option to wear what they want to work when working in non-customer facing roles. They also encourage managers to offer flexible working to talent in their teams.

Scandinavia has refurbished its office spaces to create a more flexible and collaborative environment for employees to work in.

How we build capability

Our success depends on building capability among our employees, so they are equipped to do the job. Our approach to building capability enables our people to pursue exciting careers at RSA. Decisions about how we build capability are guided by four principles: Learn and grow, Technical expertise, Access to talent and Inclusion. During 2018, we have made several changes to how we build capability.

Learn and grow

The UK has introduced a Coaching and Mentoring Hub containing a wealth of tools, guides, videos and advice to ensure employees get the most of any coaching/mentoring relationship whatever their level of experience.

Technical expertise

At RSA Group level we have a Group Technical Academy which creates competitive advantage through building technical capability in underwriting, claims and actuarial. The academy supports all the technical communities across the Group and offers several training solutions that are ready for employees to use and deliver.

The Group Technical Academy has significantly increased the number of training events across the Group with twice the number of delegates attending in 2018 compared with 2017. In addition to the Group Technical Academy, each region has an academy which delivers localised tailor-made training programmes throughout the year.

Access to talent

Canada has had the exciting opportunity to grow a part of its business to help support a new white label insurance product it has secured with Scotiabank. This has provided the opportunity to employ 50 new employees for Johnson. Canada has invested time to find the best people for the first cohort of Customer Service Agents, all with fresh ideas and perspectives.

Inclusion

Our Group-wide Diversity & Inclusion (D&I) vision:

To create an inclusive workplace where everyone can bring their best selves to work. We do this by building greater diversity across all levels of our organisation and creating a more inclusive culture which attracts, encourages and capitalises on diverse perspectives, establishing a stronger foundation to serve our customers.

As a Group, RSA has continued to make strong progress on the journey to fulfil our D&I vision. The foundations have been put in place by agreeing a Group-wide policy and establishing robust business-led governance through the Group and Regional D&I Councils. Significant groundwork has been undertaken to raise awareness within the organisation, by establishing Group-wide priorities and celebrating events on a quarterly basis, including International Women's Day, Pride, Dive-In Festival and International Men's Day. This, alongside region-led activities, such as a Board visit to Toronto where they met with the Diversity & Inclusion Council, has created the environment for change and significantly contributed to RSA's ability to build an inclusive culture. Further details on our progress in the UK and Group Corporate Centre can be found in our 2018 Gender Pay Gap report: www.rsagroup.com/responsibility/resources/

Going forward into 2019, the regions will continue to make beneficial changes under each of our People Principles, as well as embedding the changes we have made so far, in order to continue our journey towards best-in-class.

WORKFORCE HEADCOUNT BY GENDER AT THE END OF 2018

	Male	Female
Year-end 2018 headcount		
Group Board of Directors	7	3
Group Executive Committee	8	2
Senior Management Group	403	197
Group overall	**5,913**	**6,760**

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 2018 there were 134 males and 29 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 147 independent contractors in Canada and 141 independent contractors in Scandinavia for whom gender data cannot be collected. These individuals have been excluded from the gender headcount analysis shown above.

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 delivery of profitable growth while maintaining a robust capital base. Risk takes an active role in challenging the plan, informed by economic projections, peer reviews, expert judgement/experience and current risk assessments. Risk also assesses the ability to deliver planned change activity and consider alignment with existing mitigation activities.

OUR APPETITE IN 2018

Our risk management and controls frameworks were created to ensure we identify, measure and manage risks in all parts of the Group before they adversely impact 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.

Every effort is taken to manage risks within appetite. For principal risk areas, especially financial risk and capital surplus measures, this was achieved throughout the year and operational plans predict this will continue within the three-year planning period. From time to time, risks stray outside target, especially operational risk types. Where targets are not met, action is taken to manage them back to acceptable positions. This year saw significant progress in some key risk areas, including IT, cyber and underwriting capability.

Changes to risk management in 2018

- The UK customer risk approach was reviewed and enhanced with a new Customer Committee and a new risk appetite statement supported by key risk indicators.
- As part of the annual risk appetite refresh, capital surplus targets were updated to be considerate of capital quality, and reputational risk measures were revised.
- Policies are reviewed annually, with IT, information security and reputation risk policies significantly revised in 2018. New policies were introduced for pensions risk and customer risk.

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 01 to 43 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.

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 foreign powers and organised crime to engineer severe attacks.

Terrorist/organised
Terrorist threats remain high. Attacks could impact a large number of our customers as well as broader society.

Brexit
Risks exist associated with a disorderly Brexit with potential for economic shocks, capital impacts, claims inflation and supply chain implications.

NEAR TERM RISK

Financial market uncertainty
Volatile capital markets negatively impact on the value of assets and potential increase capital requirements for market/credit risk.

Critical infrastructure
Failure of critical infrastructure impact on global communications, provision of power and/or telecommunications and GPS.

Global socio-political uncertainty
Tensions over trade, US relations, Russia tensions and EU stability are all factors that 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.

MEDIUM-TERM RISK

Geopolitical tensions
Geopolitical tensions could result in new diplomatic, economic, cyber or physical conflicts.

Longevity risk
Longevity risk can arise with PPO and in relation to 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.

LONG-TERM RISK

Climate change accelerates
Climate Change trends have been recognised as a key emerging risk for insurers for some time, however, the recent work of the IPCC* has increased understanding.

* Intergovernmental Panel on Climate Change

Themes: Political Economic Social/environmental Technology and digital

Risk management in action case studies

Responding to climate change for our stakeholders

In 2018, RSA actively engaged in the climate change debate through membership of organisations such as ClimateWise, UN PSI[1] and Flood Re. Moreover, we chaired the CRO[2] Forum's Emerging Risk Initiative, which resulted in the publication of a paper on insurance industry implications. We continued monitoring threats to and opportunities for our products, reinsurance and investments on behalf of customers and stakeholders. We also quantified climate trends and took them into account in our weather assumptions and reinsurance strategy. The creation of a new ESG committee will maintain this momentum going forward.

1 United Nations Principles for Sustainable Insurance.
2 The CRO Forum is a group of professional risk managers from the insurance industry that focuses on developing and promoting industry best practice in risk management.

Enhancing underwriting capability for the future

Underwriting and Risk work closely to understand current and future needs in relation to underwriting skills and capability. For example, Canada focuses on further developing weather models and pricing capabilities, and the UK initiated a long-term programme of work to enhance data, portfolio management and pricing models. Opportunities to improve profitability are taken in a coordinated and informed way, with the UK taking the decision to exit certain segments and follow a more focused London Markets portfolio in 2019.

RISK MANAGEMENT APPROACH

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 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), within an organisation built on respect, integrity and a clear focus on customer and employee outcomes. 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 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 case studies

Managing risk to good customer outcomes

Following a best practice review, we decided to strengthen governance over customer risk and achievement of good customer outcomes, to ensure appropriate oversight informed by insightful MI. A new UK Customer Committee was established and a new risk appetite statement implemented, supported by redeveloped management information. These new arrangements will be further monitored and enhanced as we learn from the experiences gained from across the Group and from our customers.

RISK MANAGEMENT SYSTEM

Risk Management System underpins the Operational Planning Cycle

1 Board sets business strategy

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

2 Board sets risk strategy and appetite

Risk Strategy creates the overarching principles for setting the Risk Appetite Indicators.

3 Policies guide on managing 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.

4 Monitor appetite and action tracking

Regional Risk and Control Committees track actions for risks outside appetite, and escalate to local and Group boards.

5 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.

6 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.

7 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), which forms part of the ORSA process.

8 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. Cycle will continue until the Board is satisfied with the future plan.

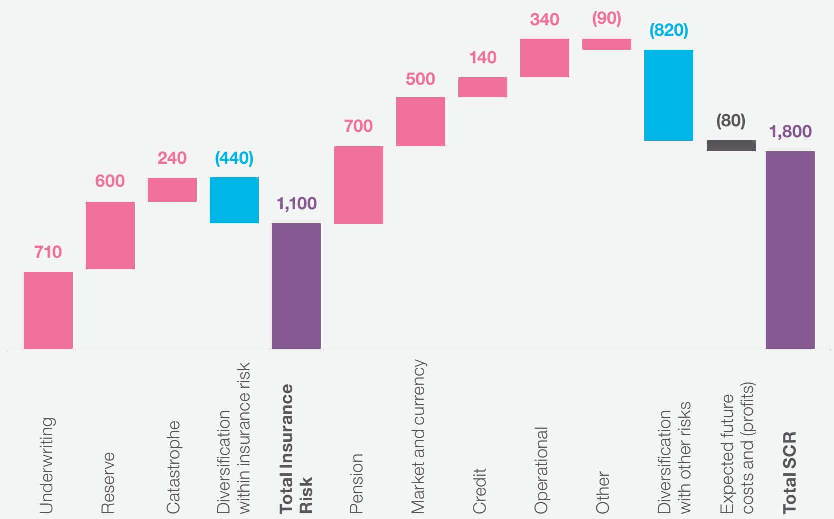
KEY RISKS AND MITIGANTS

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. In 2018 enhancements were made to the internal model to better reflect the dependencies between certain risks, together with improvements in overall model governance and model validation. A Group level major model change application is anticipated in 2019 reflecting these changes and the Group SCR already includes allowances for the expected impact. A model application has also been submitted in respect of our Scandinavian entities to mitigate the risk of moving to Standard Formula in the event of a hard Brexit. This has no impact on the modelled Group SCR.

1 As per 2017 SFCR published May 2018.

BREAKDOWN OF GROUP SCR BY RISK DRIVER[1] (£M)



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.
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 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 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 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. · 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 appetite. · Asset Managers positioning assets to minimise Brexit risk where possible.
Pension risk We face longevity and in particular market-related risks, which arise from our defined benefit pension schemes. The largest exposures arise from credit spread and equity movements, although these are partly hedged by offsetting movements in the Insurance Investment Fund.	· Funding assets are well matched to liabilities in the pension schemes, including the use of swap arrangements. · The tri-annual valuation process is complete and a new long-term de-risking plan has been agreed. · Possible market impacts of Brexit are examined and well understood 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 processes and procedures are in place, including incident management. · Control Validation and Assurance review control effectiveness. · New UK Cyber Strategy has been developed. · IT risks remain a key focus, especially cyber threat.

COMMENTARY

Consistent with our strategy and appetite of 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.

Chairman's Governance Letter

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

DIRECTORS' AND CORPORATE GOVERNANCE REPORT

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This year, the Group has continued to work towards the ambition of delivering improvements and efficiencies across customer service, underwriting effectiveness and technology and digital. The Board recognises that it has been a trying year for the Group and I would like to extend my thanks to my Board colleagues and the management team for the constructive way in which we have engaged and collaborated on these issues during the year. As announced in February 2019, Scott Egan was appointed CEO, UK & International and Charlotte Jones was appointed Group CFO. Both appointments are subject to regulatory approval.

In further response to the challenges in the UK & International business, the Board has received deep dives to understand and review underwriting and ensure sufficient risk management processes are in place. Alongside this focus, the Board and its committees have considered the following key areas:

1. Customers and people;
2. Strategy and execution;
3. Finance, capital and investor relations;
4. Governance, risk and regulatory.

Further information on the above 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 success of the Company for the benefit of its members as a whole. The Board is responsible for setting the Group's strategy and oversees the Executive 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.

Commitment to governance

The Board is committed to effective governance, sound risk management and a robust control environment. This report sets out RSA's framework for good governance. The Board believes this framework provides the necessary structure in order to ensure effective decision-making and robust governance and risk management throughout the Group.

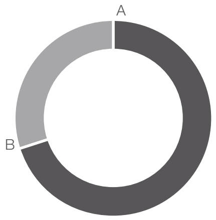
During the year, the UK Corporate Governance Code (the Code) was updated to put the relationships between companies, shareholders and stakeholders at the heart of long-term sustainable growth. The Board has received a number of updates in preparation for the new Code applying to the Group in 2019.

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. As part of the Board's two-day strategy meeting, we discussed the Group's positioning around its purpose, vision and values, as well as the results of the cultural survey which the workforce completed in the year. As a result, we approved a re-invigorated articulation of our purpose, values and strategy which can be found on page 05.

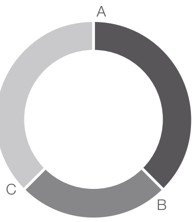
DIVERSITY OF THE BOARD*

A. Male	70%
B. Female	30%



BOARD TENURE*

A. 0 to 3 years	37.5%
B. 3 to 6 years	25%
C. 6 to 9 years	37.5%



* As at date of this report.

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. In 2018, the Group Nomination and Governance Committee undertook a stakeholder mapping exercise to review the current engagement between the Board and its stakeholders and to identify opportunities to improve further the Board's engagement with its key stakeholders in 2019 and beyond.

The activities undertaken in 2018 and planned for 2019 include increased direct engagement with employees, such as employee 'town halls' and employee breakfasts with Board members, which the Board views as the most effective way to gain a deeper understanding of the views of the workforce. The Board looks forward to increased engagement with the Company's stakeholders, particularly more direct engagement with shareholders, customers, employees 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. 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 10 May 2019. Further information on the Board's engagement with its stakeholders can be found on pages 08, 09 and 56.

Board composition, diversity and succession planning

In addition to Scott and Charlotte's appointments, the Board was pleased to announce the appointment of Sonia Baxendale as an independent non-executive director with effect from 1 March 2019. Further information relating to the appointment process for Sonia can be found on page 62. Hugh Mitchell stepped down from the Board with effect from the 2018 AGM and Joseph Streppel has decided to retire from the Board and not seek re-election at the 2019 AGM. I would like to thank Joseph for his significant contribution.

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 30% of the Board. Following Sonia's appointment and Joseph's retirement, women will make up 40% of the Board. This exceeds the recommendation for women on boards set out in the Davies Review. This is good progress, and we will maintain and seek out opportunities to further improve gender equality on our Board and across the Group.

During the year, the Board re-approved the Diversity, Inclusion and Equal Opportunities Group Policy which outlines the importance of diversity of gender, social and ethnic backgrounds, and of cognitive and personal strengths to the Board. For further information on our approach to succession planning, appointments and diversity, see pages 62 and 63.

Board effectiveness

This year the performance and effectiveness evaluation of the Board and its committees was conducted internally. The evaluation was undertaken using online questionnaires which were then complemented by individual interviews with each of the Board members. The process was facilitated by the Senior Independent Director and the Company Secretary. The results of the evaluation concluded that respondents had unanimously concurred that the Board is highly engaged and operating effectively. As required by the Code, an externally facilitated evaluation of the Board will be undertaken in 2019. Further information is presented on page 54.

Remuneration

Executive remuneration remains an important topic in the UK and is evaluated by the Board and the Remuneration Committee. Further information on the work of the Remuneration Committee can be found on page 66.

Martin Scicluna
Chairman

27 February 2019

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. He brings valuable experience in developing strategy and evaluating business opportunities, along with understanding of the financial services sector and how it operates. As Chairman, he ensures the Board operates effectively, promoting constructive engagement with shareholders and other stakeholders. Previous roles include Senior Independent Director and Chair of the Audit Committee of Worldpay Group plc, non-executive director and Chair of the Audit Committee at Lloyds Banking Group plc, 34 years at Deloitte LLP (26 years of which as Partner), Chairman of Deloitte LLP from 1995 to 2007, Director, Deloitte Touche Tohmatsu from 1999 to 2007 and membership of the Financial Services Trade and Investment Board from 2013 to 2015.

External appointments

Chairman of Great Portland Estates Limited (retired January 2019) and non-executive director of J Sainsbury plc (Chairman from the beginning of their new financial year in March 2019).

Stephen Hester
Group Chief Executive

Appointment date: February 2014
Nationality: British

Skills and experience

Stephen has over 30 years' experience in financial services and FTSE100 companies. He is responsible for 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.

Isabel Hudson
Senior Independent Non-Executive Director

Appointment date: August 2016
Nationality: British
Committee membership: B R N

Skills and experience

Isabel brings wide-ranging commercial, corporate finance and business development experience to the Board from the UK and internationally, especially Europe, focused on the insurance sector, spanning life and general insurance as well as pensions. Isabel's previous experience chairing a remuneration committee contributes and adds value to the Group Remuneration Committee.

Isabel previously served as Executive Director of Prudential's UK business and Chairman of Prudential International Assurance between 2002 and 2006, Chief Executive of specialised pension buyout firm Synesis Life, Chief Financial Officer of Eureko and International Development Director for GE Insurance Holdings Limited. She was also non-executive director at Standard Life plc, QBE Insurance Group Ltd and The Pensions Regulator.

External appointments

Chairman of National House Building Council and non-executive director of BT plc.

Enrico Cucchiani
Independent non-executive director

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

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 P&C. He also served on the boards of, among others, 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
Group Chief Financial Officer (appointed CEO, UK & International, on 5 February 2019)

Appointment date: October 2015
Nationality: British

Skills and experience

Scott has substantial financial services experience and understanding of the financial sector, which he brings to the Board when overseeing financial operations of the Group and setting the financial strategy. 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 roles at Norwich Union Insurance and Aviva. Scott is a qualified accountant (ACMA), has an MBA from Cranfield University and is a member of the ClimateWise Insurance Advisory Council.

External appointments

None.

Charlotte Jones
Non-executive director (announced as Group CFO in February 2019, subject to regulatory approval. Charlotte will assume the role by Summer 2019).

Appointment date: April 2018
Nationality: British
Committee membership: A R

Skills and experience

Charlotte has over 25 years' financial services experience in the banking and asset management sectors. She is currently Chief Financial Officer of Jupiter Fund Management plc, a position she has held since September 2016. Prior to joining 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

Chief Financial Officer and executive director of Jupiter Fund Management plc.

Alastair Barbour
Independent non-executive director

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

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 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 their financial services team in Scotland with a primary focus on insurance and investment management.

External appointments
Senior Independent Director of Phoenix Group Holdings, and non-executive director of Liontrust Asset Management plc, CATCo Reinsurance Opportunities Fund Limited and The Bank of N.T. Butterfield & Son Limited (a company listed in Bermuda and New York).

Sonia Baxendale
Independent non-executive director

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

Skills and experience
Sonia has over 25 years' experience in the banking and financial services industry in Canada. She has run large global businesses and has served at operating board level at Canadian Imperial Bank of Commerce, one of the top five banks in Canada. Since stepping down from Canadian Imperial Bank of Commerce in 2011, Sonia has built a successful portfolio of non-executive positions.

External appointments
Non-executive director and member of the Risk Management Committee of Laurentian Bank of Canada, non-executive director, Chair of the Human Resources and Governance Committee and member of the Audit and Finance Committee at Foresters Insurance and President and Chief Executive Officer of the Global Risk Institute in Financial Services.

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 globally. 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
Senior Independent Director of Brewin Dolphin Holdings plc and non-executive director of Threadneedle Investment Services Limited, Threadneedle Pensions Limited and Threadneedle Asset Management Holdings Sarl.

Joseph Streppel*
Independent non-executive director

Appointment date: October 2011
Nationality: Dutch
Committee membership: I A R

Skills and experience
Joseph has a comprehensive understanding of the insurance market globally, extensive financial services expertise and a good knowledge of international and emerging markets. Previously, he was Chief Financial Officer of Aegon until 2009 and Chairman of the Monitoring Committee of the Dutch Corporate Governance Code.

External appointments
Chairman of Leaseplan Corporation, Chairman of Stichting Continuïteit Philips Lightning (Foundation Continuity Philips Lightning) and non-executive director of Arq Foundation.

* Joseph will retire as a director with effect from 9 May 2019

Martin Strobel
Independent non-executive director

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

Skills and experience
Martin has over 25 years' experience in insurance and financial services. He encourages constructive challenges of matters discussed. Martin was Chief Executive Officer of Baloise Group, a position he held for seven years to 2015. He joined Baloise Group in 1999 as the Head of IT at Basler Switzerland and, within Baloise Group, was responsible for major cross-functional insurance and finance projects. From 2003 to 2008, he was a member of the Corporate Executive Committee with responsibility for the Corporate Division Switzerland. From 1993 to 1999, Martin performed various roles at Boston Consulting Group, Düsseldorf, advising business in the banking and the insurance sectors.

External appointments
Non-executive director of Anivo 360 AG and member of the supervisory board 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

Board of Directors as at 27 February 2019

ROLE STATEMENTS

For more role statements, see **page 53**

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

Patrick Bergander
CEO RSA Scandinavia

Patrick joined the RSA Group's Executive Committee in June 2014 following his appointment to CEO of RSA Scandinavia. Previously CFO for Scandinavia, Patrick has been with the RSA Group since 2011.

Previously, Patrick held senior finance roles at Electrolux and If Skadeförsäkring.

Charlotte Heiss
Group Chief Legal Officer and Company Secretary

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

Previously, 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, including director, underwriting and risk with RSA's Scandinavian operations, since joining the Group in 1997.

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.

Cathy Lewis*
Group HR Director

Cathy joined RSA as Group HR Director and member of the RSA Group Executive in January 2017.

Previously, Cathy was Executive Director of HR and Corporate Services at Prudential UK & Europe HR and Corporate Services. Before Prudential, she held senior HR leadership roles at HM Revenue and Customs, Cooperative Financial Services, Abbey PLC and BAA plc.

*Cathy will retire from the Group on 31 March 2019 and will be succeeded by Karen Caddick.

William McDonnell
Group Chief Risk Officer

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

He is a chartered accountant with extensive risk management and finance experience with a number of blue-chip financial institutions, including HSBC Investment Bank, Aviva, the Financial Services Authority and seven years at Deloitte.

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.

Biographical details of the individuals fulfilling these roles can be found at:
rsagroup.com/thegroupexecutive

CORPORATE GOVERNANCE

Board and committee structure

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 in the diagram below. The key functions of Risk, Actuarial, Compliance and Internal Audit all report directly to a Board committee providing expert advice on their remits to the relevant committee and senior management. Details of the activities of these committees are set out later in this report.

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

Following each committee meeting, a verbal update is presented 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 when 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.

Board

As set out in the Matters Reserved for the Board, the Board is responsible for:

- The long-term sustainable success of the Company, generating value for shareholders and contributing to wider society;
- Measuring performance against objectives set;
- Establishing a framework of prudent and effective controls to assess and manage risk;
- Maintaining and developing effective engagement with shareholders and stakeholders;
- The purpose, values and strategy and associated cultural alignment within the Company;
- Ensuring sufficient resourcing is in place to meet objectives;
- Ensuring workforce policies and practices are consistent with corporate values and support long-term success.

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 he encourages constructive challenge during Board meetings.

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, 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.

Read more on page **57**

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 and appropriately reflected in the Internal Model.

Read more on page **64**

I

Group Investment Committee (GIC)

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

Read more on page **61**

N

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 Committee also focuses on Board effectiveness and good governance.

Read more on page **62**

R

Group Remuneration Committee (RemCo)

The RemCo is responsible for the oversight of remuneration decisions and reviews, challenges and sets the remuneration of Executive Directors and the Chairman of the Board.

Read more on page **66**

Executive Committee (ExCo)

ExCo is the Group management committee that assists the Group Chief Executive in discharging his delegated authority. It is not a committee of the Board. ExCo is responsible for Group performance, including financial, capital and financing requirements; the relationship and communication with the Regulator; reviewing risk management across the Group; Group-wide human resources and development issues; any significant corporate relations issues; and significant operational issues.

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

Board activities during 2018

Throughout the year, the Board and its committees have focused on a number of key areas, including: customer and people; strategy and execution; finance, capital and investor relations; and governance, risk and regulatory.

The Board aims to ensure that the views of its stakeholders are considered during Board discussions and decision-making. The Board is aware of its responsibilities to its stakeholders in considering the following key areas:

CUSTOMER AND PEOPLE

The Board has sought to interact directly with employees and customers and ensure that the information flow and key metrics are properly analysed and understood by the Board.

During its visit to Toronto, the Board met with senior leaders to understand better the Johnson brand and the customer journey within Canada. Board members also attended a site visit to St John's, Newfoundland, to better understand how digital technology is being used in Canada to improve the customer journey.

The Board approved investment in technology and digital offerings, which include an easier interface for UK customers to use. The benefits of these systems will include being more intuitive for employees and reducing costs.

The Board received quarterly updates from the new UK Customer Committee which was established to ensure we promote and secure positive outcomes for our customers.

The Board receives updates on 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 met with members of the Canadian Diversity & Inclusion (D&I) Council to discuss issues which affect the Group's workforce on a day-to-day basis and how the Company supports and encourages employees from a range of backgrounds in their career aspirations. The Board received and discussed enhanced reporting on diversity and inclusion metrics and also met with members of the D&I Council to discuss progress against our diversity and inclusion ambitions and the initiatives being established to support them.

The Board met with a range of employees to understand their roles within the business, any concerns or opportunities they see, and discuss how their work influences Board decisions.

The Board reviewed the results of the 'YouRSAy' employee engagement survey and the proposed actions arising from it. The Board supported management in the launch of a new people strategy under the Employer brand 'Your Best U'.

The Board reviewed Executive succession planning with a view to ensuring a strong pipeline of talent needed for the future development of the business.

STRATEGY & EXECUTION

The Board holds an annual two-day strategy meeting at which the Board discusses trends in the insurance market and the Group's strategy. Senior management attend 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 a detailed focus on people and culture, cost efficiencies and macro insurance trends.

The Board met with each of the regional businesses to discuss business strategy, customer and people, progress towards best in class ambitions, cyber and digital developments, developing market trends and emerging risks. The Board also spent time in the business, both collectively and individually, to gain a greater insight of the operational side of the business, including a Board visit to Canada to meet with the Canadian Executive team as well as customers, employees and the local Board.

Members of the Board joined the annual Senior Leaders' Conference, which focused on key priorities and challenges facing the Group.

Following a discussion on the long-term strategic priorities and after challenging management on the plans and progress made in achieving the best in class status, the Board approved the operational plan.

Senior management from the Group's top 50 management and key businesses in Ireland and the UK were invited to present to the Board on specific business initiatives.

The Board undertook a deep dive on the Group's approach to volatility and whether the reinsurance structures in place were fit for purpose. Taking into account feedback from investors and having challenged the approach, the Board supported management's recommendation to purchase new regional aggregate covers for 2019. With the additional covers in place, the Board agreed that the overall reinsurance structure managed volatility appropriately.

FINANCE, CAPITAL AND INVESTOR RELATIONS

The Board approved the 2017 final dividend for recommendation to shareholders which was subsequently paid to shareholders in May 2018. The Board also approved the 2018 interim dividend, which was paid to shareholders in October 2018.

The Board receives recommendations from the Group Audit Committee on the Company's financial statements and other related matters.

The Board approved the Annual Report and Accounts 2017, as well as approving the preliminary results and trading updates which were disclosed to the market in 2018.

At each meeting, the Board reviews and challenges the monthly Group performance pack, which includes a discussion on capital.

The Chairman and Senior Independent Director met with Standard & Poor's in October 2018.

The Investor Relations team present semi-annually on investor sentiment, competitor trends and comparison.

GOVERNANCE, RISK AND REGULATORY

The Chairman and non-executive directors, together with senior members of the management team, hosted meetings with external stakeholders, including regulators, shareholders and other external advisers to discuss a variety of topics, including business performance and market trends.

The Board engages regularly with the FCA and PRA, and some Board members have met directly with the FCA and PRA. Key topics for engagement include culture and governance, treatment of existing customers and technology resilience. The Board also receives periodic updates from the business and from Line 2 on regulatory matters and priorities.

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.

Board and committee composition and attendance in 2018

As at the date of this report, the Board is composed of ten members: the Chairman, seven non-executive directors and two executive directors. The table below shows the attendance at the Board and committee meetings. Biographical information of the current directors can be found on pages 46 and 47.

	Board	A Audit[5]	B Risk[6]	N Nom[7]	R Rem[8]	I Invest[9]
Chairman Martin Scicluna	9/9			4/4		2/2
Group Chief Executive Stephen Hester	9/9					
Group Chief Financial Officer Scott Egan	9/9					
INDEPENDENT NON-EXECUTIVE DIRECTORS						
Senior Independent non-executive director Isabel Hudson	9/9		4/4	4/4	4/5	
Alastair Barbour	9/9	6/6	4/4	4/4		2/2
Kath Cates	9/9	6/6	4/4	4/4	5/5	
Enrico Cucchiani[4]	9/9		2/3		5/5	
Charlotte Jones[3]	5/6	3/4	1/3			
Hugh Mitchell[2]	4/4		1/1		3/3	
Joseph Streppel[1]	8/9	5/6			4/5	2/2
Martin Strobel	9/9	6/6	4/4	4/4	5/5	2/2

NOTES:

1 Joseph Streppel was unable to attend the January 2018 Board and Committee meetings due to ill health.

2 Hugh Mitchell resigned as a director with effect from 11 May 2018.

3 Charlotte Jones joined the Board and GAC on 1 April 2018 and BRC on 1 June 2018. She was unable to attend the Board and BRC meetings in June and December 2018 and the June 2018 GAC meeting due to prior commitments predating her membership of the Board and committees. Unfortunately, the Board and committees were unable to reschedule the meetings. Charlotte ceased to be independent in February 2019 when she agreed to assume the role of Group CFO.

4 Enrico Cucchiani joined the BRC on 1 June 2018. He was unable to attend the June 2018 Committee meeting due to a prior commitment predating his membership of the Committee.

5 GAC regular attendees: Group CFO, Group Chief Auditor, Group & UK Regulatory Compliance Director, Group Chief Risk Officer, Group Chief Legal Officer and Company Secretary, Group Chief Financial Controller and representatives from the External Auditor. The Chairman and the Senior Independent Director attend ahead of RSA's full and half-year results.

6 BRC regular attendees: Chairman, Group CFO, Group Chief Legal Officer and Company Secretary, Group & UK Regulatory Compliance Director and Group Underwriting Director.

7 NomCo regular attendees: Group CEO and Group Chief Legal Officer and Company Secretary.

8 RemCo regular attendees: Chairman, Group CEO, Group Chief Legal Officer and Company Secretary, Group HR Director, Group Reward Director and PwC as independent advisers to the Committee. Additional input was provided by the Group Chief Risk Officer.

9 GIC regular attendees: Group Investments Director, Group CEO, Group CFO and Group Chief Legal Officer and Company Secretary.

UK Corporate Governance Code

Governance code

The Board, through the Group Nomination and Governance Committee, monitors compliance with the Code. The Company has complied with the 2016 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.

Leadership

Role of the Board

The primary responsibility of the Board is to provide effective leadership to ensure that it promotes the success of the Company for the benefit of its members as a whole. The Board, supported by its committees, provides leadership within a framework of prudent and effective controls. The Board is accountable to stakeholders for the creation and delivery of strong sustainable performance and the creation of long-term shareholder value.

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.

The division of responsibilities

No individual 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 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 facilitating communication between the non-executive directors and the Chairman.

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 Chairman

The Chairman is responsible for the leadership and effectiveness of the Board, including conducting Board meetings. He promotes a culture of openness and debate, ensuring effective decision-making and the provision of timely, accurate and clear information. The Chairman, who was independent on appointment, is responsible for the leadership and management of the Board and its governance. He makes sure the Board is effective in its role by promoting a culture of openness and debate, facilitating the effective contribution of all directors and helping to maintain constructive relations between executive and non-executive directors. 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.

Effectiveness

Board composition

Through the annual Board evaluation process, the Board has 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, and continues to work towards achieving external diversity recommendations.

The NomCo is responsible for reviewing Board membership, succession planning and diversity to ensure the skills, experience and balance of the Board remains appropriate. When appointing new directors, regard is given to the size of the Board, the balance of executive and non-executive directors and the benefits of all forms of diversity.

Following recommendations from the NomCo, the Board took into consideration the Code and indicators of potential non-independence, including length of service. Following due consideration, the Board determined that, with the exception of the Chairman, whose independence is only determined on appointment, all non-executive directors remained independent in character and judgement throughout the year as defined in the Code. Charlotte Jones ceased to be independent during February 2019 when she agreed to assume the role of Executive Director and Group CFO.

The NomCo Report on page 62 sets out more details of the appointment process for Charlotte Jones, and the Committee's role in succession planning and diversity.

Commitment

The letters of appointment for the Chairman and each of the non-executive directors set out their anticipated time commitment, which includes attending Board and committee meetings, spending time in the business, training and briefings with senior management as part of their induction and ongoing development programme, and attendance at the AGM. Details of the directors' service contracts and terms of appointment, together with their interests in the Company's shares, are shown in the Directors' Remuneration Report on pages 83 and 84. The service agreements and letters of appointment, for all the executive and non-executive directors, are also available for inspection at the Company's registered office and at the AGM.

The NomCo considered all new external appointments relating to the Chairman and the non-executive directors which included the committee's conclusion that the directors are able to continue to devote sufficient time to the role as a Board member of the Company. See page 63 for more details. The Board is satisfied that Martin Scicluna, Alastair Barbour and Martin Strobel's external appointments did not give rise to a conflict of interest and are not a constraint on their time or ability to carry out their duties.

Induction, training and development

Each director has an individual training plan, which is reviewed annually by the Chairman. The directors have attended training sessions and seminars during the course of the year on topics such as cyber security, the Internal Model, Solvency II and audit and risk updates 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 spends time on site visits, giving it the opportunity to meet with and challenge senior management, while also deepening its knowledge of specific business areas. More information on the Board's activities during 2018 is detailed on pages 50 and 51.

Additional training is provided for all Board members when committee membership changes occur.

Following her appointment to the Board, Charlotte Jones undertook a tailored induction programme, receiving a broad range of information about the Group. This included information on the operational performance and business of the Group, including the Group's approach to corporate responsibility, and details of Board procedures, corporate governance and directors' responsibilities. Meetings with senior management covering 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, were also organised. Charlotte was 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

The evaluation process was designed to include consideration of the balance of skills, experience and composition of the Board, how the Board works together as a collective, as well as other factors relevant to the continued effectiveness of the Board and its committees.

In 2018, an internal evaluation was led by Isabel Hudson, the Senior Independent Director (SID) and the Company Secretary. The evaluation was carried out via online questionnaires, which were supplemented with individual interviews conducted by the SID and the Company Secretary in order to canvas the views of each director and regular attendees of Board and committee meetings. The questionnaire covered the effectiveness of the Board and its committees and 360-degree reviews of the performance of individual directors. The questionnaires were then complemented by individual interviews conducted by the SID and the Company Secretary. The results of the 360-degree reviews were used for one-to-one discussions between the Chairman and directors. In addition, the SID facilitated a separate discussion with the non-executive directors on the Chairman's performance.

The results of the evaluation were presented to the Board in December and actions agreed against the key themes. Respondents unanimously concurred that the Board was highly engaged and operating effectively. Key strengths included feedback regarding the openness and transparency of both discussions at Board meetings and also in relation to management's reporting of challenges and issues. Board members commended the collaborative and positive atmosphere at Board meetings and the degree of challenge provided to management.

During 2018, progress has been made against the key themes identified in the 2017 evaluation and good or significant progress had been made on all actions. In 2019, the Board will focus on enhanced stakeholder engagement, improvements to the flow of information presented to the Board, and IT and the ability to react to the ever-changing IT environment.

Accountability

The Board, through the Board Risk Committee, ensures that material risks are identified and ensures these risks are mitigated and managed.

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. The System of Governance comprises three elements:

1. **Corporate Governance Framework** 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 is responsible for ensuring the effectiveness of the Group's System of Governance, which is approved on an annual basis.

Through the Corporate Governance Framework, effective decision-making, good procedures and strong internal reporting are embedded into the business processes, which align to the Group's strategy of 'focused, stronger and better.'

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 64 and 65.

The Group Audit Committee reviews the effectiveness of the Internal Control System on an annual basis. The Group has an effective Internal Control System in place which sets out the processes and frameworks required to ensure effective and efficient delivery of the Group's strategic objectives, including reliability and availability of information to identify and mitigate any potential risk of failure to achieve business objectives, but it does not eliminate risk. In addition, assurance of the Financial Control Framework is carried out on a quarterly basis by the Group Audit Committee. For further details, refer to the Group Audit Committee Report on pages 57 to 60.

SYSTEM OF GOVERNANCE

Corporate Governance Framework

- Provides a framework which supports the realisation of its business strategy and supports long-term success
- Provides effective and efficient decision-making by the Board and its committees
- Ensures that both directors and employees act within a chain of delegated authority and specified powers
- Safeguards compliance with applicable laws and regulations.

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:

  First line of defence: activities undertaken to ensure that risks are identified and controlled to bring them within appetite

  Second line of defence: independent review and challenge of the first line activities, providing assurance that controls and validation are properly designed and operating effectively

  Third line of defence: evaluation of the effectiveness of our risk management, control and governance processes.

Internal Control System

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 Group Controllership Policy sets out the standard control processes to mitigate against material financial reporting misstatement and financial loss. Assurance is provided through the Financial Control Framework.

2. Delegated Authority Framework

- Authority delegated from the Board to the Group CEO 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
- Day-to-day management is undertaken by the Group Chief Executive and Executive Committee supported by executive level committees
- Each executive is responsible for ensuring a similar process of delegation is in place within his or her area of responsibility
- 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. Regulatory Compliance Framework

- Regulatory Compliance Policy 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
- Ensures that the Group deals with regulators in an open and cooperative manner
- Keeps regulators fully and promptly informed of all matters.

Engagement

The Board is committed to transparent disclosure and engagement with the Group's stakeholders. The Board believes that its stakeholder engagement programme provides meaningful insight into the views, priorities and issues facing each of its stakeholders.

Stakeholders

Throughout the year, senior management has actively engaged with shareholders, customers, employees, regulators and other stakeholders on relevant matters. The Board has attended internal leadership events, overseas visits, presentations and dinners hosted by senior management to gain a deeper understanding of certain business areas. During the year and with reference to the new Code provisions, the Board undertook a review of the Company's engagement with its key stakeholders and established a stakeholder engagement plan to identify opportunities to engage further in 2019. The engagement plan outlined the Board's direct and indirect engagement with the Group's key stakeholders, including meetings with investors and ratings agencies, site visits, customer interaction, employees and ongoing interaction with the Regulator.

See **pages 08 and 09** in the Strategic report for further information.

Shareholders

During the year, the Group met with a number of key institutional investors. The Board receives regular updates in relation to shareholder views.

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

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 on shareholders can be found on **page 08**

Customers

One of the Group's strategic goals is the ambition of delivering improvements in customer service. The Board receives regular updates on customer metrics as it moves towards realising this ambition.

More information on customers can be found on **page 08**

Employees

The Board recognises the key role of the Group's employees in delivering the Group's strategy and values the time spent with them. Members of the Executive Committee and senior management host regular 'town hall' meetings to update employees on topical issues, including giving updates on company performance each quarter following the announcement of results or a trading update. The Board hosted a 'town hall' meeting during its visit to Toronto to hear directly from the workforce as well as a number of events with employees to discuss issues of importance to the Group. Further 'town halls' and meetings are planned for 2019, including during the Board visit to Scandinavia in September 2019.

The Chairman and the Chief Executive are also attending the European Works Council, RSA's European employee representative body, during 2019.

More information on employees can be found on **pages 38 and 39**.

Regulators

The Board is committed to dealing with regulators in an open, cooperative and transparent manner and takes its regulatory responsibilities seriously. During the year, the PRA and FCA conducted routine meetings with several members of the Board and executive management. Similar meetings take place with regulators in other jurisdictions. Regular management information is provided to assist the regulators with the supervision of the Group.

Rating agencies

The Group is rated on an interactive basis by Standard & Poor's and Moody's. Their insurance financial strength ratings as at 25 February 2019 are A (stable outlook) and A2 (stable outlook) respectively. These ratings were affirmed following the 2018 half-year results and reflect RSA's improving performance, strong competitive positions, diverse business mix and the completion of balance sheet actions undertaken. In addition, both agencies have spent a day with senior management discussing Group strategy, financial plans, capital and risk management.

Remuneration

- The Directors' Remuneration Policy, approved by shareholders, supports operational plans, business strategy and short and long-term performance.
- Performance measures are aligned to business strategy, customer metrics and risk and control, and have stretching targets.
- The remuneration framework is designed to promote sound and effective risk management in line with the Company's risk profile.
- Shareholding requirements, malus and clawback provisions are in place.
- Group Remuneration Committee members receive background information on the remuneration of the Group's employees in general to provide context when considering executive directors' remuneration.

For more details, see the Remuneration section on **pages 66 to 69**

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

27 February 2019

Areas of activity in 2018

- Reserving
- Accounting judgements and estimates
- Internal financial controls
- Regulatory reporting
- 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 Report for 2018. The Committee oversees and, as we believe appropriate, 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 issues the Committee considered in relation to the 2018 Annual Report and Accounts 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 49.

The Group's IT infrastructure continues to be the focus of transformation and both the Group Audit and Board Risk Committees received updates on enhancing general IT controls and the steps taken to ensure compliance with the 2018 General Data Protection Regulation (GDPR).

The Committee provided oversight of the implementation of the GDPR and continues to review the process and procedures the Company has adopted in this respect.

During the year, the Committee received briefings on a number of items, including reporting developments, the key aspects of IFRS 17 and its likely impact on the Group, the recommended transitional approach for the Group under IFRS 16, the FRC Financial Corporate Reporting Review and the preliminary findings of the CMA's review of the audit market.

The Committee also visited the Liverpool office to meet the UK Finance team where it had the opportunity to meet with the Group Finance and UK Finance Centre of Excellence 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 undertaking and development of the Financial Control Framework (the Framework).

The Committee found the visit extremely useful in further building its understanding and review of the end-to-end finance processes, up to and including the production and controls of the Annual Report and Accounts, the continual developments across the finance teams and how the Framework operates in practice.

As reported in the Board Risk Committee Report on page 64, members of the Group Audit Committee attended a meeting of the Canadian Audit and Risk Committee as part of the Board's site visit to Toronto.

Committee composition, skills and experience

The Committee comprises five 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 52 and biographies are available on pages 46 and 47.

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. When considering the 2018 Annual Report and Accounts, the Committee focused on the significant judgements and estimates which could be material to the financial statements. These included the matters set out below.

Insurance liabilities valuation

The Committee has ensured that management exercised appropriate judgement and control in estimating insurance contract liabilities, including assessing the impact of claims trends and other influencing factors consistent with previous years. The key judgements underpinning the valuation of insurance liabilities were reviewed, including:

- The level of margin held to make allowance for specific risks and uncertainties that are not allowed for in establishing the actuarial best estimate
- The level of reserves held for areas with greater inherent uncertainty, e.g. abuse, deafness, UK professional and financial risk, Danish workers compensation and Canadian general liability

- The eligibility of claims for recovery under the Group volatility reinsurance cover
- The results of the internal reserving assurance programme which provides independent validation of reserves set at a regional level and which in 2018 covered UK Personal and Commercial and Swedish Motor.

The Committee received quarterly reports on the Solvency II Technical Provisions and reviewed the bridge from 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 also received and considered detailed written and verbal reporting from KPMG setting out its observations and conclusions in respect of the reported insurance contract liabilities based on its audit procedures as further described in its report on pages 98 to 105.

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

Deferred tax asset valuation

The Committee reviewed the key assumptions supporting the UK deferred tax asset. The forecasts presented by management were assessed and, in particular, the longer-term profit projections were challenged given recent performance of the UK business. The Committee is satisfied that the assumptions supporting the valuations are appropriate and that the asset is reasonably stated. The Committee will continue to monitor the UK deferred tax asset on a quarterly basis with reference to the actual performance of the UK business versus profit projections.

Pension and post-retirement obligations

The Committee reviewed reports on the valuation of the pension schemes. The pension schemes are sensitive to changes in key assumptions, therefore management completed an assessment as to the appropriateness of the assumptions used versus benchmark data and external expert reviews, and reported the findings to the Committee. This included an assessment of the additional provision required following the UK's High Court ruling on equalisation of 'Guaranteed Minimum Pensions' for men and women.

The Committee concluded that the changes proposed by management in relation to morality assumptions were appropriate and supported the conclusion that the assumptions used overall were reasonable and within an acceptable range of other companies with schemes of a similar duration. The Committee will continue to review movements in the pension scheme valuation on a quarterly basis, together with a deep dive assessment of all key valuation assumptions on an annual basis.

Goodwill and intangible asset valuation

The Committee reviewed the key assumptions supporting the assessment of the carrying value of goodwill and intangibles. This included review of the reasonableness of future profit projections and the appropriateness of the discount rate used. The Committee approved an impairment to the carrying value of the Norwegian business to the value of £7 million in 2018. The Committee will continue to review carrying value assessments on an annual basis with a review for any indications of impairment performed at the half year.

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 correctly 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.

With respect to financial reporting controls, the Committee received updates from KPMG on its 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.

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 2018 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, included in the Strategic Report on page 40, helps demonstrate how the Group's prospects and viability have been assessed.
- The Committee considered whether the 2018 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 2018 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 has not made any significant changes to its accounting policies during 2018.
- Reviewed and challenged management on the appropriateness and application of Alternative Performance Measures in press releases, analysts briefings, quarterly, interim reports and the Strategic Report.
- Reviewed the quarterly Solvency II balance sheets and technical provisions prepared by management and monitored the Group's Solvency and Financial Condition Report providing appropriate challenge to key judgements and the adequacy of disclosures.
- 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 information systems and controls, and separately its reporting on the Solvency II balance sheet, annual Solvency and Financial Condition Report and observations on key areas of judgement in relation to Solvency II.

- Received regular reports from the Group and UK Regulatory Compliance Director on progress towards delivery of regulatory requests, the outcome of site visits and updates on regulatory developments and issues. The Committee reviewed and approved the 2019 Compliance Plan which sets out the work to be undertaken in the upcoming year to ensure compliance with regulatory requirements and 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 are 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 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 a senior manager in Group Human Resources 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 and UK Regulatory Compliance Director, the Group Chief Financial Officer, the external auditor and the Group Chief Actuary without members of management being present.
- Held regular private meetings of Committee members to discuss issues on which to concentrate with management and advisers in the subsequent meeting.
- Amended the Committee Terms of Reference, available at www.rsagroup.com, to reflect the requirements of the new Code.
- The Committee was subject to an internal effectiveness evaluation as part of the wider review of the Board and its committees during 2018, see page 54.

The Financial Control Framework

The 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 mitigating 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.

The primary focus of the Framework is the production of information for the Group Annual Report and Accounts. In addition, the Framework mitigates material risks at the local operational level.

The Committee received quarterly updates on the assessment and testing of controls as part of the Framework, including any control deficiencies and the action taken.

Internal Control

The Internal Control System forms part of the System of Governance as set out on page 55. The Board has overall responsibility for the effectiveness of the Group's Internal Control System, which 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.

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 the findings, recommendations and proposed control improvements set out in these reports. The Committee reviewed the effectiveness of the Internal Control System during 2018 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 2018 and for the purposes of approving the Annual Report and Accounts. See page 42 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 to 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. 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, as well as the risk and control culture of the Group.

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.

On an annual basis, GIA hosts an informal meeting for members of the Committee and the Regional Audit Committee Chairs, providing further opportunity for detailed discussion concerning GIA plans for the forthcoming year. The Group Chairman and members of the Committee, together with the chairmen of the regional audit committees in Canada, Scandinavia and Ireland, attended the 2018 meeting in November. The considerations raised at that meeting were included in the development of the audit plans for 2019. Rolling audit plans were approved by the Committee in May and December 2018.

In December 2018, the Group Chief Auditor also provided the Committee with an assessment of the skills and capabilities required to conduct the audit work for 2019, 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 Quality Assurance (QA) programme that is outsourced to Deloitte. Deloitte reports a summary of the QA results annually to the Committee. Further, GIA performs an annual assessment of compliance with professional standards of which the results were reported to the Committee in December 2018. The Committee was satisfied that GIA was operating effectively, sufficiently resourced and that the risk to their independence and objectivity was low.

GIA is governed by an Internal Audit Charter which sets out the function's role, mandate and authority, and includes independence and objectivity criteria. An updated Charter was approved by the Committee in July 2018.

External auditor

The Committee is responsible for overseeing relations with the external auditors, 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. There are no contractual obligations restricting the Company's choice of external auditor nor limitation of liability in the terms of their appointment.

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 2018. It is the intention of the Committee that the Company will tender the external auditor appointment at least every 10 years.

Auditor independence and objectivity

The Committee attaches considerable importance to the work, opinions and findings of the external auditor wich participates 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. KPMG is expected to challenge appropriately, 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 auditors as set out in the non-audit services policy
- Ensuring that employees of the external auditors that have recently worked on the audit are not appointed to senior roles within the Group
- Providing a business conduct helpline that employees can use to report any concerns
- The rotation of the lead engagement partner at least every five years; Daniel Cazeaux took over as the Group's audit engagement partner in 2018
- 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.

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 financial reporting 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. The Committee also considered its 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.

On the basis of the review, the Committee is satisfied with the work of KPMG; that its performance reflected the relevant skills, rigour, perseverance and robustness expected and that it is objective and independent. Accordingly, a resolution to re-appoint KPMG LLP and giving authority to the directors to determine its remuneration will be submitted to shareholders at the 2019 AGM.

Fees and non-audit services

The audit fee for 2018 was discussed and considered before being approved by the Committee on behalf of the Board.

All permitted non-audit services should 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 2018 were £1.5 million, £0.9 million of which related to audit-related assurance services 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 2018, including for non-audit services and the ratio to audit fees, is provided in the notes to the financial statements on page 131.

Group **Investment** Committee Report

"The Group's investment portfolios continued to concentrate on high-quality assets focussed on delivering income while maintaining a low risk structure."

Joseph Streppel
Non-executive director and Chairman of the Group Investment Committee

27 February 2019

Areas of activity in 2018

- Further net investments within illiquid credit investments
- Review of investments strategy of the Group's main defined benefit pension schemes
- Review of the approach to Environmental, Social and Governance investment

Areas of focus in 2019

- Continued review of strategy and opportunities to drive optimisation of returns while maintaining the core high quality low risk investment portfolio structure

Review of the year

Market review

Despite some significant headwinds and uncertainties, 2018 saw the continuation of generally positive global economic conditions. Growth in North America remained relatively strong, enabling both the US and Canada to further tighten monetary policy. European growth, while still positive, was more subdued although still sufficient to enable a small rise in UK interest rates.

This stronger growth saw a continued tightening of labour markets with unemployment levels falling further in most western economies. Against this background, a number of countries also saw a small increase in inflation pressures, although overall headline levels of Consumer Price Index remain at relatively modest levels.

Although economies have retained positive momentum from last year, the growing risks and uncertainties created by a range of factors, including trade wars and Brexit,are leading the market to generally predict slowing growth for the coming year.

In reflection of the more cautious economic outlook, returns from financial markets were relatively subdued. Equity markets and non-government bonds in particular traded back from their highs in 2018 as expectations for growth and future earnings reduced. In contrast, after trading lower in the first half of the year, government bonds rallied into the year end as expectations of future interest rates hikes lessened.

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 risks frameworks. There were no significant changes to the Group's investment portfolios with a continued focus on high-quality 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 Group has also maintained its commitment to high-quality assets with c.72% of bonds having credit ratings of AA or higher and just 2% rated lower than BBB. The core high-quality matching policy has meant that the Group is well protected against the volatility caused by political and market developments, including Brexit.

There has continued to be a focus on net 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.£1.8bn with c.£1.4bn of investments deployed. Investment into these 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. The pace of new investments moderated during 2018 in reflection of market conditions and further new investments will only be made over the coming year if they meet the Group's stringent criteria for both quality and projected return.

In reflection of the growing risks to global economies and markets, the Committee reviewed alternatives to further reduce exposure to negative market movements with a focus on strategies in relation to credit and inflation exposure. No substantive changes in policy however resulted from these reviews, reflecting the protection already provided by the high-quality nature of the existing asset position.

In response to the growing focus on Environmental, Social and Governance (ESG) factors, a review of the approach to ESG investment was undertaken. The Committee discussed the options available for ESG-linked initiatives and approved the use of third-party ESG rating agency input to provide additional screening and data on the Group's investment holdings as well as providing access to research and data on broader market developments.

The Committee continued to also review the investment 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. During 2018, the Group engaged with the two main UK schemes in the triennial funding valuation and, partly in reflection of this, focus on investment actions was relatively modest. The Group, however, continues to work with the trustees to consider options for further de-risking of the schemes' investment strategy over time.

Looking forward

No significant changes to Group strategy are targeted at this time with the Group continuing to retain its core, high-quality, low risk investment structure. Given the highly uncertain nature of the global economic and political environment, however, it is recognised that market conditions may change significantly over the course of the coming year and the Committee will continue to review the risks and opportunities that arise from such movements.

Group **Nomination and Governance** Committee Report

"The Board values the breadth of perspective that diversity can bring and the beneficial impact it can have on Board effectiveness and throughout the Group more broadly."

Martin Scicluna
Chairman and Chair of Group Nomination and Governance Committee

27 February 2019

Areas of activity in 2018

- Succession planning
- Board and committee composition
- The changes introduced in the new UK Corporate Governance Code

Areas of focus in 2019

- Diversity and inclusion
- Implementation of the changes required to support our compliance with the principles of the new Code

Review of the year

It has been a busy year for the Committee; overseeing the changes being introduced by the new UK Corporate Governance Code, our continued work on succession planning, the search and selection process for our new Directors, Charlotte Jones and Sonia Baxendale, and the search for a new Group Chief Financial Officer (CFO).

Succession planning

Succession planning has remained an area of focus for the Committee. The Committee discussed the results of a self-assessment questionnaire that the non-executive directors completed on the current experience of the Board. Taking into account the aggregated view of the strengths of current Board members, the Committee considered the current balance of skills, experience, independence and knowledge on the Board in the context of succession planning and the strategic priorities of the Group and agreed on a combination of skills and market experience that any future candidates for a non-executive director role on the Board should ideally bring.

Executive succession planning is also regularly reviewed by the Committee to ensure that a pipeline of 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. A gender lens is now applied to succession plans as a way of highlighting progress against our targets as set out below.

Development themes and activities for possible future candidates to join the Executive Committee are reviewed annually by the Committee, and an assessment of the strength of the succession pipeline has also been introduced to highlight areas where action may be needed.

Board and Committee composition

During the year formal processes were undertaken by the Committee to strengthen the experience and skills on the Board and its committees resulting in the appointment of two new Directors, Charlotte and Sonia, and a change in role for Scott Egan from CFO to Chief Executive of our UK & International division.

New board appointments and role changes

Following a recommendation from the Committee, Charlotte Jones was appointed as a non-executive director to the Board and as a member of the Group Audit Committee and of the Board Risk Committee with effect from 1 April 2018. A formal and rigorous process for this appointment was undertaken. Based on a candidate profile agreed by the Committee, a long list of potential candidates was produced by the executive search firm, Russell Reynolds Associates (formerly The Zygos Partnership). Isabel Hudson and I interviewed a short list of two candidates, and, following positive feedback on both candidates, interviews were conducted with Alastair Barbour and Kath Cates, and Stephen Hester and Scott Egan.

The Board is committed to the progressive refreshment of the Board. Russell Reynolds Associates were appointed to undertake a search for a new non-executive director to take over from Joseph Streppel, who decided not to seek re-election at the 2019 AGM. This search included candidates from Canada and Scandinavia. Following due consideration and discussion with Committee members, a short list of four potential candidates were interviewed by Alastair and myself and then two of the candidates were interviewed by other Committee members. Following these interviews, a preferred candidate was identified and this candidate met with Isabel and Martin Strobel, and Stephen and Scott. Following a recommendation from the Committee, Sonia Baxendale was appointed as a Non-executive Director to the Board and as a member of the Group Audit and Group Investment Committees with effect from 1 March 2019.

Sonia brings extensive senior banking and Canadian financial services experience to the board. Her experience serving at operating board level for one of the top five banks in Canada and portfolio of non-executive positions in listed and privately held businesses, together with a wide range of audit, finance, human resources, risk management and governance experience, was considered to benefit and complement the current experience of the Board.

The Committee also made recommendations in relation to executive director appointments. Following the departure of Steve Lewis, Scott Egan was appointed as the new Chief Executive of our UK & International division. Korn Ferry were appointed to conduct a search for the CFO role. A shortlist of candidates was produced against an agreed candidate profile. Two candidates were interviewed by several Board members and, following a recommendation from the Committee, Charlotte Jones was appointed as Group CFO. Charlotte brings significant financial services and technical financial and accounting expertise from the banking and asset management sectors, together with a wide range of commercial, investment, risk management and regulatory experience.

Following a recommendation by the Committee, the Board approved the appointment of Enrico Cucchiani to the Board Risk Committee with effect from 1 June 2018.

Korn Ferry and Russell Reynolds Associates are accredited by the Davies Review under the Enhanced Code of Conduct for Executive Search Firms. Neither of these firms have any other connection with the Group.

Independence

The independence of the non-executive directors is considered at least annually along with their commitment and performance on the Board and its Committees. The Board took into consideration the Code and indicators of potential non-independence.

Isabel Hudson is a member of one of the Group's defined benefit pension schemes relating to her previous employment with Royal Insurance, which ended in 1993. Taking into account a number of factors, including the size of the pension benefit and its relative immateriality to her overall retirement planning, it remains the Committee's view that Isabel's pension entitlement in no way compromises her independence of character and judgement.

Particular attention is given to any non-executive director appointment over six years taking into account the need for progressive refreshing of the Board. The Committee gave detailed consideration to the expertise and contribution that Martin Scicluna and Alastair Barbour bring to the Board and its committees when considering their re-appointment. The Committee was satisfied that they continue to make a significant contribution to the proceedings of the Board and its committees and that their proposed re-election would provide valuable continuity as work on refreshing the Board progresses.

Charlotte Jones is not considered to be independent following her appointment as CFO. Charlotte will act as a non-independent non-executive director until she assumes the role of CFO.

Following due consideration, the Committee concluded that all directors proposed for re-election continue to be effective, demonstrating commitment and making valuable contributions to the Board and that each non-executive director remains independent. Therefore, the Board is proposing the re-elections as set out in the 2019 Notice of Annual General Meeting, noting that Joseph Streppel would not be seeking re-election.

Diversity

As well as considering the balance of skills, experience, independence and knowledge on the Board, the Committee also, as a matter of Board policy, recognises the importance of diversity of gender, social and ethnic backgrounds, and of cognitive and personal strengths.

The Board values the breadth of perspective that such diversity can bring and the beneficial impact it can have on Board effectiveness and throughout the Group more broadly; and remains committed to maintaining a diverse Board and overseeing the development of a diverse workforce.

Significant focus has been given to the diversity and inclusion agenda during 2018 following the approval of a Group-wide Diversity and Inclusion Policy in 2017 and the establishment of a Group and three regional diversity and inclusion councils. The Company also signed the 'Women in Finance Charter' in 2017 through which the Group is committed to achieving a 33% representation of women in our management group by 2020. The Board is committed to improving diversity on the Board and at senior management level and aspires to meet the recommendations of the Hampton Alexander Review; 33% of Board and a minimum 33% representation of women in senior management positions by 2020. Group-wide gender data was provided to the Hampton Alexander Review in July 2018, demonstrating the commitment to good governance and transparent reporting.

As at the date of this report, women make up 30% of the Board (at the date of the 2019 AGM this figure will be 40%) and 32.8% of the Company's senior management group. 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. See page 39 for more details.

Governance

The Committee has also focused on the changes being introduced in the new UK Corporate Governance Code and monitored the implementation of the changes required to support our compliance with the principles of the new Code.

In response to the new Code and the reporting required under s.172 of the Companies Act, the Committee received a paper on the outcome of an exercise to map the Group's stakeholders to the Board's activities and discussed the level of direct and indirect engagement with these stakeholders. The key priorities for stakeholder engagement in 2019 are customers, employees and regulators. The current level of engagement with other stakeholders would continue.

A detailed Board stakeholder engagement plan was discussed and agreed by the Committee for recommendation to the Board. In addition to direct engagement with the workforce, regular updates to the Board on themes and subjects being raised by the workforce in the various forums such as town halls, employee intranet, the Groups social networking platform or works councils have been reviewed, enhanced and included in the plan.

Following on from this, the Committee received an in-depth update on employee workforce engagement and culture. The Committee discussed the various ways by which the views of the workforce were canvassed and concluded for recommendation to the Board that the most effective way of understanding the views of the workforce was to enhance management reporting of workforce issues as well as maximising Board interactions with the workforce.

The Committee also has responsibility for the oversight of regulated subsidiaries. Following the implementation of Group-wide regulated subsidiary guidance in 2017, the Committee has received updates from the regional chairs of the Scandinavian and Canadian businesses on matters including board composition, governance and their strategic priorities.

Other activities

- The Committee reviews compliance against the Code twice a year and concluded that the Company has complied with the Principles and Provisions of the 2016 Code throughout the year.
- The Committee has reviewed the time commitment of the non-executive directors and considers that they each devotes sufficient time to discharging their duties.
- The Committee considered the new external appointments of Martin Scicluna (as chairman-designate of J Sainsbury plc), Alastair Barbour and Martin Strobel and in each case was satisfied that the external appointments could be approved on the basis that they did not give rise to a conflicts 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 evaluation prior to the Senior Independent Director presenting the results to the Board. Further information relating to the Board evaluation process and results is included on page 54.

Board **Risk** Committee Report

"The Committee has continued to play a pivotal role in the oversight of our key risks whilst engaging stakeholders on specific topics."

Martin Strobel
Non-executive director and Chairman of the Board Risk Committee

27 February 2019

Areas of activity in 2018

- Canadian site visit, including Johnsons
- Attended the UK Customer Committee
- Oversight of UK Customer risk appetite
- Cyber risk deep dives
- Oversight of Internal Model enhancements

Areas of focus in 2019

- Scandinavia site visit
- Further stakeholder engagement
- Monitoring Brexit developments
- 2019 Internal Model change application
- Customer risk oversight
- Cyber risk oversight

Review of the year

Committee enhancements

After taking over as Chair at the start of 2018, I undertook a full review of the effectiveness of the Committee and agreed a set of enhancements. While the Committee was considered effective, there were areas where additional consideration or focus is appropriate. Many of the specific topics are covered below, including additional focus on delivering good customer outcomes, standardising IT risk reporting, enhancing management summaries received by the Committee and developing the Committee's understanding of key topics (e.g. cyber-related risks, the Internal Solvency Model) through site visits, deep dives, briefings and training.

Supporting the Board's engagement with stakeholders has also been a key focus during the year. Members of the Committee visited the Johnson business in St John's, Canada to meet management and receive detailed briefings on business performance, customers and partners, IT, brands and digital. Members of the Committee also attended a meeting of the UK Customer Committee to better understand key customer and conduct matters.

As part of the Board's three-day site visit to Toronto, Committee members attended a meeting of the Canadian Audit and Risk Committee to better understand the key risks of our Canadian operations and how they are mitigated. With the same purpose of better understanding the key risks facing our business, I also attended the UK and International Risk and Control Committee. This meeting included a deep dive into the IT cyber exposure of the UK business.

The composition of the Committee was enhanced during the year with the appointment of Charlotte Jones in April 2018 and Enrico Cucchiani in June 2018.

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 are subject to deep dives during the year. The risk management section of the Strategic Report includes the key risk areas on page 43.

Customer risk in the UK has been a substantial focus of the Committee in 2018 with a programme of work informed by an external benchmarking activity. The enhancements introduced and monitored in each committee meeting included oversight of a newly created UK Customer Committee and a new customer risk appetite statement supported by enhanced management information. Specific customer deep dives have been received in relation to complaints handling, renewal pricing, and meeting customers' demands and needs under the Insurance Distribution Directive (IDD).

Effective management of insurance risk is key to the Group's performance and longer-term success. In 2018, the focus was on enhancing underwriting and portfolio management capabilities across the Group and monitoring of the programme to develop these capabilities. At the Committee's request, a quarterly progress update is received in each meeting alongside regular insurance risk reporting. A deep dive on external delegation of authority was also received. Other insurance risk deep dives covered large losses, cyber risk and 'high-risk' policies.

IT and cyber security have been a key area of focus over the last few years and will continue to be, given the pace and nature of technological change, and the cyber threat landscape. These are extremely complex areas and have received significant attention from the Committee during the year. This included a deep dive on UK cyber risk and cyber risk training, which helps inform discussions on the cyber strategy for the Group. Also, the Committee stabilised the format of IT risk appetite reporting through the year making it easier to understand quarter-on-quarter changes and the progress of key actions.

The year saw real progress in key areas of IT security, resilience and incident management, and the ever-growing importance of data means this topic received increasing attention. Data management capabilities have been identified as of strategic importance and will be an area of focus for the Committee in 2019. During the first half of the year, the Committee provided oversight of the risks associated with the Group's GDPR compliance programme. This topic remained on the agenda during the second half of the year as the Committee monitored the risks from transition to business as usual.

The Internal Capital Model (the model) and regulatory capital requirements of the Group are key topics at each meeting, with regular updates on current position, including model sensitivities. The Committee oversaw an external review of the model and significant enhancements following recommendations from the Internal Model Governance Committee and subsequent approval by the Board. The Committee received a stand-alone training session that covered the key model design principles and addressed questions raised through the year, including dependencies between risks and model use. This will help inform future decision-making, especially in relation to regulatory model change approval processes in 2019. Additional model change activities will take place in Scandinavia, which the Committee will monitor but approval will be provided locally.

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 risk, renewal pricing and IDD. Compliance with the Senior Managers and Certification Regime was discussed with consideration of the implications for both the Committee and senior management.

Following discussion of people risk and the impact of change on the control environment, the Committee requested additional updates on this subject. An update was received on actions agreed in 2016 to ensure the control environment is sustained during change. Additionally, an update on major change projects underway across the Group was presented, giving a view of the top change risks and the level of oversight by the risk function. The update included a change risk checklist, informed by lessons learnt from past programmes, that can be used to support the Committee's oversight activities. Summaries of major change projects will be reported on a regular basis going forward.

Other activities during 2018

- 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.
- Regional Chief Risk Officers from Scandinavia, UK & International and Canada presented to the Committee to brief them on key regional matters, outline their top risks and relay their insights and best practice activities for consideration.
- The approach to Solvency II model validation was also enhanced, with more deployment of top-down tools analysing the outputs. 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 as part of the annual refresh with minor changes in relation to capital surplus limits and reputational risk measures recommended to the Board for approval.
- 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, which this year included hard Brexit, accelerating climate change and systemic risks arising from reinsurance. The Committee requested a new emerging risk associated with the changing use of consumer data be added.
- The annual stress and scenario testing process was reviewed by the Committee. In addition to the European Insurance and Occupational Pensions Authority stress test, reverse stress testing was performed on the impact of 1 in 10 and 1 in 20 insurance variances, and stress testing on three other scenarios; increasing medical costs, major regulatory changes and major data errors. As a result of this discussion, the Committee requested further insight on the insurance variations as part of their briefing on the internal model design.
- The Group's risk strategy and appetite was reviewed as part of the annual refresh, with minor changes in relation to capital surplus limits and reputational risk measures recommended to the Board for approval.
- 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 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. In approving the ORSA, the Committee requested edits to clarify the potential for volatility in certain capital measures. The Committee's oversight of the ongoing ORSA process includes consideration of a range of papers, such as risk updates, capital updates, stress tests and model results. Papers are clearly flagged as being part of the ORSA process.
- Minor revisions to the Group Recovery Plan were reviewed and 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 Terms of Reference for the Committee, available at www.rsagroup.com, were amended during the year to reflect the additional responsibility for oversight of the UK Customer Committee and the review of potential internal conflicts of interest between overseas subsidiaries and UK regulated entities as escalated by the transaction review and approval processes.

Looking forward

Following on from my effectiveness review at the start of the year, further enhancements are planned for 2019 with a continued focus on the customer, increasingly robust prioritisation of the agenda to ensure crucial areas are given sufficient time, oversight of long-standing actions that are challenging to close given their scale, complexity or nature, and a greater representation from subject matter experts from across the Group on key topics.

During 2019, the Board will visit Scandinavia to spend time with the regional first, second and third line management. The Committee will use this visit to gain greater insight into the regional business, its activities, and local risk and governance matters.

Model change applications will be reviewed and approved ahead of regulatory model change processes being initiated in 2019.

In relation to the new responsibility for oversight of the UK Customer Committee and Customer Compliance, the Committee will devote time and Committee members will continue to attend the UK Customer Committee in 2019 in order to understand and oversee the measures taken to further improve customer outcomes.

The Committee will also continue to oversee the evolution of the Brexit scenario and ensure that the necessary measures are taken to mitigate any risks during this period of uncertainty.

Remuneration Committee Chairman's Letter

Kath Cates
Independent Non-Executive Director

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On behalf of the Group Remuneration Committee, I am pleased to introduce this year's report.

Aligning performance and reward

In 2018, RSA delivered increases in headline profits, earnings per share and dividends, and a return on tangible equity well above the cost of capital. Nevertheless, it was a disappointing year financially with the first decline in underlying profits since 2013 driven by adverse weather and Commercial Lines losses, notably in London market portfolios that are being exited.

The key performance indicators include:

- Pre-tax profits £480 million, up 7%,
- Dividends up 7%,
- EPS 31.8p, up 21%, underlying EPS down,
- Underlying pre-tax profit £492 million (2017: £620 million),
- Group underlying Return on Tangible Equity at 12.6% (2017: 15.5%),
- Combined operating ratio at 96.2% (2017: 94.0%),
- Solvency II coverage ratio at 170% (2017: 163%).

There were many strong features of the year. Excluding exit portfolios, results were close to 2017's record, and at an underlying level, excellent progress was seen across a range of measures including costs, Personal Lines results, pensions and capital actions, and geographically in Sweden, Ireland and Middle East.

The results are reflected in the incentive outcomes for our Executive Directors.

In the 2018 Annual Bonus Plan, the financial target ranges were set at a level that built on 2017's excellent results. Headline targets were not met, though a number of underlying financial and other metrics performed well.

Following careful consideration of Stephen Hester's and Scott Egan's contributions (both what was delivered and how), the external context and incentive outcomes for other RSA employees, the Committee determined that they will receive bonus awards at 32% of the maximum, 48% down on 2017. Half of these awards are deferred into shares for three years. In reaching the bonus determination, the Committee applied an element of downwards discretion to the Scorecard outcome as detailed on page 72.

In setting executive pay, the Committee takes account of business performance, risk, shareholder returns and how we reward across the Group overall

Kath Cates

However, the results over the last three years as a whole reflect the substantial transformation progress made, and this is seen in the out-turn of the 2016-18 long-term incentive. Here, performance exceeded targeted levels. Therefore, 74% of this award will vest.

The Committee is satisfied the remuneration outcomes in this report fairly represent underlying performance. Further to our annual review of a report from the Group Chief Risk Officer, we considered whether any issues warranted application of malus or clawback and concluded that none so required.

Supporting the business strategy in 2019

The current Directors' Remuneration Policy was approved at the 2017 AGM. It operated as intended during 2018 and will continue in place for 2019.

The Committee will review the Policy ahead of its triennial renewal at the 2020 AGM, to ensure it continues to support RSA's long-term success. In doing so, it will take account of emerging practice around the new UK Corporate Governance Code provisions.

The 2019 Annual Bonus Plan and 2019-21 long-term incentive plan will have similar measures to 2018, focusing on shareholder returns and profit indicators. Targets are set in line with the Group's operating plan. Other key performance areas of risk and capital management, controllable costs, attritional loss ratios, business improvement, and customer and people, will be assessed in Business and Personal Scorecards. The Executive Director long-term incentive grants have been agreed in principle at the same levels as last year, as noted on page 82.

The Committee will be developing its approach on post-employment shareholding as part of its review of the Policy for approval in 2020. The retention period on long-term incentives granted from 2019 onwards will be aligned with this.

In recognition of the changing remuneration guidelines of some institutional shareholders, the Group Chief Executive voluntarily began

Aligning performance and reward

12.6%

Group underlying Return on Tangible Equity (ROTE)

-2.9 points

£492m

Group underlying Profit before tax (PBT)

-21%

170%

Solvency II coverage ratio

96.2%

Combined operating ratio

-48%

Executive Director bonus awards vs last year

-20%

Total CEO remuneration vs last year

a process of pension contribution reduction, with payments from 2019 to reduce by 3% of salary, and by an additional 3% of salary from next year. The Group's updated policy for new Executive Director appointments will take account of these guidelines from the outset.

The Executive Directors' salaries and Chairman's fee will increase by 2% from 1 April 2019, below the average salary increase levels for our UK based employees.

Executive Director changes

In February 2019, we announced that Scott Egan would be changing role from Group CFO to CEO UK & International. Scott will remain an Executive Director. There is no resulting change to his remuneration except that his 2019 Annual Bonus Plan will have a focus on UK & International performance measures.

Charlotte Jones has been appointed as Group CFO and will become an Executive Director. On commencing this role, Charlotte's remuneration will comprise a base salary of £500,000, benefits provision and an incentive opportunity in line with the Remuneration Policy. Her overall pension rate of 10% of salary will be aligned to other new UK-based employees. Charlotte will be required to build and maintain a shareholding of 200% of salary.

On leaving her current employer, Charlotte is due to forfeit a number of incentive awards. In line with the principles in the Policy, a compensatory package will be constructed to match the timing and nature of awards forfeited, as described on page 82.

Director and workforce remuneration

In the year, the Group launched a new People Strategy architecture and took forward a number of enhancements to the reward deal for our wider employee population. For example, UK pension rates will be increasingly harmonised in 2019, with c.40% of UK employees benefitting from an uplift in contribution levels.

The Committee is alert to the importance of monitoring and assessing internal pay relativities, and takes these into account when determining Executive Director remuneration. The ratios shown on page 79 are calculated on the required basis and so reflect the range of job roles in our UK-based business.

While these comparative figures will be kept under close review, the Committee is satisfied the remuneration in this report is appropriate as similar factors are used in setting both employee and executive pay, including market positioning, job size and content, and individual experience.

We have programs underway to improve female representation in senior jobs and thereby reduce our gender pay gap, as set out at www.rsagroup.com/responsibility.

Going forward, the Committee intends to share with employees how executive remuneration is aligned with our overall remuneration policy. This will build on existing workforce engagement in our employee survey, internal social networking site, town halls and other forums.

Shareholder engagement

The Committee welcomes investor feedback on an ongoing basis. We engaged with the Group's largest shareholders, ISS, the Investment Association and the Pension and Lifetime Savings Association in 2018 and reflected on the comments made in determining the 2019 incentive measures. These dialogues ultimately contribute to shaping appropriate remuneration outcomes, as the performance measures provide the framework within which the Committee makes its award judgements.

This report seeks to describe and explain our remuneration decisions clearly, and I hope to receive your support for it at the AGM.

Kath Cates
Non-Executive Director and Chairman of Group Remuneration Committee

27 February 2019

EMPLOYEE REWARD ACROSS THE GROUP

2018 highlights

- New People Strategy architecture rolled out across the Group.
- New bonus plan for UK front line colleagues, more directly linked to their own contribution.
- Employee recognition program in Canada saw over 30,000 'thank yous' to colleagues.
- New self-service HR portal in Scandinavia, with simplified process for employees and leaders.
- Refreshed package of flexible benefits launched in UK with additional choices.
- UK employer pension contributions increased for c.40% of UK employees from April 2019, bringing a further level of harmonisation to historic rates.

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.

Remuneration Snapshot

RSA PURPOSE, STRATEGY AND REMUNERATION APPROACH

OUR PURPOSE

Why we exist

RSA exists to help protect customers against risk and 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 team work.

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 incorporated in incentive Scorecards. Formulaic award outcomes can be overridden / adjusted for risk. Malus and clawback provisions in place. Half of bonus deferred. Long-term incentive is three years plus a two-year retention period. Significant shareholding requirements.

PAY-FOR-PERFORMANCE

Assess performance against formulaic financial targets > **Judge Scorecard achievement in the round** > **Consider risk factors, workforce remuneration and shareholder experience – adjust if needed** > **Incentive outcomes**

2018 Bonus

Strategic priorities	Measures	Scott Egan	Stephen Hester
· Shareholder returns & profitability	Group underlying ROTE, Group underlying PBT and Group COR	0/40%	0/40%
· Underlying Performance · Risk & Resilience · Business Sustainability	Business Scorecard	17/30%[1]	17/30%[1]
Personal Scorecard (Strategy, Financial, Risk, Customer & People)		15/30%	15/30%
Total (% of maximum)		**32%**	**32%**

2016-18 Long-term incentive

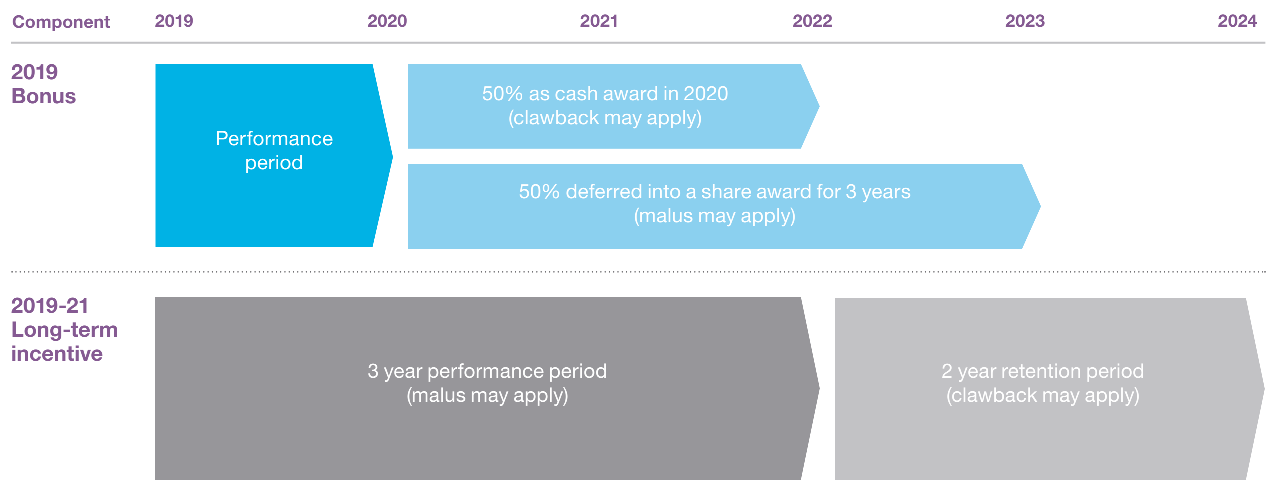
Strategic priorities	Measures	Vesting
· Shareholder returns	Relative TSR	22.7/33.3%
	Group underlying ROTE	26.1/33.3%
· Capital & Business performance	Business Review Scorecard	25.0/33.3%
Total (% of maximum)		**73.8%**

Note:
1 Downwards discretion applied from 22/30%.

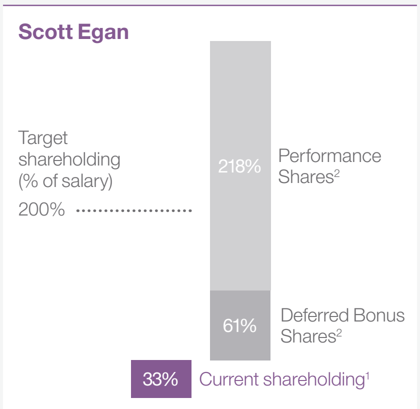
REMUNERATION OUTCOMES

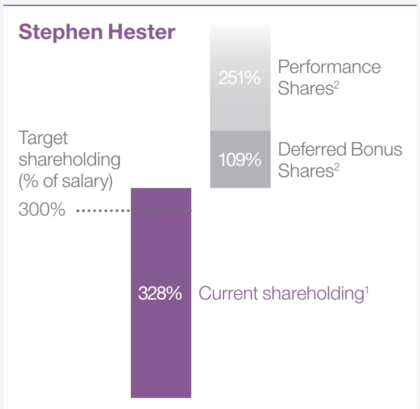
		Fixed remuneration (salary, benefits and pension)	Short-term variable remuneration (annual bonus)	Long-term variable remuneration (long-term incentive earned)	Total £'000
Scott Egan	18	£651	£281	£1,024	£1,956
	17	£637	£542	N/A	£1,179
Stephen Hester	18	£1,374	£519	£2,175	£4,068
	17	£1,350	£1,001	£2,726	£5,077

INCENTIVE PLAN PERIODS



SHAREHOLDING





Notes:
1 Shares owned outright and counting towards Target shareholding level. Scott Egan continues to build holding within targeted five-year period.
2 Unvested share awards. The percentages are estimates of the potential additional shareholding that could result from these awards post-vesting (after statutory deductions, not including dividend equivalents). Performance Shares assumed to vest on-target (62.5% vesting). Deferred Bonus Shares are not subject to performance conditions.
3 Valuation uses the 2018 average RSA share price and each individual's salary at 31 December 2018.

Performance targets, results and full remuneration tables on pages 71 to 74

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 2018, and how the Group intends to implement its Policy in 2019.

At the 2019 AGM, this report on pages 70 to 84, together with the Committee Chairman's letter on pages 66 to 67, 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 46 to 48).

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 at an overall level, 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 2018 were: Kath Cates (Chair), Enrico Cucchiani, Isabel Hudson, Hugh Mitchell (to 11 May 2018), Joseph Streppel and Martin Strobel. The number of meetings attended by each Director is shown on page 52.

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 2018 included the Group HR Director, Group Chief Risk Officer, Group Chief Legal Officer & Company Secretary and Group Reward Director.

None of the above individuals are present if their own remuneration is being discussed.

Advisers

PricewaterhouseCoopers (PwC) was appointed by the Committee as its independent adviser. It was selected following a market tender exercise. During 2018, 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, cyber security and privacy, IT risk and governance, internal audit, 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 2018

In 2018, the Committee met on five occasions and the table below summarises the matters it discussed.

Meeting	Regular items	Additional items
January and February	· Review of executives' base salaries effective from 1 April 2018. · Testing of Annual Bonus Plan 2017 and LTIP cycle 2015-17 performance conditions; and determination of outcomes. · Approval of 2018 incentive plan performance conditions. · Approval of the terms of the long-term incentive grant 2018 and executives' associated conditional share awards. · Review of executives' personal goals for 2018. · Review of the Directors' Remuneration Report 2017 and Solvency II disclosures. · Review of Chairman's fee.	Corporate governance and shareholder engagement updates
May	· Review of the 2018 long-term incentive grant and an update on dilution levels. · Approval for a supplementary grant of conditional long-term incentive awards in September 2018 for non-Board employees. · Approval to operate all-employee share plans (Sharesave and Sharebuild), in participating countries in 2018.	Forward planning session
September	· Update on the performance of the Annual Bonus Plan 2018 and current long-term incentive cycles. · Review of incentive performance measures for 2019 onwards. · Review of wider workforce remuneration framework. · Review of Remuneration Committee terms of reference.	Corporate governance update
December	· Update on the performance of the Annual Bonus Plan 2018 and long-term incentive cycle 2016-18. · Update on the supplementary grant of long-term incentive awards in September 2018 for non-Board employees. · Update on Sharesave and Sharebuild participation and renewal of the schemes in 2019. · Review of the draft Directors' Remuneration Report 2018. · Review of Committee discharge of responsibilities against terms of reference. · Review of Committee meeting schedule for 2019.	Corporate governance update

3. Executive Director total remuneration 2018 (audited)

The table below sets out the Executive Directors' total remuneration single figures. Non-Executive Director fees are detailed on pages 82 to 83.

	Salary		Taxable benefits[1]		Bonus[2]		LTIP		Pension related benefits		Other remuneration		Total	
(£'000)	**2018**	2017	**2018**	2017	**2018**	2017	**2018[3]**	2017[4]	**2018[5]**	2017	**2018**	2017	**2018**	2017
Scott Egan[6]	546	535	23	22	281	542	1,024	–	82	80	–	–	1,956	1,179
Stephen Hester[7]	1,008	987	64	67	519	1,001	2,175	2,726	302	296	–	–	4,068	5,077
Total	**1,554**	**1,522**	**87**	**89**	**800**	**1,543**	**3,199**	**2,726**	**384**	**376**	**–**	**–**	**6,024**	**6,256**

Notes:
1 Taxable benefits: This includes reimbursement in respect of travel. Stephen Hester received a car allowance and the use of a car and driver service which totalled £40,460 (2017: £43,760), Scott Egan received a car allowance of £15,000 (2017: £15,000), 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 71 to 73. 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 under the Group's Malus and Clawback Policy detailed on page 75.
3 LTIP 2018: Estimated value of Performance Shares and accrued dividend equivalents under the 2016-18 LTIP cycle due to vest on 4 March 2019. Estimate reflects the performance conditions having been met to the extent noted on pages 73 to 74, and uses an average share price over the last quarter of 2018 of £5.373.
4 LTIP 2017: Actual value of Performance Shares and accrued dividend equivalents under the 2015-17 LTIP cycle that vested on 7 April 2018. The vesting was as disclosed in the 2017 Annual Report and Accounts on page 77. Valuation has been restated using the vesting date share price of £6.524.
5 Pension 2018: Scott Egan and Stephen Hester received taxable cash allowances of 15% and 30% of base salary respectively. Stephen Hester has voluntarily agreed to begin a process of pension contribution reduction and contribution levels will fall to 27% of base salary from April 2019 and 24% from April 2020. The aggregate value paid by the Company into the RSA Pension Scheme (a defined contribution plan) for the Executive Directors in 2018 was £0 (2017: £0). No Executive Director has a prospective entitlement to a defined benefit pension in respect of their service with RSA.
6 Scott Egan was appointed as an Executive Director effective 1 October 2015. In 2018 he received an annual base salary of £538,125 from 1 January to 31 March. This increased by 2% effective 1 April to £548,888.
7 Stephen Hester was appointed as an Executive Director effective 5 February 2014. In 2018 he received an annual base salary of £993,225 from 1 January to 31 March. This increased by 2% effective 1 April to £1,013,090.

4. Components of variable remuneration (audited)

Annual Bonus Plan 2018

The Executive Directors' 2018 Annual Bonus Plan consisted of financial and business targets aligned to the Group's operational plans. 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 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 75. In determining 2018 bonus awards under this Plan, the Committee considered how goals had been met and took account of key risk factors.

Financial Performance (40% weighting – achieved 0%)

As shown in the following table, the achievement was less strong than the threshold targets set for the year and therefore no award is made.

Business Scorecard (30% weighting – achieved 17%)

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 under representative of the underlying actions of management and their results.

Achievement under the Scorecard was assessed to have been stronger than the headline financial metrics, though below that of 2017.

Within the Underlying Performance component, costs were reduced significantly, and more than targeted, while attritional loss ratios were slightly worse. This combination produced an underlying financial performance above target. Strategic Plan initiatives are discussed at length in the body of the Annual Report, and support the progress achieved on the underlying financials. By comparison, headline financial performance was reduced by adverse weather costs and Commercial Lines large losses, principally in exit portfolios.

In terms of Risk and Resilience, performance was again strong. Capital ratios were strengthened despite higher dividends. A successful UK pension agreement was also reached. Reinsurance coverages produced valuable protection in a volatile loss climate.

On Business Sustainability, the Group's Personal Lines business (57% of total) made good progress, growing total customer premiums and gaining new partners. In Commercial Lines, management actions to exit portfolios and re-underwrite business impacted growth and retention, but deliberately so.

Reflecting on the Commercial Lines large loss volatility which impacted headline financial performance, the Committee felt that an element of this could have been better underwritten and therefore should impact the underlying assessment, while an element was market driven. Accordingly, discretion was used to adjust downwards the Business Scorecard outcome by 5% from 22/30 to 17/30.

Bonus 2018 performance measures		2017 Result	2018 Target	2018 Actual	Weighting (% of maximum)	Scott Egan (% of maximum)	Stephen Hester (% of maximum)
Group underlying ROTE		15.5%	Threshold 13.9% Target 16.3% Maximum 18.7%	12.6%	20%	0%	0%
Group underlying PBT		£620m	Threshold £517m Target £609m Maximum £700m	£492m	10%	0%	0%
Group COR		94.0%	Threshold 94.6% Target 93.6% Maximum 92.6%	96.2%	10%	0%	0%
Business Scorecard	Underlying Performance:						
	Group controllable expense ratio	21.5%	21.8%	20.8%	30%	17%[2]	17%[2]
	Group controllable expenses	£1,425m	£1,437m	£1,366m			
	Attritional loss ratio[1]	49.6%	49.2%	49.7%			
	Strategic plan initiatives	–	See narrative	See narrative			
	Risk and Resilience:						
	Solvency II coverage ratio	163%	130-160%	170%			
	TNAV:NWP	41%	≥35%	44%			
	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:						
	Policy / premium retention	81%	Broadly in line with 2017	80%			
	Top line growth	£6,678m	£6,538m	£6,470m			
	Customer franchise	–	See narrative	See narrative			
Personal Scorecard				See narrative	30%	15%	15%
Total (% of maximum)					**100%**	**32%**	**32%**
Total (% of annual base salary)						**51%**	**51%**
Bonus receivable[3]						**£281,031**	**£518,702**

Notes:
1 Defined excluding Claims Handling Expenses (which are part of the expense measure) and adjusted for reinsurance changes.
2 Represents the award after downwards discretionary adjustment as detailed above.
3 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 75.

Personal Scorecard

This component focuses on personal performance vs the priorities set by the Board for the Executive Directors in 2018. 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. The Committee's assessment was as shown in the following tables:

Scott Egan (30% weighting – achieved 15%)

Overview	Progress
Scott's objectives included: · Strategy work: centred on effective Group planning and benchmarking, continued upgrading of Finance function and operation of zero based budgeting. · Financial delivery: driving achievement of Group's financial plans, capital plans and ratings, investment income and functional cost goals. · Risk profile: targeting strong financial control, actuarial reporting, capital reporting and audit results. · Stakeholders: effective Investor Relations, investor and analyst interaction, regulator and rating agency relations. · Effective conclusion of triennial pension agreement. · Leadership: personal development goals, team effectiveness improvements.	· Financial results were disappointing as set out above, though outperforming moderately on an underlying level. · Capital strength increased with positive underlying development in risk profile also. · Success in negotiating new pension long-term agreement. · Good progress moving Finance function towards strategic high performance, with good cost control. · Finance tracking green overall on risk and audit items. · Planning process working well, with further enhancements made to Board reporting. · Strong ambassador for the Company and good with all relevant stakeholders. · Has continued to build the bench strength of the Finance team, providing successors across the regions into key roles. · Effective partner to CEO in overall management of the business. · Positive input on Diversity & Inclusion, sponsored corporate responsibility strategy review.

Stephen Hester (30% weighting – achieved 15%)

Overview	Progress
Stephen's objectives included: · Strategy work: driving Best in Class capability improvements and sustaining plan trajectory. · Financial delivery: driving achievement of Group's financial and capital plans, focused particularly on controllables including cost. · Risk profile: operating Company to good standards of risk/regulatory control and capital resilience. · Customer progress: driving initiatives to improve customer service and resume profitable growth. · Leadership: sustain strong stakeholder relations, continued team and culture development focused on top 50 leaders to support Best in Class strategies, support for Diversity & Inclusion and environmental/ community policies.	· Financials disappointed but with underlying strengths. · Capital strength improved further, outperformance as detailed above. · Effective actions taken to commence portfolio exits and improve commercial underwriting in response to loss challenges. · Best in Class strategic initiatives progressing well across Company. Initiatives refined and developed as appropriate. · Beat Group cost savings target (>£450m) a year ahead of schedule. · Risk and regulatory items on track overall with some exceptions. · Good customer progress especially in satisfaction measures and volumes in personal lines, including winning new partners. · Continues to receive strong stakeholder feedback. · Has strengthened the leadership of the business with key appointments and targeted executive development. · Championed the Group's vision on Diversity & Inclusion and corporate responsibility through a number of key initiatives.

Long-term incentive awards vesting from 2016-18 cycle

Conditional long-term incentive awards were granted in 2016. In 2019, these Performance Shares will partially vest at 73.8% of the maximum, based on the achievement of the three performance conditions described below.

Relative Total Shareholder Return (33.3% weighting – achieved 22.7%)

RSA's Relative TSR (which combines share price and dividend returns) outperformed the index of comparators.

Group underlying ROTE (33.3% weighting – achieved 26.1%)

The Group underlying ROTE three-year average achieved was 14.1%. The average required for an on-target vesting (62.5% vesting) was 12.7% as envisaged by RSA's operating plan for the period and being a level significantly in excess of the Group's cost of equity. This was arithmetically less than the mid-point of the 11-16% range reflecting the nature of the turnaround where ROTE performance was targeted to improve substantially over the three year averaging period. For context, in the year prior to this LTIP cycle, i.e. 2015, RSA's ROTE result was 9.7%. RSA's continuing progress allowed the target range and the on-target value required for the 2017-19 LTIP cycle to be set higher to reflect progress of the turnaround and to continue to incorporate an appropriate degree of stretch.

Performance measures 2016-18	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	Outperform index by 13% (RSA TSR 38% vs. Index of 23%)	33.3%	22.7%
Group underlying ROTE[2]	11%	16%	14.1%	33.3%	26.1%
Business Review Scorecard	See narrative	See narrative	See narrative	33.3%	25.0%
Total				**100%**	**73.8%**

Notes:

1 Relative TSR index of comparators includes: Admiral, Allianz, Aviva, Chubb (formerly ACE), 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 12.7%.

Business Review Scorecard (33.3% weighting – achieved 25.0%)

The vesting outcome on this element was determined by the Committee assessing RSA's progress during the three years in the round, particularly relating to capital, strategy implementation and earnings improvement. The 2016-18 Scorecard targets were strengthened compared to 2015-17, taking account of progress made including enhanced controllable expenses and attritional loss ratio targets. The Scorecard which was devised in 2016 differs from that applied to the 2018 Annual Bonus Plan both in timescale (three years vs one year) and some of the performance measures which were updated for long-term incentive cycles commencing after this one, i.e. the 2017-19 cycle onwards.

The 2016-18 LTIP period captures important elements of the Company's turnaround activity, together with emergence into 'business as usual.' Within the Business Review Scorecard indicators, performance overall was assessed to have been above target (though by a margin below that assessed for the 2015-17 LTIP). This conclusion is supported by the share price outperformance and ROTE outperformance also delivered. Capital and expense achievements were particularly strong. Attritional loss ratios were also significantly better than prior years. Cumulative earnings (and related TNAV) fell short of plan due to 2018 large loss and weather volatility.

The Scorecard's capital and business performance indicators shown in the following table form the basis of this judgement.

Strategic priority	Key performance indicators	Target	Actual		
Capital			2016	2017	2018
	Solvency II coverage ratio	130-160%	158%	163%	170%
	TNAV:NWP	≥35%	45%	41%	44%
				2016-18	
	S&P credit rating	≥A- stable		A stable	
Business performance				2016-18	
	Cumulative earnings[1]	£1,188m		£1,071m	
	TNAV growth per share[2]	47.5p		35.2p	
	Controllable cost savings[3]	>£350m by 2018		£460m	
	Total controllable expenses[4]	£4,477m		£4,306m	
			2016	2017	2018
	Attritional loss ratio[5]	Improvement vs 2015 base year of 51.0%	49.4%	49.6%	49.7%

Notes:

1 Cumulative earnings defined in common with the underlying ROTE measure of earnings adjusted for disposal gains and restructuring charges which were also key management activities. The Committee assessed all other items falling outside of this definition to determine if they should adjust the Committee's view of progress upwards or downwards (namely non-cash, non-capital accounting items). Comparison is versus original 2016-18 Plans incorporating the planned costs and benefits of the additional cost programmes announced subsequently.

2 TNAV growth per share assessed consistent with the methodology in note 1 incorporating capex outcomes vs Board sanctioned totals. Market volatility (FX, Bonds, Pensions) has been excluded as well as the impact of capital actions beneficial to the shareholder.

3 This indicator was not separately listed in the Scorecard Key Performance Indicators but was a key underlying target and reviewed by the Committee as additional context on the transformation.

4 A cumulative measure, adjusted for the timing of business disposals.

5 Defined on a Core Group basis, excluding Claims Handling Expenses (which are captured in the expense measure) and adjusted for reinsurance changes.

Vesting overview

Director	Granted number of shares	Vesting number of shares	Estimated value (including dividend equivalents)
Scott Egan	238,030	175,665	£1,024,486[1]
Stephen Hester	505,236	372,863	£2,174,561[2]

Notes:

1 Estimate includes vesting Performance Shares valued at £943,848 (of which £168,955 is attributable to share price appreciation). Accrued dividend equivalents valued at £80,638 will be added to the awards that vest. Valued using an average share price over the last quarter of 2018 of £5.373 and compared to a grant share price of £4.4112.

2 Estimate includes vesting Performance Shares valued at £2,003,393 (of which £358,620 is attributable to share price appreciation). Accrued dividend equivalents valued at £171,168 will be added to the awards that vest. Valued as in note 1.

3 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 2018

Conditional long-term incentive awards were made to Scott Egan and Stephen Hester on 2 March 2018. These Performance Share awards will vest in 2021, subject to the satisfaction of the plan's performance conditions based on Group underlying ROTE, relative Total Shareholder Return and a Business Scorecard.

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.

Performance measures 2018-20	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 positioned requiring demanding increases in underlying performance vs 2017 and 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	173,610	£1,097,776
Stephen Hester	230% of salary	368,501	£2,330,107

Notes:
1 The performance period is three years and ends on 31 December 2020. 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 (2 March 2018), of £6.3232.

Malus and Clawback Policy

The Group operates a Malus and Clawback Policy. This is reviewed annually, as set out on page 87. 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.

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 83.

Director	Shares held at 1 January 2018	Shares held at 31 December 2018[1]
Scott Egan	29,956	29,956
Stephen Hester	260,783	544,127

Notes:
1 As at 27 February 2019, the interests in Ordinary Shares of the current Directors have not changed since 31 December 2018.
2 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 2018, calculated based on the shares they own outright. In addition, Executive Directors hold unvested scheme interests in the Company's incentive plans, which are shown on the right-hand side of the table.

Unvested scheme interests 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.

Scott Egan joined RSA in October 2015 and continues to build his Shareholding to the target level shown below within the targeted five-year period, with his first long-term incentive award vesting due to take place in 2019.

	Shares owned outright counting towards required shareholding[1]					Unvested scheme interests: Share awards not subject to performance conditions[4]		Unvested scheme interests: Share awards subject to performance conditions[5]		Unvested scheme interests: Total unvested scheme interests	
Director	Number of shares	Valuation[2]	Shareholding level at 31 Dec 2018 (% of salary)[3]	Shareholding level to be reached (% of salary)	Has target shareholding level been reached?	Number of share awards	Estimated potential Shareholding post-vesting (% of salary)[6]	Number of share awards	Estimated potential Shareholding post-vesting (% of salary)[6]	Number of share awards	Estimated potential Shareholding post-vesting (% of salary)[6]
Scott Egan	29,956	£183,132	33%	200%	Continues to build holding in targeted five-year period	103,349	61%	591,856	218%	695,205	279%
Stephen Hester	544,127	£3,326,444	328%	300%	Yes	340,725	109%	1,256,258	251%	1,596,983	360%

Notes:
1 Shareholding figures do not include unvested share awards in the Group's incentive plans.
2 The valuation is against an average mid-market closing price of an RSA ordinary share during 2018 of £6.113 per share.
3 Calculated using the gross annual base salary as at 31 December 2018.
4 Includes Deferred Bonus Shares as detailed in the following table.
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 2 and 3 above.

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).

	Share awards held at 1 January 2018	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 2018	Grant share price	Vesting date
Scott Egan							
Deferred Bonus Shares[2]	60,482	–	–	–	60,482	£5.972	3 March 2020
Deferred Bonus Shares[2]	–	42,867	–	–	42,867	£6.3232	2 March 2021
Performance Shares 2016-18[5]	238,030	–	–	–	238,030	£4.4112	4 March 2019
Performance Shares 2017-19[6]	180,216	–	–	–	180,216	£5.972	3 March 2020
Performance Shares 2018-20[6]	–	173,610	–	–	173,610	£6.3232	2 March 2021
Total	**478,728**	**216,477**	**–**	**–**	**695,205**		
Stephen Hester							
Deferred Bonus Shares[2, 3]	110,247	–	110,247	–	–	£4.2588	7 April 2018
Deferred Bonus Shares[2]	131,800	–	–	–	131,800	£4.4112	4 March 2019
Deferred Bonus Shares[2]	129,805	–	–	–	129,805	£5.972	3 March 2020
Deferred Bonus Shares[2]	–	79,120	–	–	79,120	£6.3232	2 March 2021
Performance Shares 2015-17[4]	669,202	–	386,185	283,017	–	£4.2588	7 April 2018
Performance Shares 2016-18[5]	505,236	–	–	–	505,236	£4.4112	4 March 2019
Performance Shares 2017-19[6]	382,521	–	–	–	382,521	£5.972	3 March 2020
Performance Shares 2018-20[6]	–	368,501	–	–	368,501	£6.3232	2 March 2021
Total	**1,928,811**	**447,621**	**496,432**	**283,017**	**1,596,983**		

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 date of 2 March 2018, of £6.3232.

2 Deferred Bonus Shares vest three years from the date of grant, and are subject to malus adjustment as detailed on page 87.

3 Deferred Bonus Shares granted to Stephen Hester in 2015 vested during the year and 9,009 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 Stephen Hester in 2015 partially vested during the year and 31,559 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 in 2016 have performance conditions of Group underlying ROTE, Relative TSR and a Business Review Scorecard (one-third weighting each). The date by which performance conditions are to be met is 31 December 2018. A two-year post-vesting retention period applies as set out in the Remuneration Policy.

6 Performance Shares granted in 2017 and 2018 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. A two-year post-vesting retention period applies as set out in the Remuneration Policy.

7 No other Directors of the Company held long-term incentive scheme interests during the year.

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 does 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 2018.

No payments were made to former Directors in 2018.

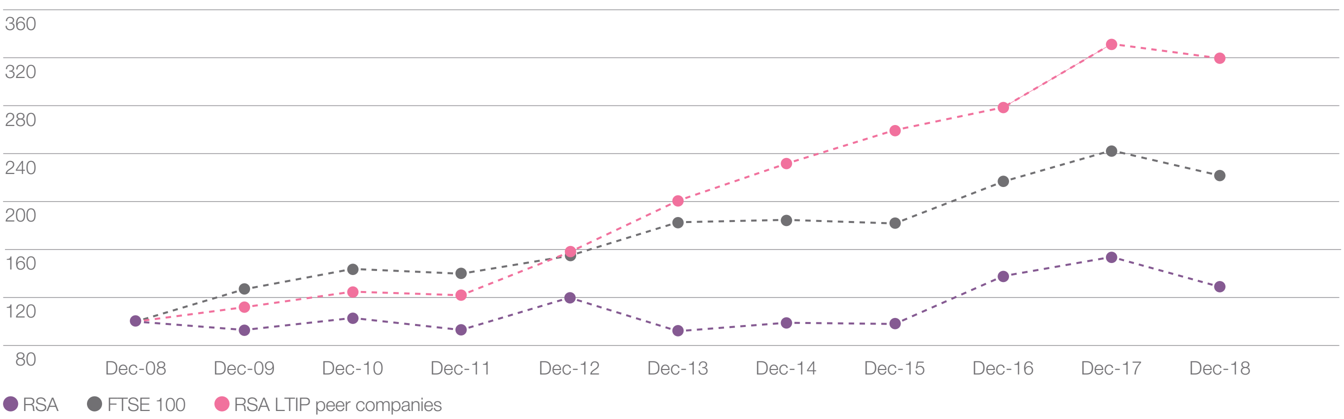
8. Contextual figures

Historical TSR and executive remuneration

The following graph shows the TSR of the Group over the ten years from 31 December 2008 to 31 December 2018, 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 73 and 75). 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 2018.

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.

	2009	2010	2011		2012	2013		2014		2015	2016	2017	2018
Director	Andy Haste	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[3]	Stephen Hester[3]
Single figure of total remuneration (£'000)	4,451	4,024	2,488	311	2,164	1,011	21	39	2,118	2,469	4,478	5,077	4,068
Annual bonus award rates (% of maximum)	89%	73%	58%	59%	50%	0%	n/a	n/a	68%	77%	100%	63%	32%
LTIP vesting rates (% of maximum)	100%	66%	31%	34%	34%	0%	n/a	n/a	n/a	n/a	43%	58%	74%

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 2017 and 2018 figures are given on pages 71 to 74.

Percentage change in remuneration

The table below sets out the percentage change in salary, benefits and bonus for the individual undertaking the most senior Executive Director role in the Company compared with Group employees on average between 2017 and 2018.

	Salary and Fees	Taxable Benefits	Bonus
All employees	3%	3%	-30%
Most senior Executive Director	2%	-5%	-48%

Relative importance of spend on pay

The table below shows the all-employee pay spend and returns to shareholders by way of dividends for 2018. Figures from 2017 are provided for comparison. The employee pay data covers the Group's employees globally, and therefore includes the impact of exchange rate changes.

(£m)	2017	2018	% difference from prior year
Total Spend on Employee Pay[1]	782	747	-4%
Total Distributions to Shareholders[2]	200	231	16%

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 131.
2. Includes the figures as shown in the notes to the Financial Statements on page 134.

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 an accredited Living Wage Employer.

The following table compares the 2018 total remuneration single figure for the Group Chief Executive with the Group's UK-based employees at the 25th percentile, median and 75th percentile. This is included in this year's report ahead of formal reporting requirements coming into effect.

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.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018[1]	Option B[2]	184:1	124:1	70:1

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 is expected to give a fair representation of pay ratios given RSA's remuneration structures. It is relatively time-efficient to calculate while remaining appropriately specific. Under this option, gender pay gap data as at April 2018 is used to identify the best equivalents for the three RSA UK employees paid at the 25th percentile, median and 75th percentile. A 2018 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 £22,168, £32,783 and £57,771 respectively. The base salary for the individuals identified at the 25th percentile, median and 75th percentile was: £19,759, £28,305 and £47,866 respectively.

Dilution

RSA monitors its dilution levels on a regular basis to ensure that they remain within the headroom limits set by the Investment Association (IA). As at 31 December 2018, the dilution levels were as follows:

Limit	RSA dilution %
10% over 10 years for all share schemes	3.55%
5% over 10 years for discretionary schemes, including long-term incentives	2.27%

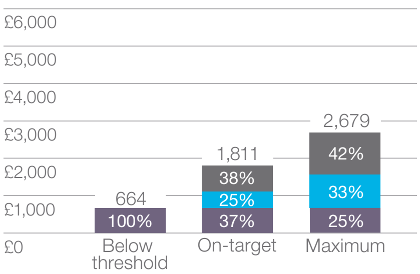
9. Implementation of Policy in 2019

This section outlines how the Committee intends to implement the Directors' Remuneration Policy during 2019.

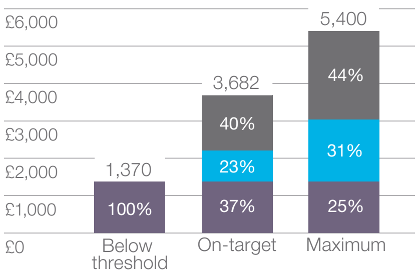
The following charts illustrate how Executive Directors' remuneration potential changes according to varying levels of performance achievement. The Committee's aim is that superior levels of remuneration will only be paid in return for delivering superior levels of performance. The variable element is fully flexible such that no award is guaranteed. Additionally, the charts show the balance between fixed and variable remuneration. The remuneration structure is intended to promote the long-term interests of the Company and its shareholders. The assumptions used in preparing these charts are noted in the following table.

There are no changes to Scott Egan's remuneration quantum as a result of his role change, announced in February 2019, from Group CFO to CEO UK & International. Charlotte Jones has been appointed to succeed Scott Egan as Group CFO and details of the remuneration that will apply following commencement of her appointment are given on the following pages.

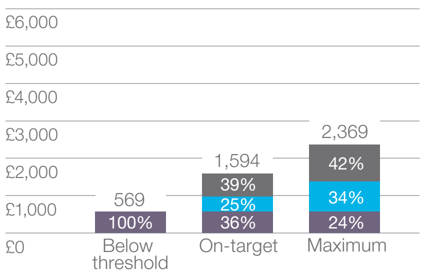
SCOTT EGAN £'000



STEPHEN HESTER £'000



CHARLOTTE JONES £'000



- Fixed remuneration
- Variable remuneration (short term)
- Variable remuneration (long term)

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 For Scott Egan and Stephen Hester, this is based on the value of base salary and pension for 2019, and benefits in the 2018 total remuneration single figure. For Charlotte Jones this is based on the annual value of base salary, pension and estimated benefits.
2 Assumes 62.5% vesting of the award in the 2019-21 grant, i.e. half-way between the 25% threshold vesting and 100% maximum vesting.
3 Assumes 100% vesting of the award in the 2019-21 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 2019-21 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 £3.2m (Scott Egan), £6.6m (Stephen Hester) and £2.9m (Charlotte Jones).

Fixed remuneration

The Policy will implemented consistently with the approach used in 2018. 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 2019. The level of increase is below the average increase levels for other UK-based employees this year:

Director	Annual base salary effective 1 April 2018	Annual base salary effective 1 April 2019	% change
Scott Egan	£548,888	£559,866	2%
Stephen Hester	£1,013,090	£1,033,352	2%

The Group Chief Executive voluntarily began a process of pension contribution reduction, with payments from April 2019 to reduce by 3% of salary, to 27% of salary, and a further 3% reduction to 24% of salary from April 2020.

From the effective date of her appointment, Charlotte Jones' annual base salary will be £500,000. Her overall pension contribution rate of 10% of salary is aligned to that for other new UK employees. She will receive benefits in line with the Remuneration Policy.

Aligning strategy and incentive measures in 2019

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 2019:

Strategic priorities	Annual Bonus Plan 2019	Long-term incentive cycle 2019-21
· Shareholder returns	Group underlying ROTE,	Relative TSR
· Profitability	Group underlying PBT, Group/Region COR, Region Underwriting Result	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 2019

The Annual Bonus Plan is aligned with the core priorities for focus in 2019. 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. From the time of his appointment as CEO UK & International, Scott Egan 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. 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 2019 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 2019 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 2019.

	CEO, UK & International		Group Chief Executive and CFO	
Bonus performance measures	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 2019-21

The plan directly supports the building of shareholder value by targeting Group underlying Return on Tangible Equity (ROTE), relative Total Shareholder Return (TSR) and a Business Scorecard.

For the 2019 grant, performance measures will be assessed against a performance period of 1 January 2019 to 31 December 2021, taking into account underlying business performance and material risk factors.

The Business Scorecard measures and assessment will be operated similarly to the 2018-20 LTIP cycle, as described on page 75.

In contrast to the Business Scorecard in the 2019 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 2019-21 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 the Group's Clawback Policy. The table below summarises the LTIP's structure.

Performance measures 2019-21	Weighting	Threshold target: 25% vesting	Maximum target: 100% vesting
Relative TSR	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	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.

Group CFO compensatory award

On leaving her current employer, Charlotte Jones is due to forfeit a number of cash and share-based awards. In line with the principles in the Policy, a compensatory package will be constructed to match the timing and nature of awards forfeited following commencement of her employment as CFO (i.e. a mix of cash, restricted/deferred share awards and inclusion in current RSA incentive cycles). In addition to the rules governing RSA share awards, this will be 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.

10. Non-Executive Directors (audited)

Total remuneration 2018

The table below sets out the Non-Executive Directors' total remuneration single figures for the financial year ended 31 December 2018.

	Fees		Taxable benefits[1]		Total	
(£'000)	**2018**	2017	**2018**	2017	**2018**	2017
Alastair Barbour	99	97	16	18	115	115
Kath Cates	98	93	1	1	99	94
Enrico Cucchiani	72	68	13	9	85	77
Isabel Hudson	99	89	2	1	101	90
Charlotte Jones[2]	56	–	–	–	56	–
Hugh Mitchell[3]	28	90	3	4	31	94
Martin Scicluna	427	420	–	–	427	420
Joseph Streppel	86	85	8	9	94	94
Martin Strobel	104	79	6	5	110	84
Johanna Waterous[4]	–	34	–	1	–	35
Total	**1,069**	**1,055**	**49**	**48**	**1,118**	**1,103**

Notes:
1 Taxable benefits: This includes reimbursement in respect of travel and accommodation. Alastair Barbour received benefits of £16,284 and Enrico Cucchiani £13,376 for taxable travel where relief under HMRC rules is not available. The corresponding 2017 figure for Enrico Cucchiani in the table has been restated for travel expenses incurred in year.
2 Charlotte Jones was appointed as a Non-Executive Director effective 1 April 2018. She will become an Executive Director in 2019 at the effective date of her appointment as Group CFO.
3 Hugh Mitchell resigned as a Non-Executive Director effective 11 May 2018.
4 Johanna Waterous resigned as a Non-Executive Director effective 5 May 2017.

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 2019, the current fee of £428,400 will rise by 2% to £436,968, 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 as noted on page 91 and the fees effective from 1 April 2019 are shown in the following table. The base fee change is aligned to the average salary increase levels for our UK employees, while other fees are unchanged.

Fee structure	From 1 April 2018	From 1 April 2019
Base fee	£64,000	£65,500
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 2018	Shares held at 31 December 2018[1]
Alastair Barbour	12,039	12,039
Kath Cates	4,124	4,124
Enrico Cucchiani	–	–
Isabel Hudson	5,974	5,974
Charlotte Jones[2]	–	–
Hugh Mitchell[3]	8,552	8,552
Martin Scicluna	14,303	14,303
Joseph Streppel	4,125	4,125
Martin Strobel	12,000	12,000

Notes:
1 As at 27 February 2019, the interests in Ordinary Shares of the current Directors have not changed since 31 December 2018.
2 Charlotte Jones was appointed as a Non-Executive Director effective 1 April 2018. The table above shows her shareholding as at that date and not 1 January 2018.
3 Hugh Mitchell resigned as a Non-Executive Director effective 11 May 2018. The table above shows his shareholding as at that date and not 31 December 2018.
4 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 9th Anniversary. All NEDs, 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
Isabel Hudson	1 August 2016	1 August 2025
Charlotte Jones[1]	1 April 2018	1 April 2027
Martin Scicluna	1 January 2013	1 January 2022
Joseph Streppel[2]	3 October 2011	3 October 2020
Martin Strobel	1 May 2016	1 May 2025

Notes:
1 Charlotte Jones will become an Executive Director in 2019 at the effective date of her appointment as Group CFO.
2 Joseph Streppel will retire as a Non-Executive Director with effect from 9 May 2019.

11. Statement of voting at General Meeting

The following voting was recorded at the AGM on 11 May 2018:

Resolution	Votes for	Votes against	Total votes cast	Votes witheld[1]
To approve the Directors' Remuneration Report				
Number of votes	714,310,728	24,908,947	739,219,675	1,508,165
% of votes cast	96.63%	3.37%	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
27 February 2019

Summary Of Directors' Remuneration Policy

1. Introduction

The Directors' Remuneration Policy was approved by shareholders on 5 May 2017, and was effective from that date. No changes to the Policy are proposed this year.

The Policy covers how decisions on Directors' remuneration will be made at RSA, and the remuneration philosophy and strategy which underpin these decisions.

For ease of reference, elements of the Policy referenced in Committee activity during 2018 are re-presented on the following pages 85 to 91, including the policy tables and information on Directors' contractual terms. The full Policy Report is contained in the 2016 Annual Report and Accounts (pages 80 to 87), which is available at www.rsagroup.com/financial-reporting.

2. RSA's remuneration principles

The remuneration philosophy and strategy are directly informed by the business strategy. The remuneration principles that the Group Remuneration Committee ('the Committee') follows are:

- Remuneration is aligned to the long-term 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;
- Each component of the total remuneration package is simple and transparent, so as to be effective and understood by executives, shareholders and regulators;
- 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;
- 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; and
- 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.

3. 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 to ensure these remain appropriate and market aligned. It can also agree changes to the terms of the Directors' pension plan(s), as appropriate.	No Executive Director will receive a pension benefit in excess of 30% of salary.[1]	None.

Note:
1 This will be updated for the next Policy renewal in 2020.

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 76. Awards are subject to the Malus and Clawback Policy, which is reviewed annually, and is noted on page 75. 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 provided this is 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 2018 bonus awards are on pages 71 to 73.
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. A two-year retention period applies to vested Performance Shares, excluding any sold to satisfy statutory deductions. This applies while the Director remains in employment. Vested shares must be retained until the relevant shareholding level is reached, excluding any sold to satisfy statutory deductions, as detailed on page 91. Awards are subject to the Malus and Clawback Policy, which is reviewed annually, and is noted on page 75. 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.[1] 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 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 on 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. The performance period will normally be at least three years for all measures, with no re-testing. Shareholders will be consulted if material changes to the measures are proposed by the Committee. The measures and targets for the 2019-21 cycle are on pages 81 to 82.

Notes:

1 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 88.

2 The overall remuneration principles in this Policy apply across the Group. Employee remuneration packages are set with reference to the relevant competitive markets in which the Group operates, and remuneration levels therefore reflect differences in location and job role. All permanent UK-based employees are eligible to receive a bonus award, but deferral is only operated for senior leaders and where required by Solvency II. The LTIP policy provisions are the same for all other participants who receive performance-based awards, with exception to the two-year post-vesting retention period which only covers Executive Directors. 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.

4. 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, pension and contractual terms	· Same as those offered to current Executive Directors, but the Committee may exercise judgement to flex the package to accommodate any specific terms bespoke to the individual, e.g. related to health, annual leave, pension or insurance benefits.[1] · 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 87. 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.
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.

Note:
1 Weight will be given to new corporate governance guidelines in this area ahead of the 2020 Policy renewal.

5. 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 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 of a FTSE 100 company 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 in service 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 in service 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 in service 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.

6. 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 2014 will continue in place.

7. 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 shares which count towards the holding level are those held either in the executive's own right or that of immediate family members and any awarded by RSA which cease to be bound by any performance or service conditions. Vested Performance Shares count towards the holding level during the two-year retention period. · 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, divorce, financial hardship). · The shareholding levels were determined with reference to the practice across the Company's benchmark peer groups. · The Executive Directors' shareholding levels as at 31 December 2018 are noted on page 76.

8. 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 2018 are noted on pages 82 to 83.
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 for an initial three-year term, which can be extended with the Board's agreement. The term of office can end prior to its expiry 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.

Directors' Report

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 2018. 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 04 to 43.

The Companies Act 2006 also requires the Company to provide a Directors' Report for the year ended 31 December 2018. The information that fulfils this requirement and which is incorporated by reference into, and forms part of, this report is set out on pages 04 to 95 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 04 to 43 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 pages 166 to 168.

The Directors are responsible for preparing the Annual Report and Accounts and consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. 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 57 to 60. A report from the external auditor can be found on pages 98 to 105.

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.

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. Directors do not expect to exercise this right, other than where they believe that it may be necessary to do so in light of the applicable legal or regulatory requirements.

The directors recommend a final dividend (subject always to the dividend being cancelled, withheld or deferred) of 13.7 pence per Ordinary Share (2017: 13 pence) to be paid on 17 May 2019 to holders of Ordinary Shares on the register at the close of business on 8 March 2019, subject to Ordinary Shareholder approval. An interim dividend of 7.3 pence was paid during 2018, making the total proposed dividend for the year 21 pence (2017: 19.6 pence).

Details of 2019 dividend dates are detailed on page 176.

The Company's Preference Shares 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.

Scrip Dividend Scheme

The Company is seeking shareholder approval to renew its authority to offer a Scrip Dividend Scheme to shareholders at the 2019 AGM. The Company will not be offering a Scrip Dividend alternative in respect of the final 2018 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 148 and 149. Note 33 includes a summary of the principal terms of the Company's SEK2,500,000,000 and DKK650,000,000 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 2018, 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 2019 AGM. In addition, directors are restricted by the limits set out by the Investment Association. During 2018, 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 102,400,167 of its own Ordinary Shares (representing 10% of its issued share capital as at 13 March 2018), was passed at the 2018 AGM. This authority will expire at the conclusion of the 2019 AGM and a new authority will be sought. The authority was not exercised during 2018. 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 share trusts to hold Ordinary Shares in the Company which are used to satisfy grants under the Group's share incentive schemes. Link Trustees (Jersey) Limited and Link Market Service Trustees Limited, respectively, are the Trustees. 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 employee benefit share trust, of which Link Trustees (Jersey) Limited are Trustees, to receive dividends of 0.01 pence per share.

Conflicts of interest and related party transactions

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 2018. None of the directors had an interest in any contract of significance with the Company or any of its subsidiaries during 2018.

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.

Employment information

The Group recognises and actively promotes the benefits of a diverse workforce and is committed to treating all employees with dignity and respect regardless of race, gender, disability, age, religion or belief. We therefore welcome applications from all sections of the community. The Group is committed, wherever possible, to employing and supporting people who are disabled, or become disabled during their career within the Group. Our 'Equal Opportunities' and 'Dignity at Work' policies support this commitment to employees.

The Group has a close working relationship with trade unions and employee associations in all parts of the business where they exist and consults with employees and representatives on relevant matters, taking their views into consideration. The European Works Council (EWC) consults with employee representatives on transnational matters across the UK, Ireland, Sweden, Norway, Denmark, France, Spain, the Netherlands, Belgium and Germany. The annual meeting of the EWC took place on 13–15 March 2018. Regular consultations with employee representatives took place throughout the year.

More information on employees can be found on pages 38, 39 and 56.

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 insurance which provides suitable cover in respect of legal actions brought against them. In addition, the Company also maintains a pension trustee liability indemnity policy for the directors of SAL Pension Fund 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 indemnity constitutes a qualifying pension scheme indemnity provision under section 235 of the Companies Act 2006. These indemnities were in force during the year ending 31 December 2018 and remain in force as at the date of this report.

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.**

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 2018 and at the date of this report.

	31 December 2018			27 February 2019		
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.

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).

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 2018 – 31 December 2018.

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.

	2018	2017[1,2]	2016[1,2]
Scope 1	2,293[A]	2,495	2,235
Scope 2	9,134[A]	10,136	11,591
Scope 3	12,315	13,852	13,198
Business travel	10,520[A]	11,965	10,887
Total gross tonnes CO_2e	23,742	26,483	27,024
Gross tonnes of CO_2e per FTE	1.94	2.01	1.97

NOTES:

The emissions reported above have been restated versus numbers previously disclosed, in accordance with GHG protocol guidelines.

1. We have removed the impact of all divested businesses including sale of Oak Underwriting, to allow for fair comparison year on year.
2. Calculations have been amended to include data that was not available at the time of publication.

[A] 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.

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.

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 taken to ensure that slavery and human trafficking are not taking place in our supply chains or any part of our own business.

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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 97 and is incorporated by reference into this Report.

By order of the Board

Charlotte Heiss
Group Chief Legal Officer and Company Secretary

27 February 2019

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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 106 to 175, 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; and
- The strategic report on pages 04 to 95 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

27 February 2019

Scott Egan
Group Chief Financial Officer
(appointed as CEO, UK & International on 5 February 2019)

27 February 2019

1) Our opinion is unmodified

We have audited the financial statements of RSA Insurance Group plc ("the Company") for the year ended 31 December 2018 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 2018 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 six financial years ended 31 December 2018. 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:		£35m (2017: £35m)
group financial statements as a whole		0.5% (2017: 0.5%) of Net Earned Premium
Coverage		97% (2017: 97%) of Net Earned Premium
Risks of material misstatement		**vs 2017**
Event driven	New: The impact of uncertainties due to the UK exiting the European Union on our audit	▲
Recurring risks of the Group	Valuation of Insurance Liabilities	◀▶
	IT systems and control environment	◀▶
	Valuation of defined benefit pension schemes	◀▶
	Valuation of deferred tax assets	◀▶
Recurring risks of the Parent	Recoverability of Parent company's investment in subsidiaries	◀▶

KPMG

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

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to pages 40 to 43 (principal risks) and page 40 (viability statement).	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in valuation of insurance liabilities, valuation of pensions and post-retirement obligations and valuation of deferred tax assets below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement 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. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: · **Our Brexit knowledge** – We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. · **Sensitivity analysis** – When addressing valuation of insurance liabilities, valuation of pensions and post-retirement obligations, valuation of deferred tax assets, and other areas that depend on forecasts, we compared the directors' sensitivity analysis to our assessment of the full range of reasonably possible, known adverse scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. · **Assessing transparency** – As well as assessing individual disclosures as part of our procedures on valuation of insurance liabilities, valuation of pensions and post-retirement obligations and valuation of deferred tax assets we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** As reported under valuation of insurance liabilities, valuation of pensions and post-retirement obligations and valuation of deferred tax assets, we found the resulting estimates and related disclosures of insurance liabilities, pensions and post-retirement obligations and deferred tax assets and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

	The risk	Our response
Valuation of insurance liabilities (Insurance contract liabilities 2018: £9,468 million gross, £7,936 million net; 2017: £9,477 million gross, £7,954 million net, including provision for losses and loss adjustment expenses) Refer to page 57 (Audit Committee Report), page 113 (accounting policy) and pages 150 to 154 (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 subjective as it is based on estimated settlement amounts which are inherently uncertain, particularly 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 judgement 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 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; the Canadian General Liability class; and classes of business affected by emerging industry issues such as the impact of Periodic Payment Orders (which are akin to annuities with longevity and inflation risk) on UK motor business 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.	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 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 judgements and assumptions, such as large claims, the discount rates for longer tail classes of business and Periodic Payment Order projections. · **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 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.

	The risk	Our response
Valuation of insurance liabilities (continued) (Insurance contract liabilities 2018: £9,468 million gross, £7,936 million net; 2017: £9,477 million gross, £7,954 million net, including provision for losses and loss adjustment expenses) Refer to page 57 (Audit Committee Report), page 113 (accounting policy) and pages 150 to 154 (financial disclosures).	**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 judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise.	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 also 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 (2017 result: acceptable).
IT systems and control environment Refer to page 58 (Group Audit Committee Report).	**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.	With the assistance of our own IT audit specialists, our procedures included: · **Controls design and observation:** 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 general IT controls 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** 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 (2017 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).

	The risk	Our response
Valuation of pensions and post-retirement obligations (2018: £7,974 million, 2017: £8,878 million) Refer to page 58 (Group Audit Committee Report), page 115 (accounting policy) and pages 155 to 160 (financial disclosures).	**Subjective valuation** Small changes in the assumptions and estimates used can have 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 complete and accurate data about the members of the pension scheme. The effect of these matters is that, as part of our risk assessment, we determined that the 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 administrator of the pension scheme 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 (2017 result: acceptable).
Valuation of deferred tax assets (2018: £234 million; 2017: £276 million) Refer to page 58 (Group Audit Committee Report), page 115 (accounting policy) and pages 146 to 147 (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. These forecasts determine the extent to which deferred tax assets are or are not recognised. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of deferred tax assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 29) disclose the sensitivity estimated by the Group.	Our procedures included: · **Historical comparisons and our sector experience:** Comparing the expected growth rates to the Group's approved operating plan and assessing the accuracy of that forecasting process in the past. We considered whether projected margins are achievable with reference to the business's recent performance and operating plans, as well as our own industry knowledge. · **Sensitivity analysis:** Sensitivity analysis of taxable profits to assumptions such as the Combined Operating Ratio. · **Own tax expertise:** With the support of our own tax specialists and their knowledge of tax legislation, we also assessed the extent to which projected profits were taxable, in particular the Group's assumptions about how accumulated tax losses and other associated tax attributes can be utilized within the group against the UK business, and RSAI plc as the taxable legal entity, in particular. · **Assessing transparency:** Assessing adequacy of the Group's disclosures in respect of the assumptions and sensitivity supporting the deferred tax asset valuation and recognition. **Our results** As a result of our work we found the level of deferred tax assets recognised to be acceptable (2017 result: acceptable).
Recoverability of parent company's investment in subsidiaries (2018: £4,476 million, 2017: £5,765 million) Refer to page 172 (accounting policy, Investments in Subsidiaries) and page 174 (financial disclosures).	**Subjective valuation** The parent company's holds its investments in subsidiaries at fair value, representing 66% (2017: 72%) of the company's total assets. For the most significant subsidiary, fair value is based on the market value of the Group, after adjusting for certain items. Whilst there is not a high degree of subjectivity, the estimation of some of the adjusting items is 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:** With the support of our own valuation specialists, 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 recoverability of the parent company's investment in subsidiaries to be acceptable (2017 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 (2017: £35m) determined with reference to a benchmark of Net Earned Premiums of £6,537m (2017: £6,605m), of which it represents 0.5% (2017: 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 (2017: £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 (2017: 0.5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.7m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's nine (2017: nine) reporting components, we subjected four (2017: four), being those located within the UK, Ireland, Canada and Scandinavia, to full scope audits for group purposes and one (2017: 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.

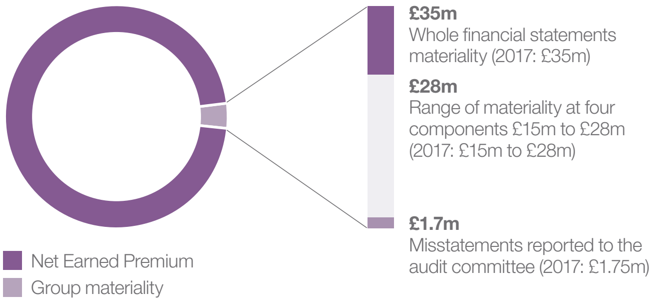
The components within the scope of our work accounted for the percentages illustrated opposite. For the remaining components we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

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 £15m to £28m (2017: £15m to £28m), having regard to the mix of size and risk profile of the Group across the components. All (2017: all) of the audits of reporting components were performed by the component auditors.

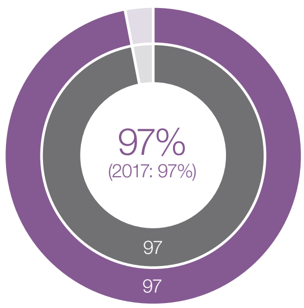
The Group audit team visited four (2017: four) component locations, being those in the UK, Ireland, Canada and Denmark (2017: UK, Ireland, Canada and Denmark) to assess the audit risk and planned audit approach. The work on four of the nine components (2017: four of the nine components) was performed 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
£6,537m (2017: £6,605m)

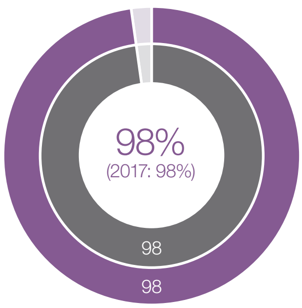
Group materiality
£35m (2017: £35m)



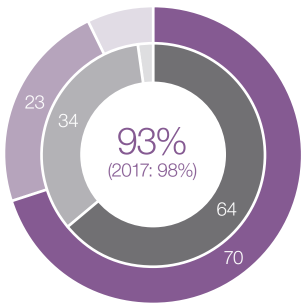
Net Earned Premium



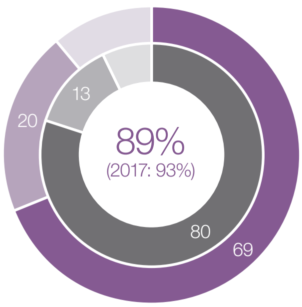
Insurance Contract Liabilities



Total Assets



Group Profit before Tax



2018 2017
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 judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the 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
- an increase in the Group's net pension liability.

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 impact on the economic environment, which could result in a rapid reduction in available financial resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the 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 92 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 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 40) that they have carried out a robust assessment of the 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 eleven 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 97, 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) 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. These limited procedures did not identify actual or suspected non-compliance.

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

27 February 2019

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £m	2017 £m
Income			
Gross written premiums		7,467	7,599
Less: reinsurance premiums		(997)	(921)
Net written premiums	8	6,470	6,678
Change in gross provision for unearned premiums		61	(16)
Less: change in provision for unearned reinsurance premiums		6	(57)
Change in provision for unearned premiums		67	(73)
Net earned premiums		6,537	6,605
Net investment return	9	343	350
Other operating income	11	138	150
Total income		7,018	7,105
Expenses			
Gross claims incurred		(5,023)	(5,136)
Less: claims recoveries from reinsurers		543	786
Net claims	10	(4,480)	(4,350)
Underwriting and policy acquisition costs		(1,945)	(2,007)
Unwind of discount		(33)	(34)
Other operating expenses, reorganisation costs and impairments	12	(54)	(234)
		(6,512)	(6,625)
Finance costs	13	(25)	(102)
(Loss)/profit on disposal of business and realised (losses)/gains on held for sale assets	6	(2)	69
Net share of profit after tax of associates		1	1
Profit before tax	8	480	448
Income tax expense	17	(108)	(126)
Profit for the year		372	322
Attributable to:			
Equity holders of the Parent Company		349	289
Non-controlling interests		23	33
		372	322
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company			
Basic	19	31.8p	26.3p
Diluted	19	31.6p	26.1p
Ordinary dividends paid and proposed for the year			
Interim dividend paid	20	7.3p	6.6p
Final dividend proposed	20	13.7p	13.0p

The attached notes on pages 111 to 168 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £m	2017 £m
Profit for the year		**372**	322
Items that may be reclassified to the income statement:			
Exchange losses net of tax on translation of foreign operations	21	**(13)**	(36)
Fair value losses on available for sale financial assets net of tax	21	**(149)**	(197)
		(162)	(233)
Items that will not be reclassified to the income statement:			
Pension – remeasurement of net defined benefit asset/liability net of tax and tax credit for scheme contributions	21	**161**	44
Movement in property revaluation surplus net of tax	21	**2**	2
		163	46
Total other comprehensive income/(expense) for the year	21	**1**	(187)
Total comprehensive income for the year		**373**	135
Attributable to:			
Equity holders of the Parent Company		**343**	117
Non-controlling interests		**30**	18
		373	135

The attached notes on pages 111 to 168 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Ordinary share capital £m	Ordinary share premium £m	Own shares £m	Preference shares £m	Revaluation reserves £m	Capital redemption reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Share-holders' equity £m	Tier 1 notes £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2017	1,020	1,080	(1)	125	496	389	78	528	3,715	–	132	3,847
Total comprehensive income												
Profit for the year	–	–	–	–	–	–	–	289	289	–	33	322
Other comprehensive (expense)/income (note 21)	–	–	–	–	(192)	–	(24)	44	(172)	–	(15)	(187)
	–	–	–	–	(192)	–	(24)	333	117	–	18	135
Transactions with owners of the Group												
Contribution and distribution												
Dividends (note 20)	–	–	–	–	–	–	–	(200)	(200)	–	(10)	(210)
Shares issued for cash (note 32)	1	3	–	–	–	–	–	–	4	–	–	4
Share based payments (note 18/32)	2	–	–	–	–	–	–	14	16	–	–	16
Issue of Tier 1 notes (note 33)	–	–	–	–	–	–	–	–	–	297	–	297
Other reserve transfer	–	–	–	–	(7)	–	–	7	–	–	–	–
	3	3	–	–	(7)	–	–	(179)	(180)	297	(10)	107
Changes in shareholders' interests in subsidiaries	–	–	–	–	–	–	–	1	1	–	12	13
Total transactions with owners of the Group	3	3	–	–	(7)	–	–	(178)	(179)	297	2	120
Balance at 1 January 2018	**1,023**	**1,083**	**(1)**	**125**	**297**	**389**	**54**	**683**	**3,653**	**297**	**152**	**4,102**
Total comprehensive income												
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**349**	**349**	**–**	**23**	**372**
Other comprehensive (expense)/income (note 21)	**–**	**–**	**–**	**–**	**(149)**	**–**	**(18)**	**161**	**(6)**	**–**	**7**	**1**
	–	**–**	**–**	**–**	**(149)**	**–**	**(18)**	**510**	**343**	**–**	**30**	**373**
Transactions with owners of the Group												
Contribution and distribution												
Dividends (note 20)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(231)**	**(231)**	**–**	**(14)**	**(245)**
Shares issued for cash (note 32)	**1**	**4**	**–**	**–**	**–**	**–**	**–**	**–**	**5**	**–**	**–**	**5**
Share based payments (note 18/32)	**3**	**–**	**–**	**–**	**–**	**–**	**–**	**9**	**12**	**–**	**–**	**12**
	4	**4**	**–**	**–**	**–**	**–**	**–**	**(222)**	**(214)**	**–**	**(14)**	**(228)**
Changes in shareholders' interests in subsidiaries	**–**	**–**	**–**	**–**	**4**	**–**	**–**	**–**	**4**	**–**	**–**	**4**
Total transactions with owners of the Group	**4**	**4**	**–**	**–**	**4**	**–**	**–**	**(222)**	**(210)**	**–**	**(14)**	**(224)**
Balance at 31 December 2018	**1,027**	**1,087**	**(1)**	**125**	**152**	**389**	**36**	**971**	**3,786**	**297**	**168**	**4,251**

The attached notes on pages 111 to 168 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 £m	2017 £m
Assets			
Goodwill and other intangible assets	22	792	763
Property and equipment	23	90	104
Investment property	24	310	308
Investments in associates		13	13
Financial assets	25	11,458	11,643
Total investments		11,781	11,964
Reinsurers' share of insurance contract liabilities	28	2,271	2,252
Insurance and reinsurance debtors	30	2,954	2,923
Deferred tax assets	29	234	276
Current tax assets	29	71	43
Other debtors and other assets	30	673	559
Other assets		978	878
Cash and cash equivalents	31	788	1,048
		19,654	19,932
Assets of operations classified as held for sale	6	639	668
Total assets		20,293	20,600
Equity and liabilities			
Equity			
Shareholders' equity		3,786	3,653
Tier 1 notes	33	297	297
Non-controlling interests		168	152
Total equity		4,251	4,102
Liabilities			
Loan capital	35	441	441
Insurance contract liabilities	37	12,712	12,793
Insurance and reinsurance liabilities	37	928	934
Borrowings	36	119	123
Deferred tax liabilities	29	79	56
Current tax liabilities	29	14	24
Provisions	39	169	407
Other liabilities	40	944	1,052
Provisions and other liabilities		1,206	1,539
		15,406	15,830
Liabilities of operations classified as held for sale	6	636	668
Total liabilities		16,042	16,498
Total equity and liabilities		20,293	20,600

The attached notes on pages 111 to 168 form an integral part of these consolidated financial statements.

The financial statements were approved on 27 February 2019 by the Board of Directors and are signed on its behalf by:

Scott Egan
Group Chief Financial Officer
(appointed as CEO, UK & International on 5 February 2019)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated from operating activities	41	**269**	469
Tax paid		**(80)**	(104)
Net cash flows from operating activities		**189**	365
Cash flows from investing activities			
Proceeds from sales or maturities of:			
Financial assets		**2,605**	3,030
Investment property		**25**	28
Property and equipment		**28**	–
Sale of subsidiaries (net of cash disposed of)		**11**	15
Purchase of:			
Financial assets		**(2,665)**	(2,406)
Investment property		**(19)**	(2)
Property and equipment		**(22)**	(16)
Intangible assets		**(123)**	(131)
Purchase of subsidiaries (net of cash acquired)		**(17)**	–
Cash element of reinsurance premium on UK Legacy assets		**–**	(96)
Net cash flows from investing activities		**(177)**	422
Cash flows from financing activities			
Proceeds from issue of share capital		**5**	4
Proceeds from issue of Tier 1 notes	33	**–**	297
Dividends paid to ordinary shareholders		**(208)**	(180)
Coupon payment on Tier 1 notes		**(14)**	(11)
Dividends paid to preference shareholders		**(9)**	(9)
Dividends paid to non-controlling interests		**(14)**	(10)
Redemption of debt instruments		**–**	(636)
Net movement in other borrowings		**(12)**	(136)
Interest paid		**(25)**	(133)
Net cash flows from financing activities		**(277)**	(814)
Net decrease in cash and cash equivalents		**(265)**	(27)
Cash and cash equivalents at the beginning of the year		**1,049**	1,087
Effect of changes in foreign exchange on cash and cash equivalents		**(3)**	(11)
Cash and cash equivalents at the end of the year	31	**781**	1,049

The attached notes on pages 111 to 168 form an integral part of these consolidated financial statements.

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 loan capital 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 111 to 168 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. Estimation techniques and assumptions are presented in the relevant note in order to provide context to the figures presented. The most significant estimates are those used in determining insurance contract liabilities (note 37), deferred tax (note 29) and defined benefit pension scheme liabilities (note 38). There are no significant judgements not related to accounting estimates.

2) Adoption of new and revised standards

IFRS 4 'Insurance Contracts'

During the year the Group has taken advantage of an election under IFRS 4 that permits an insurer which meets certain conditions to temporarily be exempt from adopting IFRS 9 'Financial Instruments' that would have otherwise have become effective from 1 January 2018 until 1 January 2021 (it is anticipated that this date will be put back a further year until 1 January 2022 to coincide with the new expected implementation date for IFRS 17 'Insurance Contracts'). This will enable accounting policy choices to consider the interrelationships of IFRS 17 'Insurance Contracts' and 9 particularly with regards to asset and liability management.

IFRS 15 'Revenue Recognition'

IFRS 15 'Revenue Recognition' became effective from 1 January 2018 and does not apply to insurance and financial instrument income. The Group completed its detailed review of the application of IFRS 15 on its income recognised from the performance of other services for customers as set out in note 11. Existing policies for the recognition and measurement of such income are already compliant with the requirements of IFRS 15 and therefore no adjustment was necessary when applying the standard.

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 2018, none of which have had a significant impact on the consolidated financial statements.

3) New accounting standards, interpretations and amendments

IFRS 17 'Insurance Contracts'

The International Accounting Standards Board (IASB) issued IFRS 17 'Insurance Contracts' in May 2017 to replace IFRS 4 'Insurance Contracts'. The IASB deferred the implementation date of IFRS 17 by one year on 14 November 2018 to annual reporting periods beginning, at the latest, on or after 1 January 2022. It is anticipated that the IASB will issue a new Exposure Draft of the standard in the summer of 2019.

Draft legislation has been laid before Parliament to ensure that IFRS as endorsed by the EU at the date of the UK leaving the EU will be adopted for use in the UK as well as providing the Secretary of State with the power to adopt and endorse IFRS for use in the UK. It is expected that this power will be delegated to a UK IFRS Endorsement Board. In the event that IFRS 17 has not been endorsed by the EU by the time the UK leaves the EU, including any transitional period or arrangements that may be agreed, then the UK IFRS Endorsement Board will have responsibility for its endorsement.

The Group's programme of implementation activity is progressing in line with plans which include consideration of the impact of the one year deferral. The activities completed in 2018 include making decisions on accounting policy in key areas supported by financial impact analysis, the design of finance systems and process change and drafting revised pro-forma financial statements. Detailed build and testing of new systems and processes will take place during 2019 and early 2020 moving into detailed parallel run testing of reporting during the latter part of 2020 and into 2021 to assure reporting compliance by 1 January 2022.

3) New accounting standards, interpretations and amendments continued

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 defer applying IFRS 9 ‘Financial Instruments’ until 1 January 2021. Further information can be found in note 25.

IFRS 16 ‘Leases’

IFRS 16 replaces the existing standard IAS 17 ‘Leases’ with effect from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below.

IFRS 16 introduces a single, on balance sheet lease accounting model for lessees. A lessee recognises an asset representing its right to use the underlying leased asset and a liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items, which the Group intends to utilise.

The Group will recognise new assets and liabilities mainly relating to:

- Real estate operating leases (see note 42); and
- Mainframe and server elements of technology contracts.

The nature of expenses on these areas changes from 1 January 2019 when the Group will recognise a depreciation charge for right-of-use assets and an interest expense on lease liabilities. Currently, the Group recognises the applicable expenses as they fall due, and assets and liabilities only to the extent that there was a timing difference between the recognition of the expense and its actual payment.

The Group will apply IFRS 16 on 1 January 2019 using the standard’s second modified retrospective approach which means that the lease liability on transition will be matched by an equal and opposite right of use asset resulting in a nil impact on opening equity which will be applied using the exemption not to present the prior reporting period. This means that, based on the information currently available, the Group estimates that it will recognise additional lease liabilities and right-of-use assets on implementation of c£280m. The impact on the Income Statement in future years is expected to be immaterial.

Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Group’s consolidated financial statements over the following twelve months:

- Annual improvement to IFRSs 2015-2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- IFRIC 23 Uncertainty over Income Tax Treatments;
- Amendments to IAS 19 Employee benefits on plan amendments, curtailment or settlement.

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.

The Group has not made any significant changes to its accounting policies during 2018.

Premium income

Premium written 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 premiums earned 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 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

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
	Loan capital	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 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 other comprehensive income, 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

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 IAS12 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-retirement 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-retirement 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 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

The amounts charged (or credited where relevant) in the consolidated income statement relating to post-retirement 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

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, contract length, and forecast period to technological obsolescence. The asset is amortised on a straight-line basis across this period.

Internally developed computer software

The Group capitalises internal and external computer 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. The costs capitalised includes administrative and other general overhead expenditure when they can be directly attributed to the software development and preparing it for use. The useful economic life of externally acquired and internally generated software is normally estimated to be between three and seven years.

Further information on goodwill and other intangibles can be found in note 22.

Impairment of goodwill, other intangible assets and internally developed computer software

Goodwill and intangible assets not yet available to use are subject to an impairment test on an annual basis. Other intangible assets, which includes internally generated 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 computer 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 2018, 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 removed from the Group's authorised list of approved reinsurers unless the Group's internal review discovers exceptional circumstances in favour of the reinsurer. Collateral is taken, where appropriate, to mitigate exposures to acceptable levels. At 31 December 2018 the extent of collateral held by the Group against reinsurers' share of insurance contract liabilities was **£577m** (2017: £585m), which in the event of a default would be called and recognised on the balance sheet.

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, excluding Enstar which is fully collateralised (see note 6), are Berkshire Hathaway, Lloyd's of London and Talanx. At 31 December 2018 the reinsurance asset recoverable from these groups does not exceed **3.9%** (2017: 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 **6.5%** (2017: 6.4%) 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 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.

As at 31 December 2017

	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	5,358	2,170	2,305	655	171	1	10,660	–	10,660
Of which would qualify for SPPI under IFRS 9[1]	5,358	2,154	2,199	636	95	–	10,442	–	10,442
Loans and receivables[2]	81	–	5	104	4	25	219	–	219
Reinsurers' share of insurance contract liabilities	–	617	1,574	605	45	41	2,882	636	2,246
Insurance and reinsurance debtors[3]	75	32	971	74	53	1,622	2,827	16	2,811
Derivative assets	–	6	16	38	–	10	70	–	70
Other debtors	–	–	–	–	–	189	189	11	178
Cash and cash equivalents	317	315	378	14	8	21	1,053	5	1,048

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%** (2017: 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 2018

		Financial assets that are past due but not impaired						
	Neither past due nor impaired £m	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	**10,470**	**–**	**–**	**–**	**–**	**–**	**10,470**	**–**
Loans and receivables	**249**	**–**	**–**	**–**	**–**	**–**	**249**	**–**
Reinsurers' share of insurance contract liabilities	**2,266**	**–**	**–**	**–**	**–**	**5**	**2,271**	**–**
Insurance and reinsurance debtors	**2,817**	**63**	**28**	**19**	**23**	**4**	**2,954**	**(2)**
Derivative assets	**67**	**–**	**–**	**–**	**–**	**–**	**67**	**–**
Other debtors	**172**	**8**	**2**	**1**	**2**	**–**	**185**	**–**
Cash and cash equivalents	**788**	**–**	**–**	**–**	**–**	**–**	**788**	**–**

As at 31 December 2017

		Financial assets that are past due but not impaired						
	Neither past due nor impaired £m	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	10,660	–	–	–	–	–	10,660	–
Loans and receivables	219	–	–	–	–	–	219	(4)
Reinsurers' share of insurance contract liabilities	2,246	–	–	–	–	6	2,252	–
Insurance and reinsurance debtors	2,811	51	22	24	13	2	2,923	4
Derivative assets	70	–	–	–	–	–	70	–
Other debtors	178	11	1	–	1	–	191	–
Cash and cash equivalents	1,048	–	–	–	–	–	1,048	–

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 2018 the Group held investments classified as equity securities of **£739m** (2017: £764m). 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 **£203m** (2017: £242m) 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 **£30m** (2017: £36m) 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 **£47m** (2017: £46m) in the income statement and **£3m** (2017: £5m) 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 2018, 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	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Increase in interest rate markets:				
Impact on fixed income securities and cash of an increase in interest rates of 100bps	**20**	18	**(380)**	(412)

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 2019 and 1 January 2018 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 Investment Committee. 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 2018, 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 2018	**2,437**	**401**	**658**	**226**	**387**	**4,109**
Shareholders' equity at 31 December 2017	2,607	414	506	201	222	3,950

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 2018	**(36)**	**45**	**(60)**	**73**	**(21)**	**25**
Movement in shareholders' equity at 31 December 2017	(38)	46	(46)	56	(18)	22

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 2018

	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	–	–	–	–	–	–	7	7	6
Guaranteed subordinated notes due 2045	–	–	–	–	–	400	–	400	396
Guaranteed subordinated step-up notes due 2039	39	–	–	–	–	–	–	39	39
Provisions for losses and loss adjustment expenses	4,334	1,813	1,158	815	629	1,402	1,605	11,756	9,468
Direct insurance creditors	118	2	–	–	–	–	–	120	120
Reinsurance creditors	562	198	48	–	–	–	–	808	808
Borrowings	119	–	–	–	–	–	–	119	119
Deposits received from reinsurers	22	–	–	–	–	–	–	22	22
Derivative liabilities	51	–	14	–	–	9	36	110	110
Total	5,245	2,013	1,220	815	629	1,811	1,648	13,381	11,088
Interest on perpetual bonds and notes	23	21	21	21	21	40	1	148	

5) Risk and capital management continued

As at 31 December 2017

	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	–	–	–	–	–	–	7	7	6
Guaranteed subordinated notes due 2045	–	–	–	–	–	400	–	400	396
Guaranteed subordinated step-up notes due 2039	–	39	–	–	–	–	–	39	39
Provisions for losses and loss adjustment expenses	3,913	1,645	1,110	799	584	1,379	1,872	11,302	9,477
Direct insurance creditors	111	2	–	–	–	–	–	113	113
Reinsurance creditors	506	239	76	–	–	–	–	821	821
Borrowings	123	–	–	–	–	–	–	123	123
Deposits received from reinsurers	35	–	–	–	–	–	–	35	35
Derivative liabilities	7	27	–	11	–	5	38	88	88
Total	4,695	1,952	1,186	810	584	1,784	1,917	12,928	11,098
Interest on perpetual bonds and notes	25	23	21	21	21	60	1	172	

The maturity analysis above is presented on an undiscounted basis including held for sale liabilities. The carrying values in the statement of financial position are discounted where appropriate in accordance with Group accounting policy.

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 mortality 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 2018

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.

The Internal Model is used to support, inform and improve the Group's decision making across the Group. It is used to determine the Group's optimum capital structure, its investment and hedging strategy, its reinsurance programme and to determine the pricing and target returns for each portfolio.

At 31 December 2018, the estimated SCR and corresponding eligible own funds were as follows:

	Unaudited	
	2018 £bn	2017 £bn
Eligible own funds	**3.0**	2.9
SCR	**1.8**	1.8
Coverage (unrounded)	**170%**	163%

The impact on the Solvency II coverage ratio of a range of sensitivities is set out below:

	Unaudited 2018	
Solvency II Sensitivities (change in coverage ratio):	**Including pensions[1]**	**Excluding pensions**
Interest rates: +1% non-parallel[2] shift	**6%**	**6%**
Interest rates: -1% non-parallel[2] shift	**-8%**	**-7%**
Equities: -15%	**-6%**	**-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	**-2%**	**-2%**
Credit spreads: -0.25% parallel shift	**-9%**	**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.

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.

	2018 £m	2017 £m
As at 1 January 2018	**2,765**	2,862
Profit after tax[1]	**450**	385
Exchange (losses) net of tax	**(16)**	(22)
Fair value (losses) net of tax	**(146)**	(194)
Pension fund gains net of tax	**161**	44
Dividends[2]	**(231)**	(200)
Goodwill and intangible additions	**(137)**	(131)
Other	**21**	21
As at 31 December 2018	**2,867**	2,765

1 Profit after tax excludes amortisation and impairment of intangible assets.
2 Dividends includes **£9m** (2017: £9m) paid in relation to preference shares and **£14m** (2017: £11m) 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 business disposals

The assets and liabilities of the businesses held for sale are shown below.

	2018			2017
	Noble £m	UK Legacy £m	Total £m	UK Legacy £m
Assets classified as held for sale				
Goodwill	**2**	**–**	**2**	–
Reinsurers' share of insurance contract liabilities	**–**	**604**	**604**	636
Insurance and reinsurance debtors	**–**	**13**	**13**	16
Other debtors and other assets	**–**	**15**	**15**	11
Cash and cash equivalents	**1**	**4**	**5**	5
Assets of operations classified as held for sale	**3**	**636**	**639**	668
Liabilities directly associated with assets classified as held for sale				
Insurance contract liabilities	**–**	**604**	**604**	636
Insurance and reinsurance liabilities	**–**	**3**	**3**	2
Provisions and other liabilities	**–**	**29**	**29**	30
Liabilities of operations classified as held for sale	**–**	**636**	**636**	668
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 takes the form of a reinsurance agreement, effective from 31 December 2016, which substantially effects economic transfer, to be followed by completion of a subsequent legal transfer of the business. The Group's UK Legacy business is 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.

During the period RSA has entered into an agreement to make a contribution of £15m to Enstar Group Limited, which is contingent upon Court approval of the completion of the Part VII legal transfer of the UK Legacy business.

Profit on disposal of business and realised gains on held for sale assets

The UK Noble Marine entities have been classified as Held for Sale at fair value resulting in a **£4m** write down. The disposal was completed in February 2019 (see Appendix B).

A gain of **£2m** was recognised following the liquidation of Royal and Sun Alliance (Ireland) Limited.

In 2017, the net gain of £69m includes £66m relating to the realised gain on the investments transferred as part of the UK Legacy reinsurance transaction, a gain of £17m relating to the reversal of part of the valuation adjustment on the Group's Oman business and a gain of £7m on the disposal of the Accident and Repairs business in the UK, offset by a charge of £22m on the commutation of the Group's Adverse Development Cover reinsurance protection bought partly to protect the UK Legacy book.

7) Reorganisation costs

In 2017, the reorganisation costs of £155m (notes 8, 12 and 39) are directly associated with continuing operations. The amounts are directly attributable to redundancy £68m and other restructuring activity of £87m. Restructuring costs in 2017 related to amounts incurred across the Group for activities such as process re-engineering and other cost reduction initiatives such as office footprint consolidation and reduction, reducing spans of control, and outsourcing. The restructuring programme is now complete with no such costs incurred in 2018.

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);
- Operating result.

Net written premiums is the key measure of revenue used in internal reporting.

Underwriting result, COR and 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 177 to 186.

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 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)
Operating result (management basis)	306	84	105	22	517
Realised gains					22
Unrealised gains/(losses), impairments and foreign exchange					(2)
Interest costs					(25)
Amortisation of intangible assets					(13)
Pension net interest and administration costs					(6)
Regulatory costs					(4)
Impairment of goodwill					(7)
Loss on disposal of business and realised losses on held for sale assets					(2)
Profit before tax					480
Tax on operations					(108)
Profit after tax					372
Combined operating ratio (%)	86.8%	98.5%	101.4%		96.2%

8) Segmental information continued

Year ended 31 December 2017

	Scandinavia £m	Canada £m	UK & International £m	Central Functions £m	Total Group £m
Net written premiums	1,833	1,619	3,199	27	6,678
Underwriting result	315	98	(82)	63	394
Investment result	74	61	149	–	284
Central costs and other activities	–	–	–	(15)	(15)
Operating result (management basis)	389	159	67	48	663
Realised gains					19
Unrealised losses, impairments and foreign exchange					(1)
Interest costs					(102)
Amortisation of intangible assets					(15)
Pension net interest and administration costs					(7)
Reorganisation costs					(155)
Impairment of intangible assets and similar charges					(23)
Profit on disposal of business and realised gains on held for sale assets					69
Profit before tax					448
Tax on operations					(126)
Profit after tax					322
Combined operating ratio (%)	82.9%	93.9%	102.6%		94.0%

9) Net investment return

A summary of the net investment return in the income statement is given below:

	Investment income		**Net realised gains/(losses)**		**Net unrealised gains/(losses)**		**Impairments**		**Total investment return**	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Investment property	**19**	21	**8**	–	**8**	1	**–**	–	**35**	22
Equity securities										
Available for sale	**35**	32	**10**	5	**–**	–	**(10)**	–	**35**	37
At FVTPL	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Debt securities										
Available for sale	**242**	262	**2**	19	**–**	–	**–**	–	**244**	281
At FVTPL	**–**	–	**–**	–	**(1)**	(1)	**–**	–	**(1)**	(1)
Other loans and receivables										
Loans secured by mortgages	**2**	2	**–**	–	**–**	–	**–**	–	**2**	2
Other loans	**7**	3	**2**	(1)	**–**	–	**–**	4	**9**	6
Deposits, cash and cash equivalents	**10**	5	**–**	–	**–**	–	**–**	–	**10**	5
Derivatives	**4**	5	**–**	(4)	**2**	(4)	**–**	–	**6**	(3)
Other	**3**	1	**–**	–	**–**	–	**–**	–	**3**	1
Total net investment return	**322**	331	**22**	19	**9**	(4)	**(10)**	4	**343**	350

Direct operating expenses (including repairs and maintenance) arising from investment properties were not material in 2018 or 2017.

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)/losses transferred to income statement[1]		Impairments transferred to income statement		Net movement recognised in other comprehensive income	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Equity securities	(51)	25	(10)	(6)	10	–	(51)	19
Debt securities	(121)	(126)	(2)	(101)	–	–	(123)	(227)
Other	2	4	(2)	2	–	(4)	–	2
Total	(170)	(97)	(14)	(105)	10	(4)	(174)	(206)

1 Net realised gains transferred to the income statement in 2017 of £105m included £81m gains on disposal of the UK Legacy business.

10) Net claims

	2018 £m	2017 £m
Gross claims paid	5,123	5,094
Gross changes in provision for losses and loss adjustment expenses	(100)	42
Reinsurance recoveries on claims paid	(619)	(712)
Reinsurers' share of changes in provision for losses and loss adjustment expenses	76	(74)
Total net claims	4,480	4,350

11) Other operating income

	2018 £m	2017 £m
Administration fee income	27	29
Instalment policy fee income	44	50
Introductory commissions	13	12
Service income	10	11
Other fees	44	48
Total other operating income	138	150

12) Other operating expenses, reorganisation costs and impairments

	2018 £m	2017 £m
Administration and other expenses	9	20
Investment expenses and charges	14	13
Amortisation of intangible assets	13	15
Pension administration expenses	6	7
Regulatory costs	4	–
Reorganisation costs (see note 7)	–	155
Impairment of intangible assets and similar charges[1]	–	23
Impairment of goodwill	7	–
Foreign exchange loss	1	1
Total other operating expenses, reorganisation costs and impairments	54	234

1 Impairment of intangible assets and similar charges in 2017 includes a £20m impairment charge on internally generated software and a £3m charge for related deferred acquisition costs.

13) Finance costs

	2018 £m	2017 £m
Interest expense on loan capital	25	42
Premium on debt buy back[1]	–	59
Other loan interest	–	1
Total finance costs	25	102

1 In 2017 the Group bought back loan capital of £608m on which total premiums of £59m were paid for early redemption.

14) Employee expenses

Staff costs for all employees comprise:

	2018 £m	2017 £m
Wages and salaries	**566**	595
Social security costs	**86**	89
Pension costs	**83**	82
Share based payments to directors and employees	**12**	16
Total staff costs	**747**	782

The average number of employees during the year are as follows:

	2018 Number	2017 Number
Scandinavia	**3,013**	3,228
Canada	**2,896**	3,112
UK & International	**6,737**	7,023
Total average number of employees during the year	**12,646**	13,363

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

	2018 £m	2017 £m
Salaries and other short term employee benefits	**7**	7
Bonus awards	**1**	3
Pension benefits	**–**	–
Share based awards	**5**	5
Total	**13**	15

Included in salaries and other short term employee benefits and bonus awards is **£3,942,000** (2017: £4,625,000) 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 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 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 influence have general insurance policies with subsidiary companies of the Group. General insurance policies are available at discounted rates to all employees including executive directors.

16) Auditor's remuneration

	2018 £m	2017 £m
Fees payable to the auditor for audit of the Company's annual accounts	**0.9**	0.8
Fees payable to the auditor and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	**4.2**	3.9
Non-audit services:		
Audit related assurance services	**1.4**	1.3
Other services	**0.1**	0.1
Total auditor's remuneration	**6.6**	6.1

Included in the Audit related assurance services for 2018 is **£0.9m** (2017: £0.9m) of assurance work in respect of Solvency II reporting. The remainder of **£0.5m** (2017: £0.4m), together with Other services of **£0.1m** (2017: £0.1m), is ancillary non-audit work representing in aggregate **11%** (2017: 11%) of the Group IFRS audit fee of **£5.1m** (2017: £4.7m).

17) Income tax

The tax amounts charged/(credited) in the income statement are as follows:

	2018 £m	2017 £m
Current tax	**94**	136
Deferred tax	**14**	(10)
Taxation attributable to the Group	**108**	126

Reconciliation of the income tax expense

	2018 £m	2017 £m
Profit before tax	**480**	448
Tax at the UK rate of **19.0%** (2017: 19.2%)	**91**	86
Tax effect of:		
Income/gains not taxable (or taxed at lower rate)	**(7)**	(8)
Expenses not deductible for tax purposes	**1**	6
Non-taxable (profit) on sale of subsidiaries	**(1)**	–
Impairment and amortisation of goodwill	**2**	(2)
Movement in deferred tax assets not recognised	**10**	4
(Decrease) of tax provided in respect of prior periods	**(6)**	–
Different tax rates of subsidiaries operating in other jurisdictions	**11**	11
Withholding tax on dividends and interest from subsidiaries	**4**	29
Effect of change in tax rates	**(2)**	2
Deductible Restricted Tier 1 coupon in equity	**(3)**	(2)
One off tax charge on Swedish Safety Reserve	**6**	–
Other	**2**	–
Income tax expense	**108**	126

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

	Current Tax		Deferred Tax		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Exchange gains and losses	**(3)**	–	**3**	–	**–**	–
Fair value gains and losses	**41**	20	**(18)**	(18)	**23**	2
Remeasurement of net defined benefit pension liability	**14**	–	**(30)**	15	**(16)**	15
Total credited/(charged) to other comprehensive income	**52**	20	**(45)**	(3)	**7**	17

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** (2017: £nil).

There are no material uncertain tax provisions in the Group as at 31 December 2018 (2017: £nil).

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.

	2018		2017	
	Current Tax	Deferred Tax	Current Tax	Deferred Tax
UK	**19.0 %**	**17.0 %**	19.2 %	17.0 %
Canada	**27.7 %**	**27.7 %**	27.2 %	27.2 %
Denmark	**22.0 %**	**22.0 %**	22.0 %	22.0 %
Ireland	**12.5 %**	**12.5 %**	12.5 %	12.5 %
Sweden	**22.0 %**	**20.6 %**	22.0 %	22.0 %

18) Share based payments

The total amount included within staff costs in the consolidated income statement in respect of all share scheme plans in 2018 is set out below.

Analysis of share scheme costs:

	2018 £m	2017 £m
Performance share plan (PSP)	**11**	15
Save as you earn (SAYE)	**1**	1
Total	**12**	16

Analysis of new award costs:

	2018		2017	
	Charge for year £m	**Total value granted £m**	Charge for year £m	Total value granted £m
PSP	**5**	**10**	7	13
SAYE	**–**	**1**	–	2
Total	**5**	**11**	7	15

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/business review 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.

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 **1,026,040,413** for basic EPS and **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 2018 was **1,026,814,592** (excluding those held in ESOP and SIP trusts).

Basic EPS

	2018	2017
Profit attributable to the shareholders of the Parent Company (£m)	**349**	289
Less: cumulative preference dividends (£m)	**(9)**	(9)
Less: Tier 1 notes coupon payment (£m)	**(14)**	(11)
Profit for the calculation of earnings per share (£m)	**326**	269
Weighted average number of ordinary shares in issue (thousands)	**1,026,040**	1,021,418
Basic earnings per share (p)	**31.8**	26.3

19) Earnings per share (EPS) continued

Diluted EPS

	2018	2017
Weighted average number of ordinary shares in issue (thousands)	**1,026,040**	1,021,418
Adjustments for share options and contingently issuable shares (thousands)	**4,410**	7,081
Total weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,030,450**	1,028,499
Diluted earnings per share (p)	**31.6**	26.1

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 10 May 2019, a final dividend in respect of the year ended 31 December 2018 of **13.7p** per ordinary share amounting to a total dividend of **£141m** is to be proposed. The proposed dividend will be paid and accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2019.

	2018 p	2017 p	2018 £m	2017 £m
Ordinary dividend:				
Final paid in respect of prior year	**13.0**	11.0	**133**	112
Interim paid in respect of current year	**7.3**	6.6	**75**	68
	20.3	17.6	**208**	180
Preference dividend			**9**	9
Tier 1 notes coupon payment			**14**	11
			231	200

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 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**

Year ended 31 December 2017

	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 gains/(losses) net of tax	2	–	–	2	(24)	–	(22)	(14)	(36)
Fair value (losses)/gains net of tax	(201)	–	5	(196)	–	–	(196)	(1)	(197)
Pension – remeasurement of net defined benefit liability net of tax and tax credit for scheme contributions	–	–	–	–	–	44	44	–	44
Movement in property revaluation net of tax	–	2	–	2	–	–	2	–	2
Total other comprehensive (expense)/income for the year	(199)	2	5	(192)	(24)	44	(172)	(15)	(187)

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 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**

	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 2017	440	128	82	753	259	1,662
Additions	–	–	–	131	–	131
Disposals	–	–	–	(28)	–	(28)
Exchange adjustment	1	4	–	3	(3)	5
At 31 December 2017	441	132	82	859	256	1,770
Accumulated amortisation						
At 1 January 2017	–	128	68	418	172	786
Amortisation charge	–	–	9	66	19	94
Amortisation on disposals	–	–	–	(28)	–	(28)
Exchange adjustment	–	4	–	–	(2)	2
At 31 December 2017	–	132	77	456	189	854
Accumulated impairment						
At 1 January 2017	95	–	–	48	5	148
Impairment charge	–	–	–	20	–	20
Reversal of held for sale valuation adjustment	(17)	–	–	–	–	(17)
Exchange adjustment	1	–	–	1	–	2
At 31 December 2017	79	–	–	69	5	153
Carrying amount at 31 December 2017	362	–	5	334	62	763

22) Goodwill and intangible assets continued

Amortisation

Amortisation expense of **£75m** (2017: £79m) has been charged to underwriting and policy acquisition costs with the remainder recognised in other operating expenses.

Impairments

During 2018 the software impairment charge was **£2m** (2017: £20m), which was recognised in underwriting and policy acquisition costs (2017: £nil).

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.

Where the value in use is less than the current carrying value of the CGU in the statement of financial position, the goodwill 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:

	2018 £m	2017 £m
Scandinavia (Sweden, Norway, Denmark)	**148**	155
Canada (Commercial, Johnson, Personal, Travel)	**157**	157
UK and International (Ireland, Oman)	**42**	50
Total Goodwill	**347**	362

During the Group annual impairment testing it was identified that the carrying value of Norway goodwill was greater than the CGU value in use. As a result an impairment of **£7m** has been recognised in other operating expenses. The remaining carrying value is **£16m**. The key assumptions used in determining the value in use for the Norway CGU are as follows:

	Norway CGU
Discount Rate	**9.5%**
Weighted Average Growth Rate	**2.5%**

Goodwill of **£4m** in respect of the UK Noble Marine entities has been 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.

In 2016, legislation was issued by the Oman Government requiring a proportion of the company to be offered to the public. This was expected to result in the Group losing control and therefore the Oman business was classified as held for sale. Consequently the business was measured at fair value less costs to sell resulting in a valuation adjustment in 2016 of £30m. The proportion of business sold in 2017 was lower than expected resulting in control being retained by the Group. Goodwill of £17m was reinstated in 2017 as a consequence.

Impairment sensitivity

Following completion of the goodwill impairment testing, it was identified that the Norway CGU was sensitive to changes in key assumptions.

The sensitivities are listed below:

	Norway Potential Impairment	
	2% £m	5% £m
Change to each year of the planning period (2019 to 2021)		
Decrease in earned premium	**(1)**	**(1)**
Increase in COR%	**(6)**	**(14)**

The range of pre-tax discount rates used for goodwill impairment testing, which reflect specific risks relating to the CGU at the date of evaluation and weighted average growth rates used in 2018 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	
	2018	2017	2018	2017
Scandinavia	**8%-10%**	10%–11%	**1%-3%**	1%–3%
Canada	**10%**	11%–13%	**3%-4%**	2%–4%
UK & International	**8%-9%**	9%–11%	**1%**	2%

23) Property and equipment

	Group occupied property-land and buildings 2018 £m	Other 2018 £m	Total 2018 £m	Group occupied property-land and buildings 2017 £m	Other 2017 £m	Total 2017 £m
Cost/valuation						
At 1 January	**35**	**253**	**288**	38	276	314
Additions	**1**	**20**	**21**	–	16	16
Disposal of subsidiaries	**–**	**–**	**–**	(4)	(6)	(10)
Other disposals	**(17)**	**(36)**	**(53)**	–	(32)	(32)
Exchange adjustment	**–**	**(3)**	**(3)**	1	(1)	–
At 31 December	**19**	**234**	**253**	35	253	288
Accumulated depreciation						
At 1 January	**–**	**184**	**184**	–	200	200
Depreciation charge	**2**	**16**	**18**	2	20	22
Depreciation on disposals	**–**	**(35)**	**(35)**	–	(35)	(35)
Revaluation adjustments	**(2)**	**–**	**(2)**	(2)	–	(2)
Exchange adjustment	**–**	**(2)**	**(2)**	–	(1)	(1)
At 31 December	**–**	**163**	**163**	–	184	184
Accumulated impairment						
At 1 January	**–**	**–**	**–**	–	1	1
Impairment on disposals	**–**	**–**	**–**	–	(1)	(1)
At 31 December	**–**	**–**	**–**	–	–	–
Carrying amount at 31 December	**19**	**71**	**90**	35	69	104

Other includes fixtures, fittings and other equipment. Group occupied property was revalued on 31 December 2018 by independent valuers using the basis of valuation as set out in note 26.

Depreciation expenses of **£16m** (2017: £20m) have been charged to underwriting and policy acquisition costs.

The carrying amount of group occupied property that would have been recognised had the assets been carried under the cost model at 31 December 2018 is **£5m** (2017: £26m).

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

	2018 £m	2017 £m
At 1 January	**17**	17
Revaluation adjustment (note 21)	**2**	2
Transfers and disposal of subsidiaries	**–**	(1)
Exchange adjustment	**1**	(1)
Group occupied property reserve at 31 December	**20**	17

24) Investment Property

Investment property, consisting of **£310m** (2017: £308m) 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:

	2018 £m	2017 £m
At 1 January	**308**	333
Purchases	**19**	2
Sales	**(25)**	(28)
Fair value gains	**8**	1
Investment property at 31 December	**310**	308

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 2018 and 31 December 2017.

As at 31 December 2018

	At 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**

As at 31 December 2017

	At FVTPL £m	Available for sale £m	Loans and receivables £m	Total £m
Equity securities	–	764	–	764
Debt securities	18	10,642	–	10,660
Financial assets measured at fair value	18	11,406	–	11,424
Loans and receivables	–	–	219	219
Total financial assets	18	11,406	219	11,643

The following table analyses the cost/amortised cost, gross unrealised gains and losses, and fair value of financial assets.

	2018				2017
	Cost/ amortised cost £m	**Unrealised gains £m**	**Unrealised losses and impairments £m**	**Fair value £m**	Fair value £m
Equity securities	**767**	**39**	**(67)**	**739**	764
Debt securities	**10,294**	**306**	**(130)**	**10,470**	10,660
Financial assets measured at fair value	**11,061**	**345**	**(197)**	**11,209**	11,424
Loans and receivables	**249**	**–**	**–**	**249**	219
Total financial assets	**11,310**	**345**	**(197)**	**11,458**	11,643

25) Financial assets continued

Collateral

At 31 December 2018, the Group had pledged **£550m** (2017: £514m) of financial assets as collateral for liabilities or contingent liabilities. The assets pledged are included within the balance sheet as follows; government debt securities of **£475m** (2017: £461m), cash and cash equivalents of **£75m** (2017: £43m) and non-government debt securities of **£nil** (2017: £10m). The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities and derivative transactions.

At 31 December 2018, the Group has accepted **£313m** (2017: £31m) in collateral. The assets accepted are included within the balance sheet as follows; government debt securities of **£281m** (2017: £4m), cash and cash equivalents of **£21m** (2017: £16m) and non-government debt securities of **£11m** (2017: £10m). The Group is permitted to sell or repledge collateral held in the event of default by the owner. The fair value of the collateral accepted is **£313m** (2017: £31m). 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 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)**

As at 31 December 2017

	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)	1,253	–	–	1,253	21	(5)
Currency risk (cash flow)	1	5	–	6	1	–
Cross currency interest swaps (fair value/cash flow)	4	159	181	344	3	(44)
Total					25	(49)
At FVTPL						
Currency risk mitigation	223	–	–	223	2	–
Inflation risk mitigation	–	60	323	383	43	(39)
Total					45	(39)
Total derivatives					70	(88)

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 2018 or 2017.

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 one month and 37 years, with the substantial majority having a term of less than six 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 gains on cash flow hedge instruments during 2018 were **£nil** (2017: £3m) in the consolidated statement of other comprehensive income, and the amount reclassified to the income statement was **£1m** (2017: £1m). There was no ineffectiveness recognised in the income statement in respect of these hedges during 2018 or 2017.

The total losses on the fair value hedge instruments recognised in the income statement were **£44m** (2017: £45m) and the offsetting gains related to the hedged risk were **£45m** (2017: £50m).

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 2018, the Group took out borrowings from credit institutions under repurchase agreements of **£107m** (2017: £119m) (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 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**
Reverse repurchase arrangements and other similar secured lending	**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)**	**–**

As at 31 December 2017

	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	70	–	70	(54)	(15)	1
Reverse repurchase arrangements and other similar secured lending	119	–	119	(119)	–	–
Total assets	189	–	189	(173)	(15)	1
Derivative financial liabilities	88	–	88	(54)	(31)	3
Repurchase arrangements and other similar secured borrowing	119	–	119	(119)	–	–
Total liabilities	207	–	207	(173)	(31)	3

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 2018 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 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**

As at 31 December 2017

	SPPI financial assets £m	Other financial assets £m	Total £m
Available for sale equity securities	–	764	764
Available for sale debt securities	10,442	200	10,642
Debt securities at FVTPL	–	18	18
Loans and receivables	219	–	219
Derivative assets held for trading	–	45	45
Fair value at 31 December 2017	10,661	1,027	11,688

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.

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

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

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

26) Fair value measurement continued

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.

Loan capital

The fair value measurement of the Group's loan capital 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 loan capital instruments and other observable market inputs such as applicable risk free rate and appropriate credit risk spreads.

The fair value measurement of the subordinated 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.

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 limited 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. 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 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
Loan capital	–	460	–	460
Total value of liabilities not measured at fair value	–	460	–	460

	Fair value hierarchy 2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Group occupied property – land and buildings	–	–	35	35
Investment properties	–	–	308	308
Available for sale financial assets:				
Equity securities	407	7	350	764
Debt securities	3,711	6,604	327	10,642
Financial assets at FVTPL:				
Debt securities	–	–	18	18
	4,118	6,611	1,038	11,767
Derivative assets:				
At FVTPL	–	45	–	45
Designated as hedging instruments	–	25	–	25
Total assets measured at fair value	4,118	6,681	1,038	11,837
Derivative liabilities:				
At FVTPL	–	39	–	39
Designated as hedging instruments	–	49	–	49
Total liabilities measured at fair value	–	88	–	88
Loan capital	–	507	–	507
Total value of liabilities not measured at fair value	–	507	–	507

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 2017	363	290	6	19	678
Total gains/(losses) recognised in:					
Income statement	2	–	–	(1)	1
Other comprehensive income	(12)	(6)	–	–	(18)
Purchases	22	59	–	–	81
Disposals	(31)	(16)	(6)	–	(53)
Exchange adjustment	6	–	–	–	6
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**
Level 3 financial assets at 31 December 2018	**355**	**410**	**–**	**19**	**784**

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			
		2018		2017	
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)**	35	(5)
Investment properties[1]	Cash flows; discount rate	**310**	**(51)**	308	(48)
Level 3 available for sale financial assets:					
Equity securities[2]	Cash flows; discount rate	**355**	**(10)**	350	(10)
Debt securities[2]	Cash flows; discount rate	**410**	**(10)**	327	(9)
Total		**1,094**	**(74)**	1,020	(72)

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

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.

27) Interests in structured entities continued

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 2018 are summarised in the table below:

Class of investments	Nature of the underlying investments of the vehicle	Carrying value 2018 £m	Undrawn commitments 2018 £m	Exposure 2018 £m	Carrying value 2017 £m	Undrawn commitments 2017 £m	Exposure 2017 £m
Mortgage backed securities	Mainly consists of commercial mortgage backed securities	17	–	17	35	–	35
Collateralised debt obligations	Structured debt security backed by bonds	223	–	223	260	–	260
Cash money market funds	Short term cash deposits	196	–	196	332	–	332
Other	Mainly consist of property funds	348	235	583	343	66	409
		784	235	1,019	970	66	1,036

The line items in the statement of financial position in which the investments above are included are as follows:

	2018 £m	2017 £m
Investments – financial assets – equity securities	348	343
Investments – financial assets – debt securities	241	277
Cash and cash equivalents	195	332
Other	–	18
	784	970

28) Reinsurers’ share of insurance contract liabilities

	2018 £m	2017 £m
Reinsurers’ share of provisions for unearned premiums	739	729
Reinsurers’ share of provisions for losses and loss adjustment expenses	1,532	1,523
Total reinsurers’ share of insurance contract liabilities net of held for sale	**2,271**	**2,252**
To be settled within 12 months	964	1,187
To be settled after 12 months	1,307	1,065

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

	2018 £m	2017 £m
Reinsurers’ share of provision for unearned premiums at 1 January	729	818
Premiums ceded to reinsurers	997	920
Reinsurers’ share of premiums earned	(991)	(977)
Changes in reinsurance asset	6	(57)
Reinsurers’ share of portfolio transfers and disposals of subsidiaries	–	(27)
Exchange adjustment	4	(5)
Total reinsurers’ share of provision for unearned premiums at 31 December	**739**	**729**

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

	2018 £m	2017 £m
Reinsurers’ share of provisions for losses and loss adjustment expenses at 1 January	2,159	1,530
Reinsurers’ share of total claims incurred	543	786
Total reinsurance recoveries received	(619)	(730)
Reinsurance of UK Legacy	–	568
Exchange adjustment	23	(23)
Other movements	30	28
Reinsurers’ share of provisions for losses and loss adjustment expenses at 31 December	**2,136**	**2,159**
Less: Assets classified as held for sale	**604**	**636**
Total reinsurers’ share of provisions for losses and loss adjustment expenses at 31 December net of held for sale	**1,532**	**1,523**

29) Current and Deferred Tax

Current Tax

	Asset		Liability	
	2018 £m	2017 £m	**2018 £m**	2017 £m
To be settled within 12 months	**43**	40	**6**	13
To be settled after 12 months	**28**	3	**8**	11
Current tax position at 31 December	**71**	43	**14**	24

Deferred Tax

	Asset		Liability	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Deferred tax position at 31 December	**234**	276	**79**	56

The following are the major deferred tax assets/(liabilities) recognised by the Group:

	2018 £m	2017 £m
Net unrealised gains on investments	**(34)**	(31)
Intangibles capitalised	**(25)**	(24)
Deferred acquisition costs	**(8)**	(8)
Tax losses and unused tax credits	**80**	97
Accrued costs deductible when settled	**87**	87
Net insurance contract liabilities	**(15)**	(18)
Retirement benefit obligations	**20**	53
Capital allowances	**51**	55
Provisions and other temporary differences	**(1)**	9
Net deferred tax asset at 31 December	**155**	220

The movement in the net deferred tax assets recognised by the continuing Group was as follows:

	2018 £m	2017 £m
Net deferred tax asset at 1 January	**220**	216
Amounts (charged)/credited to income statement	**(15)**	10
Amounts (charged) to other comprehensive income	**(46)**	(3)
Net arising on acquisition of subsidiaries and other transfers	**(5)**	–
Exchange adjustments	**(1)**	(3)
Effect of change in tax rates – income statement	**1**	–
– other comprehensive income	**1**	–
Net deferred tax asset at 31 December	**155**	220

At the end of the reporting period, the Group's continuing operations have unused tax losses of **£2,509m** (2017: £2,326m) for which no deferred tax asset is being recognised. The Group's unused tax losses are predominantly located in the UK and Ireland. The Group's unused losses includes capital losses of **£1,195m** (2017: £1,189m); almost all of which relate to the UK. No deferred tax asset is recognised for these losses 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 unused tax losses are subject to expiry. In addition, the Group has deductible temporary differences of **£196m** (2017: £198m) for which no deferred tax has been recognised; predominantly unclaimed UK tax depreciation.

The Group has temporary differences in respect of the retained earnings of overseas subsidiaries not held for sale of **£501m** (2017: £509m) on which overseas taxes, including withholding taxes, might be incurred on the remittance of these earnings to the UK. This amount relates to the Group's subsidiaries in Canada. The Group is able to 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.

Of the **£155m** (2017: £220m) net deferred tax asset recognised by the Group, **£204m** (2017: £233m) relate to tax jurisdictions in which the Group has suffered a loss in either the current or preceding period; **£189m** (2017: £217m) of which relates to the UK. Although a UK tax loss arose in 2018, this was due to a one off pension deficit contribution of £45m in December 2018.

29) Current and Deferred Tax continued

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. The evidence for the future taxable profits is a seven year forecast based on the three year operational plans prepared by the relevant businesses, which are subject to internal review and challenge, including by the Board. 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 continue to be supportable.

The majority of the deferred tax asset recognised based on future profits is that in respect of the UK. The value of the deferred tax asset is sensitive to assumptions in respect of UK future profits. Sensitivity analysis includes a 1% increase in the UK combined operating ratio for all of the 7 years in the forecast period, the impact of which would reduce the UK net deferred tax asset by **£17m**. The analysis also includes a one year change in the projection period, the impact of which is a change in the UK net deferred tax asset of **£23m**. The relationship between the net deferred tax asset and these sensitivities is not always linear. Therefore, the cumulative impact on the net deferred tax asset of combined sensitivities or longer extrapolations based on the above numbers will be indicative only.

30) Insurance, reinsurance and other debtors

Insurance and reinsurance debtors

	2018 £m	2017 £m
Insurance debtors comprise:		
Due from policyholders	1,365	1,228
Due from intermediaries	1,420	1,522
Total insurance debtors	2,785	2,750
Reinsurance debtors	182	189
Total insurance and reinsurance debtors	2,967	2,939
Less: Assets classified as held for sale	13	16
Total insurance and reinsurance debtors net of held for sale	2,954	2,923

Other debtors and other assets

	2018 £m	2017 £m
Derivatives designated as accounting hedging instruments	22	25
Other derivatives	45	45
Other debtors	200	202
Pension scheme surplus	259	141
Accrued interest and rent	98	100
Prepayments	64	57
Total other debtors and assets	688	570
Less: Assets classified as held for sale	15	11
Total other debtors and assets net of held for sale	673	559
To be settled within 12 months	363	371
To be settled after 12 months	310	188

31) Cash and cash equivalents

	2018 £m	2017 £m
Cash and cash equivalents and bank overdrafts (consolidated statement of cash flows)	781	1,049
Add: Overdrafts reported in other borrowings (note 36)	12	4
Total cash and cash equivalents	793	1,053
Less: Assets classified as held for sale	5	5
Total cash and cash equivalents (consolidated statement of financial position)	788	1,048

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 2018 is:

	2018 £m	2017 £m
Issued and fully paid		
1,026,937,928 Ordinary Shares of £1 each (2017: 1,022,835,039 Ordinary Shares of £1 each)	**1,027**	1,023
125,000,000 Preference Shares of £1 each (2017: 125,000,000 Preference Shares of £1 each)	**125**	125
	1,152	1,148

During 2018, the Company issued a total of **4,102,889** new Ordinary Shares of £1 each ranking pari passu with Ordinary Shares in issue (2017: 3,280,053 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 2017	1,019,554,986	1,020	1,080
Issued in respect of employee share options and employee share awards	3,280,053	3	3
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 31 December 2018	**1,026,937,928**	**1,027**	**1,087**

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

123,336 Ordinary Shares (2017: 157,866 Ordinary Shares) are held by the Share Incentive Plan Trust which may subsequently be transferred to employees (including Executive Directors) to satisfy Sharebuild Matching Share awards. 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.

At 31 December 2018, the total number of options over Ordinary Shares outstanding under the Group employee share option plans is **4,465,067** (2017: 4,996,149) and the total number of potential shares outstanding under the long term incentive plan and under the Sharebuild is **10,897,021** Ordinary Shares (2017: 11,940,129 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 2018		NCI shares at 31 December 2017	
	%	**Share of net assets £m**	%	Share of net assets £m
Royal & Sun Alliance Insurance (Middle East) BSC (c)	**50**	**158**	50	139
British Aviation Insurance Company Limited	**43**	**8**	43	11

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 and are valued in its statement of financial position at share of net assets.

During 2018 the dividends paid to the non-controlling interests in the Middle East were **£12m** (2017: £4m) and British Aviation Insurance Company **£2m** (2017: £6m).

35) Loan capital

	2018 £m	2017 £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**	441

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%. Of the £500m bonds issued the Group has bought back a total nominal value of £461m. The remaining £39m has a first call date of 20 May 2019.

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.

There have been no defaults on any bonds or notes during the year. The Group has the option to defer interest payments on the bonds and notes, but has to date not exercised this right.

36) Other borrowings

The Group's other borrowings as at 31 December 2018 are **£119m** (2017: £123m), relating to borrowings from credit institutions under repurchase agreements of **£107m** (2017: £119m) and bank accounts in overdraft **£12m** (2017: £4m).

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.

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 margin of 5% for the core businesses 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	2018 £m	2017 £m
Net loss ratio 5%	**(327)**	(330)
Expenses 10%	**(136)**	(142)

Discount assumptions

The total value of provisions for losses and loss adjustment expenses less related reinsurance recoveries before discounting for continuing operations is **£8,494m** (2017: £8,520m).

Claims (excluding annuities) on certain classes of business have been discounted as follows:

		Discount rate		Average number of years to settlement from reporting date	
	Category	2018 %	2017 %	2018 Years	2017 Years
UK	Asbestos and environmental	**4.0**	4.0	**8**	8
Scandinavia	Disability	**1.3**	1.3	**6**	8

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 2018, the value of the discount on net claims liability reserves is **£92m** (2017: £111m) excluding held for sale, annuities and periodic payment orders. All other factors remaining constant, a decrease of 1% in the discount rates would reduce the value of the discount by approximately **£60m** (2017: £70m).

As at 31 December 2018, the value of the discount on UK and Scandinavia annuities is **£466m** (2017: 455m). A decrease of 1% in the real discount rate would reduce the value of the discount by approximately **£110m** (2017: £100m). The sensitivity calculation has taken into consideration the undiscounted provisions for each class of business and the respective average settlement period.

37) Insurance contract liabilities continued

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 statement of financial position comprise the following:

	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**

	Gross 2017 £m	RI 2017 £m	Net 2017 £m
Provision for unearned premiums	3,316	(729)	2,587
Provision for losses and loss adjustment expenses	10,113	(2,159)	7,954
Total insurance contract liabilities	13,429	(2,888)	10,541
Less: Held for sale provisions for losses and loss adjustment expenses	636	(636)	–
Provision for unearned premiums at 31 December net of held for sale	3,316	(729)	2,587
Provision for losses and loss adjustment expenses at 31 December net of held for sale	9,477	(1,523)	7,954
Total insurance contract liabilities excluding held for sale	12,793	(2,252)	10,541

Provision for unearned premiums, gross of acquisition costs

	2018 £m	2017 £m
Provision for unearned premiums (gross of acquisition costs) at 1 January	**3,986**	3,994
Premiums written	**7,467**	7,599
Less: Premiums earned	**(7,528)**	(7,583)
Changes in provision for unearned premiums	**(61)**	16
Exchange adjustment	**(6)**	(24)
Provision for unearned premiums (gross of acquisition costs) at 31 December	**3,919**	3,986

The provision for unearned premiums is shown net of deferred acquisition costs of **£675m** (2017: £670m). The reasons for the movement in deferred acquisition costs during 2018 are as follows:

	2018 £m	2017 £m
Acquisition costs deferred during the year	**1,035**	1,101
Amortisation charged during the year	**(1,028)**	(1,094)
Exchange losses	**(2)**	(4)
Other movements	**–**	4
Movement in deferred acquisition costs	**5**	7

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

37) Insurance contract liabilities continued

Provisions for losses and loss adjustment expenses

The following changes have occurred in the provisions for losses and loss adjustment expenses during the year:

	2018 £m	2017 £m
Provisions for losses and loss adjustment expenses at 1 January	10,113	10,083
Gross claims incurred and loss adjustment expenses	5,023	5,135
Total claims payments made in the year net of salvage and other recoveries	(5,123)	(5,093)
Gross portfolio transfers, acquisitions and disposals	–	(46)
Exchange adjustment	(5)	(27)
Other movements	64	61
Provisions for losses and loss adjustment expenses at 31 December	10,072	10,113
Less: Liabilities classified as held for sale	604	636
Provisions for losses and loss adjustment expenses at 31 December net of held for sale	9,468	9,477

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 2008 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

	2008 and prior £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	**2018 £m**	**Total £m**
Estimate of cumulative claims												
At end of accident year	9,128	2,533	2,802	2,981	2,839	3,145	2,823	2,931	2,830	2,999	**3,259**	
One year later	8,787	2,616	2,927	3,037	2,877	3,200	2,929	2,972	2,868	2,966		
Two years later	8,386	2,575	2,871	3,065	2,848	3,118	2,842	2,962	2,823			
Three years later	8,071	2,541	2,902	2,991	2,838	3,072	2,825	2,909				
Four years later	7,821	2,569	2,888	2,925	2,790	3,074	2,800					
Five years later	7,703	2,564	2,852	2,893	2,804	3,041						
Six years later	7,635	2,525	2,813	2,889	2,782							
Seven years later	7,788	2,541	2,799	2,852								
Eight years later	7,950	2,545	2,781									
Nine years later	7,814	2,534										
Ten years later	7,755											
2018 movement	**59**	**11**	**18**	**37**	**22**	**33**	**25**	**53**	**45**	**33**		**336**
Claims paid												
One year later	2,474	1,200	1,527	1,373	1,347	1,477	1,337	1,477	1,418	1,477		
Two years later	1,352	421	416	513	499	553	423	548	502			
Three years later	852	270	284	331	288	271	290	288				
Four years later	616	199	211	192	187	204	269					
Five years later	554	148	114	107	144	122						
Six years later	373	72	64	77	65							
Seven years later	189	38	52	48								
Eight years later	180	32	15									
Nine years later	241	18										
Ten years later	75											
Cumulative claims paid	**6,906**	**2,398**	**2,683**	**2,641**	**2,530**	**2,627**	**2,319**	**2,313**	**1,920**	**1,477**		
Reconciliation to the statement of financial position												
Current year provision before discounting	849	136	98	211	252	414	481	596	903	1,489	**3,259**	**8,688**
Exchange adjustment to closing rates												83
Discounting												(96)
Annuities												793
Present value recognised in the consolidated statement of financial position												**9,468**
Held for sale												604
Total Group												**10,072**

37) Insurance contract liabilities continued

Consolidated claims development table net of reinsurance

	2008 and prior £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	**2018 £m**	**Total £m**
Estimate of cumulative claims												
At end of accident year	7,732	2,234	2,462	2,524	2,586	2,830	2,487	2,445	2,253	2,287	**2,440**	
One year later	7,374	2,301	2,546	2,501	2,606	2,928	2,518	2,381	2,302	2,325		
Two years later	6,983	2,268	2,508	2,479	2,585	2,851	2,473	2,339	2,283			
Three years later	6,674	2,240	2,521	2,432	2,546	2,821	2,425	2,304				
Four years later	6,444	2,273	2,528	2,387	2,506	2,784	2,405					
Five years later	6,342	2,275	2,496	2,363	2,505	2,765						
Six years later	6,311	2,254	2,473	2,349	2,485							
Seven years later	6,395	2,249	2,461	2,325								
Eight years later	6,683	2,238	2,445									
Nine years later	6,630	2,228										
Ten years later	6,601											
2018 movement	**29**	**10**	**16**	**24**	**20**	**19**	**20**	**35**	**19**	**(38)**		**154**
Claims paid												
One year later	2,057	1,072	1,273	1,085	1,207	1,406	1,163	1,200	1,055	1,184		
Two years later	1,101	356	372	411	420	430	366	321	375			
Three years later	716	235	264	267	244	241	216	214				
Four years later	544	188	212	176	193	189	188					
Five years later	476	128	98	105	122	117						
Six years later	337	69	60	64	62							
Seven years later	146	33	49	43								
Eight years later	157	27	11									
Nine years later	223	17										
Ten years later	69											
Cumulative claims paid	**5,826**	**2,125**	**2,339**	**2,151**	**2,248**	**2,383**	**1,933**	**1,735**	**1,430**	**1,184**		
Reconciliation to the statement of financial position												
Current year provision before discounting	775	103	106	174	237	382	472	569	853	1,141	**2,440**	**7,252**
Exchange adjustment to closing rates												66
Discounting												(92)
Annuities												710
Present value recognised in the consolidated statement of financial position												**7,936**
Held for sale												–
Total Group												**7,936**

Insurance and reinsurance liabilities

	2018 £m	2017 £m
Direct insurance creditors	**120**	113
Reinsurance creditors	**811**	823
Total insurance and reinsurance liabilities	**931**	936
Less: Liabilities classified as held for sale	**3**	2
Total	**928**	934

38) Post-retirement benefits and obligations

Defined contribution pension schemes

Costs of **£70m** (2017: £63m) 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 **£6m** (2017: £8m) were paid to this scheme during 2018 and are included in the costs shown above. The expected contributions in 2019 are **£6m**. Total estimated contributions to the scheme from all employers in 2018 were **£61m**. The latest information regarding the funding of this scheme is taken from the interim report for the first half of 2018, when the scheme funding rate was **122%** (2017: 121%).

Defined benefit pension schemes and other post-retirement benefits

The amounts recognised in the consolidated statement of financial position are as follows:

	2018			2017		
	UK £m	Other £m	Total £m	UK £m	Other £m	Total £m
Present value of funded obligations	(7,474)	(401)	(7,875)	(8,326)	(434)	(8,760)
Present value of unfunded obligations	(7)	(92)	(99)	(7)	(111)	(118)
Fair value of plan assets	7,841	424	8,265	8,344	455	8,799
Other net surplus remeasurements	(129)	–	(129)	(62)	–	(62)
Net IAS19 surplus/(deficits) in the schemes	**231**	**(69)**	**162**	(51)	(90)	(141)
Defined benefit pension schemes	231	(21)	210	(51)	(30)	(81)
Other post-retirement benefits	–	(48)	(48)	–	(60)	(60)
Schemes in surplus (note 30)	238	21	259	119	22	141
Schemes in deficit (note 39)	(7)	(90)	(97)	(170)	(112)	(282)

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 and will also be impacted by changes in equity markets.

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 judgement is that the authorised refund tax charge is not an income tax within the meaning of IAS12 and so the surplus is recognised net of this tax charge rather than the tax charge being included within deferred taxation.

The profile of the members of the two main UK schemes at 30 September 2018 (the latest date at which full information is available) is as follows:

	Number
Deferred members – members no longer accruing and not yet receiving benefits	24,678
Pensioners – members and dependants receiving benefits	18,240
Total members at 30 September 2018	**42,918**

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.

38) Post-retirement benefits and obligations continued

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 arrangements that provide 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.40% coverage based on current pensioner population). The arrangement provides for reimbursement of the covered pension obligations in return for the contractual return receivable on portfolios of assets (including some interest rate swaps) held by the pension funds at the inception of the arrangement. The arrangement is accounted for as a longevity swap. The longevity swap is measured at fair value under IFRS 13 by discounting all future cash flows using a discount rate that appropriately reflects the terms of the arrangements. The pension schemes continue to hold the original assets used to fund the arrangements.

In October 2018 the UK's High Court ruled in the Lloyds Banking Group case that unequal benefits in respect of different Guaranteed Minimum Pensions (GMPs) for male and female pension scheme members must be equalised. Estimates of the impact of equalising these benefits for RSA's UK defined benefit schemes have been made by independent actuaries with an expected cost of **c£8m** (c0.1% liabilities). This increase in IAS 19 liabilities has been recognised in 2018 and is expected to be sufficient to cover the actual cost of equalising these benefits in accordance with the requirements set out in the Lloyds case judgement.

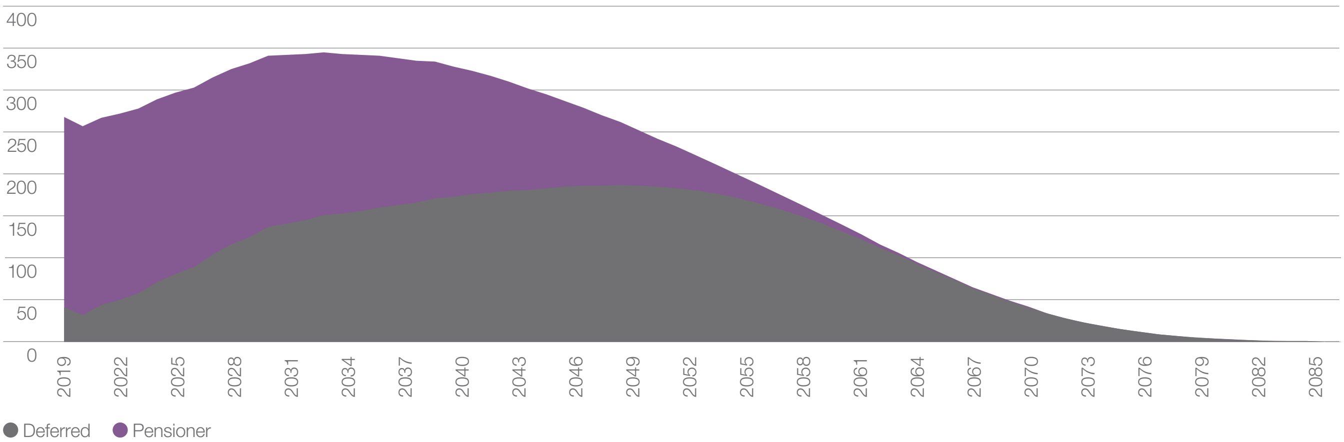
Each scheme is subject to triennial valuations, which are used to determine the future funding of the schemes by the Group including funding to repair any funding deficit. The funding valuations, which determine the level of cash contributions payable into the schemes and which must be agreed between 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 2018 and that are due to be paid in 2019 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 2018 was **£120m** (2017: £82m) of which **£110m** (2017: £65m) were additional contributions to reduce funding deficits. Expected contributions to the two schemes for the year ending 31 December 2019 are approximately **£94m** including **£86m** of additional contributions to reduce the deficit.

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 **16.5** years (2017: 18 years).

38) Post-retirement benefits and obligations continued

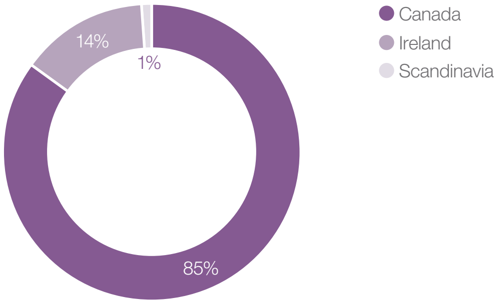
Non UK schemes

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-retirement 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.

The split of post-retirement liabilities across other countries is shown below:

NON-UK LIABILITY SPLIT BY COUNTRY



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:

	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-retirement benefits and obligations continued

	2017			
	Present value of obligations £m	Fair value of plan assets £m	Other net surplus remeasurements £m	Net surplus/ (deficit) £m
At 1 January	(8,893)	8,641	–	(252)
Current service costs	(11)	–	–	(11)
Past service costs	(1)	–	–	(1)
Interest (expense)/income	(249)	243	–	(6)
Administration costs	–	(7)	–	(7)
Gains on settlements/curtailments	6	–	–	6
Total (expenses)/income recognised in income statement	(255)	236	–	(19)
Return on scheme assets less amounts in interest income	–	277	–	277
Effect of changes in financial assumptions	(309)	–	–	(309)
Effect of changes in demographic assumptions	166	–	–	166
Experience gains and losses	(34)	–	–	(34)
Investment expenses	–	(11)	–	(11)
Other net surplus remeasurements	–	–	(62)	(62)
Remeasurements recognised in other comprehensive income	(177)	266	(62)	27
Employer contribution	–	101	–	101
Benefit payments	440	(440)	–	–
Exchange adjustment	7	(5)	–	2
At 31 December	(8,878)	8,799	(62)	(141)
Deferred tax				53
IAS 19 net (deficit) net of deferred tax				(88)

The value of scheme assets are as follows:

	2018			2017[1]		
	UK £m	**Other £m**	**Total £m**	UK £m	Other £m	Total £m
Equities	**552**	**96**	**648**	591	161	752
Government debt	**5,353**	**163**	**5,516**	5,688	147	5,835
Non-government debt	**2,425**	**133**	**2,558**	2,505	114	2,619
Derivatives	**719**	**–**	**719**	743	–	743
Property	**644**	**–**	**644**	622	–	622
Cash	**194**	**6**	**200**	63	7	70
Other (including annuity contracts, infrastructure and growth alternatives)	**460**	**26**	**486**	519	26	545
Investments	**10,347**	**424**	**10,771**	10,731	455	11,186
Value of asset and longevity swaps	**(2,506)**	**–**	**(2,506)**	(2,387)	–	(2,387)
Total assets in the schemes	**7,841**	**424**	**8,265**	8,344	455	8,799

38) Post-retirement benefits and obligations continued

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

	2018			2017[1]		
	Total Quoted £m	**Total Unquoted £m**	**Total £m**	Total Quoted £m	Total Unquoted £m	Total £m
Equities	**510**	**138**	**648**	616	136	752
Government debt	**5,121**	**395**	**5,516**	5,422	413	5,835
Non-government debt	**1,439**	**1,119**	**2,558**	1,300	1,319	2,619
Derivatives	**–**	**719**	**719**	–	743	743
Property	**–**	**644**	**644**	–	622	622
Cash	**200**	**–**	**200**	70	–	70
Other (including annuity contracts, infrastructure and growth alternatives)	**–**	**486**	**486**	–	545	545
Investments	**7,270**	**3,501**	**10,771**	7,408	3,778	11,186
Value of asset and longevity swaps	**–**	**(2,506)**	**(2,506)**	–	(2,387)	(2,387)
Total assets in the schemes	**7,270**	**995**	**8,265**	7,408	1,391	8,799

1 The 2017 assets have been re-presented to reflect the investment characteristics of the underlying assets. Specifically, £433m of ground rent and long lease property assets are now reported in Property and £413m of non UK sovereign debt is now reported in Government debt. These assets had all previously been classified as non-government debt.

Where assets are classified as unquoted they 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

Assumptions

The principal actuarial assumptions used are:

	UK		Other	
	2018 %	2017 %	**2018 %**	2017 %
Assumptions used in calculation of retirement benefit obligations:				
Discount rate	**2.83**	2.47	**3.57**	3.35
Annual rate of inflation (RPI)	**3.18**	3.13	**–**	–
Annual rate of inflation (CPI)	**2.08**	2.03	**1.51**	1.74
Annual rate of increase in salaries	**n/a**	n/a	**2.75**	2.96
Annual rate of increase in pensions[1]	**2.97**	2.94	**1.51**	1.74
Assumptions used in calculation of pension net interest costs for the year:				
Discount rate	**2.47**	2.81	**3.35**	3.56

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 2017 tables (2017: CMI 2016 tables) with a long term improvement rate of **1.25%** (2017: 1.25%). The weighted average assumptions imply that a current pensioner aged 60 has an expected future lifetime of **27.2** (2017: 27.8) years for males and **28.7** (2017: 28.9) years for females and a future pensioner aged 60 in 15 years' time has a future expected lifetime from age 60 of **28.2** (2017: 28.9) years for males and **29.9** (2017: 30.1) years for females.

38) Post-retirement benefits and obligations continued

Sensitivity analysis

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

	Changes in assumption	2018 £m	2017 £m
Discount rate	Increase by 0.25%	(299)	(363)
RPI/CPI[1]	Increase by 0.25%	187	228
Core mortality rates[2]	Reduce by 12%	278	319
Long-term future improvements to mortality rates	Increase by 0.25%	61	78

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

	2018 £m	2017 £m
Pensions and post retirement obligations	97	282
Reorganisation provisions	17	49
Other provisions	55	76
Total provisions at 31 December	**169**	407

Of the above, **£109m** (2017: £308m) is due to be settled outside of 12 months.

Other provisions includes **£13m** (2017: £12m) held relating to vacant property leases, dilapidations and refurbishments, the costs relating to which will be borne across the period over which the leases expire, which is up to 20 years.

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-retirement benefit obligations.

Movements during the year on reorganisation and other provisions

	Reorganisation provisions 2018 £m	Other provisions 2018 £m
Provisions at 1 January 2018	49	76
Exchange adjustment	(1)	–
Additional provisions during the year	10	21
Utilised	(26)	(23)
Released	(15)	(19)
Provisions at 31 December 2018	**17**	**55**

40) Other liabilities

	2018 £m	2017 £m
Deposits received from reinsurers	49	65
Derivatives designated as accounting hedges	68	49
Other derivatives	42	39
Other creditors	399	411
Accruals	339	445
Deferred income	76	73
Total other liabilities	**973**	1,082
Less: Liabilities classified as held for sale	**29**	30
Total other liabilities net of held for sale	**944**	1,052
To be settled within 12 months	837	917
To be settled after 12 months	107	135

Other creditors of **£399m** (2017: £411m) mainly includes payroll and other indirect taxes **£146m** (2017: £163m), outstanding settlements for investment purchases **£60m** (2017: £61m) and other creditors **£193m** (2017: £187m).

NOTES TO THE STATEMENT OF CASH FLOWS

41) Reconciliation of cash flows from operating activities

The reconciliation of net profit before tax to cash flows from operating activities is as follows:

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Profit for the year before tax from continuing operations		**480**	448
Adjustments for non-cash movements in net profit for the year			
Amortisation of available for sale assets		**44**	58
Depreciation	23	**18**	22
Amortisation and impairment of intangible assets	22	**90**	114
Fair value (gains) on disposal of financial assets		**(31)**	(15)
Impairment charge/(reversal) on available for sale financial assets		**10**	(4)
Share of (profit) of associates		**(1)**	(1)
Loss/(profit) on disposal of business and realised losses/(gains) on held for sale assets		**2**	(69)
Foreign exchange (gain)/loss		**(13)**	7
Other non-cash movements		**20**	24
Changes in operating assets/liabilities			
Loss and loss adjustment expenses		**10**	2
Unearned premiums		**(75)**	68
Movement in working capital		**(199)**	(253)
Reclassification of investment income and interest paid		**(303)**	(181)
Pension deficit funding		**(111)**	(65)
Cash generated from investment of insurance assets			
Dividend income		**35**	32
Interest and other investment income		**293**	282
Cash flows from operating activities		**269**	469

42) Leases

The operating lease payments recognised as an expense during the year are **£48m** (2017: £50m). The Group has no significant lease agreements that include contingent rent.

Operating lease commitments where the Group is the lessee

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

	Land and buildings		Other	
	2018 £m	2017 £m	**2018 £m**	2017 £m
One year or less	**43**	50	**10**	1
Between one and five years	**127**	146	**11**	2
After five years	**120**	145	**–**	–
	290	341	**21**	3
Recoveries under sub tenancies	**(13)**	(17)	**–**	–
Total	**277**	324	**21**	3

Operating lease commitments where the Group is the lessor

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

	Land and buildings	
	2018 £m	2017 £m
One year or less	**16**	19
Between one and five years	**57**	69
After five years	**42**	52
Total	**115**	140

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:

	2018 £m	2017 £m
Property and equipment	**7**	51
Intangible assets	**15**	143
Total	**22**	194

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 **£188m** (2017: £22m) 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.

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 include 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 shares 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 sale.

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, Plant and Equipment

Property, plant 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 plant and equipment is stated at cost less accumulated depreciation and accumulated impairment loss. 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, plant and equipment is 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 as outlined in the significant accounting policies note. 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 or changes 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.

Loan capital

Loan capital comprises subordinated bonds which are initially measured at the consideration received less transaction costs. Subsequently, loan capital 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 recognised 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.

	Class of shares held	% held
Bahrain		
Al foo, Building, office no. 21, 2nd floor, Building no. 662, Road no. 2811, Black no. 428, Al Seef, Manama, Kingdom of Bahrain		
Royal & Sun Alliance Insurance (Middle East) BSC (c)		50.00
Brazil		
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		
Royal & Sun Alliance Insurance plc – Escritório de Representação no Brasil Ltda.		
Canada		
18 York Street, Suite 800, Toronto ON M5J 2T8, Canada		
10622923 Canada Limited	Common	
10622923 Canada Limited[4]	Preferred	
3342484 Canada Limited		
8301140 Canada Limited	Common	
8301140 Canada Limited[4]	Preferred	
Ascentus Insurance Ltd.		
Roins Financial Services Limited		
Roins Financial Services Limited[4]	Preference	
Roins Holding Limited		
Royal & Sun Alliance Insurance Company of Canada[4]	Class A Preferred	
Royal & Sun Alliance Insurance Company of Canada		99.996
RSA Travel Insurance Inc.		
Western Assurance Company		
208–4940 No. 3 Road, Richmond BC V6X 3A5, Canada		
Coast Underwriters Limited[4]	Class 1 Preferred Unlimited	
Coast Underwriters Limited[4]	Class 2 Preferred Unlimited	
Coast Underwriters Limited	Class A	85.42
Coast Underwriters Limited[4]	Class B1	
MRM Solutions Limited[6]	Class A Common	
MRM Solutions Limited[4] [6]	Class B Common	
555 West Hastings Street, Suite 1900, Vancouver BC V6B 4N6, Canada		
Canadian Northern Shield Insurance Company		

	Class of shares held	% held
2475 Laurier Blvd., Quebec City, Québec G1T 1C4, Canada		
Quebec Assurance Company		
1800 – 401 West Georgia Street, Vancouver BC V6B 5A1, Canada		
Shaw Sabey & Associates Ltd.[3]	Class B Common Shares	25.00
Fort William Building, 10 Factory Lane, St. John's Newfoundland A1C 6H5, Canada		
Johnson Inc.	Series A Common	
Johnson Inc.	Series B Common	
The Johnson Corporation		
Unifund Assurance Company		
Unifund Assurance Company[4]	Preferred	
Unifund Claims Inc.		
90 Allstate Parkway Suite 500 Markham ON L3R 6H3 Canada		
10122033 Canada Inc.	Common	
10122033 Canada Inc.[4]	Class A Preferred	
2029974 Ontario Inc.[8]	Class A Common	
2029974 Ontario Inc.[8]	Class B Common	
2029974 Ontario Inc.[4]	Class C Special	
2029974 Ontario Inc.[4]	Class D Special	
2029974 Ontario Inc.[4]	Class E Special	
2029974 Ontario Inc.[4]	Class S Special	
2029974 Ontario Inc.[8]	Class V Special	
D.L. Deeks Insurance Services Inc.		
Deeks Investments Inc.[4]	Class A Preference	
Deeks Investments Inc.	Class B Preference	
Deeks Investments Inc.	Class C Preference	
Deeks Investments Inc.[4]	Common	
Denmark		
Codanhus, Gammel Kongevej 60, DK-1790 Kobenhavn V, Denmark		
Codan A/S		
Codan Forsikring A/S		
Forsikringsselskabet Privatsikring A/S		

	Class of shares held	% held
Guernsey		
Dixcart House, Sir William Place, St. Peter Port, Guernsey, GY1 4EY		
Insurance Corporation of the Channel Islands Limited		
Insurance Corporation Service Company Limited		
India		
Rider House, Plot No.136, Sector 44, Gurgaon, Haryana, 122002, India		
Royal & Sun Alliance IT Solutions (India) Private Limited		
First Floor, Building 10 C, Cyber City Complex, DLF Phase II, Gurgaon, Haryana, 122002, India		
RSA Actuarial Services (India) Private Limited(9)		
Ireland		
RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
123 Money Limited(4) (9)	B1 Ordinary	
123 Money Limited(4) (9)	B2 Ordinary	
123 Money Limited(4) (9)	B3 Ordinary	
123 Money Limited(4) (9)	B4 Ordinary	
123 Money Limited(4) (9)	B5 Ordinary	
123 Money Limited(4) (9)	C Ordinary	
123 Money Limited(9)		
Benchmark Underwriting Limited(9)		
EGI Holdings Limited(9)		
RSA Insurance Ireland DAC		
RSA Overseas Holdings (No 1) Unlimited Company(9)		
RSA Overseas Holdings (No. 2) Unlimited Company(9)		
RSA Reinsurance Ireland Limited		
RSA Broker Motor Insurance Ireland Limited (previously Sertus Underwriting Limited)(9)		
Isle of Man		
33–37 Athol Street, Douglas, IM1 1LB, Isle of Man		
RSA Isle of Man No.1 Limited(9)		
Jubilee Buildings, 1 Victoria Street, Douglas, IM99 1BF, Isle of Man		
Royal Insurance Service Company (Isle of Man) Limited(9)		
Tower Insurance Company Limited		
Luxembourg		
19, rue de Bitbourg, L-1273 Luxembourg		
RSA Luxembourg S.A.(9)		

	Class of shares held	% held
Netherlands		
20 Fenchurch Street, London, EC3M 3AU, United Kingdom		
IDIP Direct Insurance B.V.(9)		
Intouch Insurance Group B.V.(9)		
RSA Overseas (Netherlands) B.V.(9)		
RSA Overseas Holdings B.V.(9)		
Wilhelminakade 97–99, 3072 AP Rotterdam, Netherlands		
GDII – Global Direct Insurance Investments V.O.F.(9)	Partnership Interest	
Royal Insurance Global B.V.(9)		
Oman		
PO Box 889, 100, Oman		
Al Ahlia Insurance Company SAOG(7)		52.50
Russian Federation		
Sadovay Square, 3 Office 667, 121099, Moscow, Russia		
GDII – Rus L.L.C.(9)		
Saudi Arabia		
Office No.203, 2nd Floor, Home Centre Building, Tahlia Street, Suleymaniyah, Riyadh, Kingdom of Saudi Arabia		
Al Alamiya for Cooperative Insurance Company(7)		50.07
Sweden		
c/o Trygg-Hansa Försäkring Filial, 10626, Stockholm, Sweden		
Holmia Livforsakring AB		
Stortorget 11, S-702 11 Örebro, Sweden		
CAB Group AB(3)		27.27
United Kingdom		
5th Floor, United Kingdom House, 180 Oxford Street, London, W1D 1NN, United Kingdom		
Centrium Management Company Limited(3)		31.45
10 Buckingham Gate, London, SW1E 6LA, United Kingdom		
Punchbowl Park Management Limited(3) (5)		65.09
82 King Street, Manchester, England, M2 4WQ, United Kingdom		
Caunce O'Hara & Company Limited(3)		39.00
c/o UCL Business Plc, The Network Building 97, Tottenham Court Road, London, W1T 4TP, United Kingdom		
Eurotempest Limited(3)		33.33
Clinton House, 12 Lombard Street, Newark, Nottinghamshire, NG24 1XB, United Kingdom		
Noble Marine (Insurance Brokers) Limited(9) (10)		
Noble Marine (Underwriting Agencies) Limited(9) (10)		

Appendix B: Subsidiaries and associates continued

	Class of shares held	% held
New London House, 6 London Street, London, EC3R 7LP, United Kingdom		
Polaris U.K. Limited[3]		25.38
Fitzwilliam House, 10 St Mary Axe, London, EC3A 8EQ, United Kingdom		
British Aviation Insurance Company Limited[9]		57.10
Law Society House, 90–106 Victoria Street, Belfast, BT1 3GN, Northern Ireland		
RSA Northern Ireland Insurance Limited[9]		
St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Alliance Assurance Company Limited[9]		
National Vulcan Engineering Insurance Group Limited[9]		
Non-Destructive Testers Limited[9]		
R&SA Global Network Limited[9]		64.00
R&SA Marketing Services Limited[9]		
Royal & Sun Alliance Insurance (Global) Limited[9]		
Royal & Sun Alliance Insurance plc	Class A Ordinary	
Royal & Sun Alliance Insurance plc[4]	Class B Ordinary	
Royal & Sun Alliance Pension Trustee Limited[9]		
Royal & Sun Alliance Property Services Limited[9]		
Royal & Sun Alliance Reinsurance Limited		
Royal Insurance Holdings Limited[1] [9]		
Royal Insurance (U.K.) Limited[9]		
Royal International Insurance Holdings Limited[9]	£1.00 Ordinary	
Royal International Insurance Holdings Limited[9]	US$1.00 Ordinary	
Roysun Limited[9]		
RSA Accident Repairs Limited[9]		
RSA Finance[9]		
RSA Law Limited[9]		90.00
Sal Pension Fund Limited[1] [9]		99.99
Sun Alliance and London Insurance Limited[9]		
Sun Alliance Insurance Overseas Limited[9]		
Sun Alliance Mortgage Company Limited[1] [9]		
Sun Insurance Office Limited[9]		
The London Assurance[9]		
The Globe Insurance Company Limited[9]		
The Marine Insurance Company Limited		
The Sea Insurance Company Limited[9]		
Westgate Properties Limited[9]		
United States		
Wall Street Plaza, 88 Pine Street, 31st Floor, New York, NY 10005, United States		
Royal & Sun Alliance Insurance Agency Inc.		

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.
6 The percentage held relates to the actual percentage of the share capital held and not the effective percentage held (85.42%).
7 In relation to Al Ahlia Insurance Company SAOC (listed on the Muscat Securities Market, Oman Stock Exchange) and Al Alamiya for Cooperative Insurance Company (listed on the Tadawul, Saudi Stock Exchange), the percentage held relates to the actual percentage of the share capital held and not the effective percentage held (which is 26.25% and 25.04% respectively).
8 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).
9 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.
10 The UK Noble Marine entities were sold in February 2019.

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £m	2017 £m
Profit/(loss) for the year net of tax	**213**	(18)
Fair value (losses)/gains net of tax	**(1,292)**	753
Total comprehensive (expense)/income for the year	**(1,079)**	735

The profit for the year net of tax includes a tax charge of **£1m** (2017: credit £16m). There is no tax relating to fair value (losses)/gains.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	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 2017	1,020	1,080	(1)	125	2,455	389	1,222	–	6,290
Total comprehensive income/(expense) for the year									
Loss for the year net of tax	–	–	–	–	–	–	(18)	–	(18)
Fair value gains net of tax	–	–	–	–	753	–	–	–	753
	–	–	–	–	753	–	(18)	–	735
Dividends – paid (note 5)	–	–	–	–	–	–	(200)	–	(200)
Shares issued for cash (note 9)	1	3	–	–	–	–	–	–	4
Issue of Tier 1 notes (note 10)	–	–	–	–	–	–	–	297	297
Share based payments	2	–	–	–	–	–	14	–	16
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	**3**	**–**	**–**	**–**	**–**	**–**	**9**	**–**	**12**
Balance at 31 December 2018	**1,027**	**1,087**	**(1)**	**125**	**1,916**	**389**	**1,009**	**297**	**5,849**

The attached notes form an integral part of these separate financial statements.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 £m	2017 £m
Assets			
Investments	6	**4,509**	5,801
Amounts owed by subsidiaries	3	**2,220**	2,203
Current tax assets	7	**1**	10
Deferred tax assets	7	**4**	6
Other debtors and other assets	8	**–**	1
		2,225	2,220
Cash and cash equivalents		**3**	3
Total assets		**6,737**	8,024
Equity and liabilities			
Equity			
Shareholders' equity		**5,849**	7,142
Total equity		**5,849**	7,142
Liabilities			
Amounts owed to subsidiaries	3	**419**	404
Loan capital	11	**441**	441
Accruals and other liabilities		**28**	37
Total liabilities		**888**	882
Total equity and liabilities		**6,737**	8,024

The attached notes form an integral part of these separate financial statements.

The profit for the year net of tax was **£213m** (2017: £18m loss).

The separate financial statements were approved on 27 February 2019 by the Board of Directors and are signed on its behalf by:

Scott Egan
Group Chief Financial Officer
(appointed as CEO, UK & International on 5 February 2019)

PARENT COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £m	2017 £m
Cash flows from operating activities		
Profit/(loss) for the year before tax	214	(34)
Adjustments for non-cash movements in net profit for the year		
Share based payments	12	16
Other non-cash movements	2	8
Changes in operating assets/liabilities		
Movement in working capital	(10)	(5)
Reclassification of investment income and interest paid	(224)	8
Cash generated from investment of insurance assets		
Dividend income	216	–
Interest and other investment income	33	36
Tax recovered	10	1
Total net cash flows from operating activities	253	30
Cash flows from investing activities		
Net movement in amounts owed by subsidiaries	(2)	242
Repayment of loan capital from subsidiaries	–	386
Total net cash flows from investing activities	(2)	628
Cash flows from financing activities		
Proceeds from issue of share capital	5	4
Proceeds from issue of Tier 1 notes	–	297
Dividends paid to ordinary shareholders	(208)	(180)
Coupon payment on Tier 1 notes	(14)	(11)
Dividends paid to preference shareholders	(9)	(9)
Redemption of debt instruments	–	(636)
Interest paid	(25)	(123)
Net cash flows from financing activities	(251)	(658)
Net increase/(decrease) in cash and cash equivalents	–	–
Cash and cash equivalents at the beginning of the year	3	3
Cash and cash equivalents at the end of the year	3	3

The attached notes form an integral part of these separate financial statements.

1) Significant accounting policies

RSA Insurance Group plc, ('the Company'), incorporated in England and Wales, 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 separate 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 the separate financial statements are presented in millions of Pounds Sterling ('Sterling'), shown as £m, rounded to the nearest million.

In accordance with section 408 of Companies Act 2006, the Company's income statement and related notes have not been presented in these separate financial statements.

The accounting policies that are used in preparation of these separate 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 separate financial statements of the Company are set out below.

Investment in subsidiaries

The Company accounts for its investments in directly owned subsidiaries as fair value through other comprehensive income, which are included in the accounts at fair value.

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 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.

Dividend income

Dividend income from investments in subsidiaries is recognised when the right to receive payment is established.

Adoption of new and revised accounting standards

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' which replaces IAS 39 'Financial Instruments: Recognition and Measurement' became effective from 1 January 2018.

This standard primarily changes the classification and measurement of financial assets depending on the business model under which they are held, as well as recognising expected credit losses and changes to hedge accounting requirements.

In terms of the new financial asset classification:

- the Company has elected to treat its investment in directly owned subsidiaries which are not held for trading, previously classified as available for sale, as fair value through other comprehensive income, the accounting policy for which is set out below; and
- Amounts owed by subsidiaries, which are held to collect contractual cashflows and are not designated at fair value through profit or loss continue to be measured at amortised cost using the effective interest rate method, consistent with their treatment as loans and receivables under IAS 39.

Neither of the above classifications under IFRS 9 resulted in a change to the carrying value of the financial assets from would it would have been under IAS 39.

IFRS 9 also replaces the 'incurred loss' model under IAS 39 with an "expected credit loss" (ECL) model as considered below:

This is applicable to the amounts owed by subsidiaries to the Company, which it can seen from note 3 are repayable on 24 hours written notice.

As at the reporting date the credit risk on the amounts owed has not increased significantly since initial recognition and so the ECL was determined by considering the ECL that would occur from those default events that are possible within 12 months based on the probability of default and the expected loss given default. Specifically the probability of default was considered together with the expected subsequent loss. It was concluded that the value of the ECL would be insignificant and so no ECL has been recognised at the reporting date.

As set out above, adoption of IFRS 9 did not result in any change in the carrying value of financial assets nor recognition of an ECL and so consequently no restatement of comparatives or changes in retained earnings or reserves was necessary.

IFRS 15 'Revenue Recognition'

IFRS 15 'Revenue Recognition' became effective from 1 January 2018.

The Company's principal activity of receiving dividend income from it investment in subsidiaries is outside the scope of this standard and so consequently implementing this standard has not had a significant impact on the Company's result for the year or its financial position.

1) Significant accounting policies continued

New accounting standards, interpretations and amendments

IFRS 16 'Leases'

IFRS 16 'Leases' which replaces the existing standard IAS 17, becomes effective, at the latest, for periods beginning on or after 1 January 2019 and is not expected to have any impact on the Company.

2) Risk and capital management

The risks faced by the Company are derived from its investment in subsidiaries 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 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%** (2017: 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 **£50m** (2017: £56m).

Key management compensation

	2018 £m	2017 £m
Salaries and other short term employee benefits	**7**	7
Bonus awards	**1**	3
Share based awards	**5**	5
Total	**13**	15

Other transactions

Year end balances with related parties are set out below:

	2018 £m	2017 £m
Receivable from related parties:		
Receivable from subsidiaries, interest bearing loans	**1,857**	1,857
Receivable from subsidiaries, non interest bearing loan	**363**	346
Total receivable from related parties	**2,220**	2,203
Payable to related parties:		
Payable to subsidiaries, interest bearing loans	**99**	53
Payable to subsidiaries, non interest bearing loan	**320**	351
Total payable to related parties	**419**	404

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 received from subsidiaries is **£34m** (2017: £37m), and interest paid to subsidiaries is **£2m** (2017: £1m).

Royal & Sun Alliance Insurance plc (RSAI), a subsidiary of the Company, has provided guarantees to the Company's creditors for amounts arising from its loan capital 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 loan capital agreements are subordinated to all other creditors of RSAI.

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

	2018 £m	2017 £m
Investments at 1 January	**5,801**	5,386
Reductions during the year	**–**	(338)
Fair value adjustments	**(1,292)**	753
Investments at 31 December	**4,509**	5,801

The balance at 31 December comprises:

	2018 £m	2017 £m
Investment in subsidiaries	**4,476**	5,765
Loans to subsidiaries	**33**	36
	4,509	5,801

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 are classified as level 2 financial assets. Fair value of the Company's significant subsidiary is determined by reference to the market value (derived from relevant indices) of the Company's ordinary shares and loan capital 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, 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 subordinated loan to a subsidiary has the same terms as the external loan capital from which the loan to the subsidiary was financed. The fair value of the loan is based on the quoted price for the external loan capital. The nominal value of the loan is **£32m** (2017: £32m) with an interest rate of 9.375%.

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 2018 was **513.6p**. A movement of 1% in the share price would have an impact of **£53m** on the fair value.

Full details of the principal subsidiaries of the Company are set out in Appendix B to the consolidated financial statements.

7) Current and Deferred Tax

Current Tax

	Asset		Liability	
	2018 £m	2017 £m	**2018 £m**	2017 £m
To be settled within 12 months	**1**	10	**–**	–

The current tax relating to items that are credited to equity is **£nil** (2017: £nil).

Deferred Tax

Deferred tax for the current year is based on a rate of **17%** (2017: 17%). The following are the major deferred tax assets recognised by the Company and movements during the year:

	2018 £m	2017 £m
Depreciation in excess of capital allowances	**4**	6
Net deferred tax position at 31 December	**4**	6

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

	2018 £m	2017 £m
Net deferred tax position at 1 January	**6**	–
Amount (charged)/credited to income statement	**(2)**	6
Net deferred tax position at 31 December	**4**	6

No deferred tax has been recognised in respect of **£23m** (2017: £7m) of deferred tax reliefs due to the unpredictability of future profits streams.

Net deferred tax assets of **£4m** (2017: £6m), 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 – to be settled within 12 months

	2018 £m	2017 £m
Other prepayments and accrued income	**–**	1
Total other debtors and other assets	**–**	1

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) Loan capital

Full details of the loan capital of the Company are set out in note 35 to the consolidated financial statements.

Financial **Calendar**

7 March 2019
Ex-dividend date for the ordinary final dividend for 2018 and the first preference dividend for 2019

8 March 2019
Record date for the ordinary final dividend for 2018 and the first preference dividend for 2019

1 April 2019
Payment date for the first preference dividend for 2019

9 May 2019
Q1 Trading Update

10 May 2019
Annual General Meeting

17 May 2019
Payment date for the ordinary final dividend for 2018

1 August 2019*
Announcement of the half-year results for the six months ended 30 June 2019

15 August 2019*
Ex-dividend date for the second preference dividend for 2019

16 August 2019*
Record date for the second preference dividend for 2019

5 September 2019*
Ex-dividend date for the ordinary interim dividend for 2019

6 September 2019*
Record date for the ordinary interim dividend for 2019

1 October 2019*
Payment date for the second preference dividend for 2019

11 October 2019*
Payment date of the ordinary interim dividend for 2019

7 November 2019*
Q3 Trading Update

* Provisional date

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 levels and undergo rigorous internal quality assurance. Occasionally management may also report additional or adjusted APMs when circumstance requires to further enhance understanding. In 2018 additional proforma profitability measures have been included to show the result of our ongoing business, given the significant portfolio exits undertaken in the UK business and new reinsurance programmes.

APMs are identifiable within Group tables by the symbol ◊, and are defined in the below jargon buster. 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 22 and 23 of the Annual Report and Accounts 2018. Detailed reconciliations of APMs to their nearest IFRS Income Statement equivalents and adjusted APMs can be found after the below jargon buster. APMs used to determine management and executive remuneration are identified below with ◊*.

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 underlying loss 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.			
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 calculated on an 'earned' basis as follows: 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	N/a
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	N/a
Current Year Underwriting Result	The profit or loss earned from business for which insurance cover has been provided during the current financial period.	◊	1	Q
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.			

Jargon Buster continued

<table>
<tr><th>Term</th><th>Definition</th><th>APM</th><th colspan="2">Reconciliation</th></tr>
<tr><td>Interest Costs</td><td>Interest costs represent the cost of Group debt excluding any debt buy back costs.</td><td>◊</td><td>1</td><td>O</td></tr>
<tr><td>Investment Result</td><td>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.</td><td>◊</td><td>1</td><td>AA</td></tr>
<tr><td>Large Losses</td><td>Single claim or all claims arising from a single loss event with a net cost of £0.5m or higher.</td><td></td><td></td><td></td></tr>
<tr><td>Large Loss Ratio</td><td>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.</td><td>◊</td><td>1</td><td>T</td></tr>
<tr><td>Managing General Agent (MGA)</td><td>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.</td><td></td><td></td><td></td></tr>
<tr><td>Net Asset Value (NAV) per Share</td><td>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.</td><td>◊</td><td>3</td><td>E</td></tr>
<tr><td>Net Earned Premium (NEP)</td><td>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.</td><td></td><td></td><td></td></tr>
<tr><td>Net Incurred Claims (NIC)</td><td>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.</td><td></td><td></td><td></td></tr>
<tr><td>Net Written Premium (NWP)</td><td>Premium written or processed in the period, irrespective of whether it has been paid, less the amount shared with reinsurers.</td><td></td><td></td><td></td></tr>
<tr><td rowspan="2">Non-Operating Charges</td><td>Non-operating charges represent items that are excluded to arrive at the underlying profit after tax measure.</td><td>◊</td><td>1</td><td>AD</td></tr>
<tr><td><table>
<tr><th>Item</th><th>Reason for classification</th></tr>
<tr><td>Amortisation of intangible assets</td><td>To allow meaningful assessment of segmental performance where similar internally generated assets are not capitalised</td></tr>
<tr><td>Pension administration and net interest costs</td><td>Costs that are dependent on the level of defined benefit pension scheme plan funding and arise from servicing past pension commitments</td></tr>
<tr><td>Realised and unrealised gains and losses on investments / foreign exchange gains and losses</td><td>To remove the impact of market volatility and investment rebalancing activity</td></tr>
<tr><td>Gains and losses arising from the disposal of businesses and impairment of goodwill</td><td>To allow assessment of the performance of ongoing business activities</td></tr>
<tr><td>Regulatory costs in respect of customer redress</td><td>To allow assessment of the performance of ongoing business activities</td></tr>
<tr><td>Reorganisation</td><td>To allow assessment of the performance of ongoing business activities</td></tr>
<tr><td>Impairment of intangible assets</td><td>Where the impairment arises from restructuring activities</td></tr>
<tr><td>Debt buy back costs</td><td>To allow meaningful assessment of ongoing finance costs</td></tr>
</table></td><td>◊</td><td>1</td><td>AD</td></tr>
<tr><td>Operating Profit</td><td>Operating profit is profit before tax less non-operating charges.</td><td>◊</td><td>1</td><td>AC</td></tr>
<tr><td>Payout Ratio</td><td>Ordinary dividends expressed as a percentage of underlying profit after tax attributable to ordinary shareholders.</td><td></td><td></td><td></td></tr>
<tr><td>Policies in Force</td><td>The number of active insurance policies for which Group is providing cover.</td><td></td><td></td><td></td></tr>
<tr><td>Prior Year Underwriting Result</td><td>Updates to premium, claims, commission and expense estimates relating to prior years.</td><td>◊</td><td>1</td><td>P</td></tr>
<tr><td>Proforma</td><td>Adjusted profitability measures to enhance understanding of the reported result and of future potential performance. Proforma profitability metrics show;
– the impact of the new regional reinsurance programmes
– the results for our ongoing business given the significant portfolio exits undertaken in the UK business
– regional results after allocation of group volatility cover reinsurance premiums and claims recoveries</td><td>◊</td><td>7</td><td></td></tr>
</table>

Jargon Buster continued

Term	Definition	APM	Reconciliation	
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	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.			
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	A measure of underwriting performance calculated as net earned premium less net claims and underwriting and policy acquisition costs.	◊	1	Z
Underlying Tax Rate	The underlying Core Group tax rate mainly comprising the local statutory tax rates in the Group's territories applied to underlying regional profits (operating profits less interest costs).	◊	6	A
Underlying Profit after Tax	This provides a key measure of shareholder value and one that informs overall valuation in the insurance sector. It takes profit after tax, excluding the proportion that is attributable to non-controlling interests, preference shareholders and Tier 1 note holders and adds back non-operating charges (reasons for exclusion above) before adjusting for the tax difference between effective and underlying rate.	◊*	2	B
Underlying Return on Tangible Equity	A key measure of shareholder value and one that informs overall valuation in the insurance sector. 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)	A key measure of the underlying earnings power of the group as it excludes shorter-term and temporary changes, such as restructuring costs. Underlying earnings per share is calculated as 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 with a net cost of £0.5m or higher 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 2018

£m	IFRS		Management: Underwriting result	Management: Investment result	Management: Central costs	Management: Operating result	Management: Non-operating charges	Management: Profit before tax
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					
Less: 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)	**O**					(25)	
Finance costs	(25)						(25)	
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

1. IFRS reconciliation to management P&L continued

For the 12 months ended 31 December 2017

£m	IFRS		Underwriting result	Investment result	Central costs	Operating result	Non-operating charges	Profit before tax
					Management			
Income								
Gross written premiums	7,599		7,599					
Less: reinsurance premiums	(921)		(921)					
Net written premiums	6,678		6,678					
Change in the gross provision for unearned premiums	(16)		(16)					
Less: change in provision for unearned reinsurance premiums	(57)		(57)					
Change in provision for unearned premiums	(73)		(73)					
Net earned premiums, analysed as	6,605	A	6,605					
Current year		B	6,590					
Prior year		C	15					
			6,605					
Investment income	331	D		331				
Realised gains on investments	19						19	
Gains/(losses) on forex derivatives	(5)						(5)	
Unrealised gains/(losses)	1						1	
Impairments	4						4	
Net investment return	350							
Other insurance income	146	E	146					
Other non-insurance income	4				4			
Other operating income	150							
Total income	7,105							
Expenses								
Gross claims incurred	(5,136)		(5,136)					
Less: claims recoveries from reinsurers	786		786					
Net claims, analysed as	(4,350)	F	(4,350)					
Attritional		G	(3,642)					
Weather		H	(168)					
Large		I	(713)					
Prior year		J	173					
			(4,350)					
Earned CY commission	(883)	K	(883)					
Earned PY commission	(28)	L	(28)					
Earned CY operating expenses	(1,093)	M	(1,093)					
Earned PY operating expenses	(3)	N	(3)					
Underwriting and policy acquisition costs	(2,007)		(2,007)					
Unwind of discount	(34)			(34)				
Investment expenses	(13)			(13)				
Non-insurance expenses	(3)				(3)			
Central expenses	(17)				(17)			
Amortisation of intangible assets	(15)						(15)	
Pension net interest and administration costs	(7)						(7)	
Reorganisation costs	(155)						(155)	
Foreign exchange losses	(1)						(1)	
Impairment of intangibles	(23)						(23)	
Other operating expenses	(234)							
	(6,625)							
Interest costs	(43)	O					(43)	
Debt buy back costs	(59)						(59)	
Finance costs	(102)						(102)	
Acquisitions and disposals	69						69	
Net share of profit after tax of associates	1				1			
Profit before tax	448		394	284	(15)	663	(215)	448
Income tax expense	(126)		Z	AA	AB	AC	AD	
Profit for the year	322							
C+J+L+N		P	157	PY Underwriting				
Z – P		Q	237	CY Underwriting				
			394					

Attritional loss ratio	G/B	R	55.3%
Weather loss ratio	H/B	S	2.6%
Large loss ratio	I/B	T	10.8%
Prior year effect on loss ratio	V-R-S-T	U	(2.8%)
Loss ratio	F/A	V	65.9%
Commission ratio	(K+L)/A	W	13.7%
Expense ratio	(E+M+N)/A	X	14.4%
Combined operating ratio	V+W+X	Y	94.0%

Alternative Performance Measures Reconciliations continued

2. Metric calculations

			2018 £m	2017 £m
		Profit after tax	372	322
		Less: non-controlling interest	(23)	(33)
Note 21		Less: coupon on 2017 issued restricted tier 1 instrument	(14)	(11)
Note 21		Less: preference dividend	(9)	(9)
	A	**Profit attributable to ordinary shareholders**	**326**	**269**
APM Rec 1		Add: non-operating charges	37	215
		Add: non-controlling interest share of non-operating charges	–	13
APM Rec 1		Less: interest costs	(25)	(43)
APM Rec 6		Add: underlying tax differential	12	(10)
	B	**Underlying profit after tax attributable to ordinary shareholders**	**350**	**444**
		Opening shareholders' funds	**3,653**	**3,715**
		Less: preference share capital	(125)	(125)
	C	**Opening ordinary shareholders' funds**	**3,528**	**3,590**
Note 23		Less: opening goodwill and intangibles	(763)	(728)
	D	**Opening tangible ordinary shareholders' funds**	**2,765**	**2,862**
	E	**Weighted average no. share issue during the period (un-diluted)**	**1,026**	**1,021**
		Return on equity		
A/C	**F**	**Reported return on equity**	**9.2%**	**7.5%**
B/C	**G**	**Underlying return on equity**	**9.9%**	**12.4%**
		Return on tangible equity		
A/D	**H**	**Reported return on tangible equity**	**11.8%**	**9.4%**
B/D	**I**	**Underlying return on tangible equity**	**12.6%**	**15.5%**
		Earnings per share		
A/E	**J**	**Basic earnings per share**	**31.8**	**26.3**
B/E	**K**	**Underlying earnings per share**	**34.1**	**43.5**

3. Balance sheet reconciliations

			2018 £m	2017 £m
	A	Closing shareholders' funds	**3,786**	**3,653**
		Less: preference share capital	(125)	(125)
	B	**Ordinary shareholders funds**	**3,661**	**3,528**
Note 23		Less: closing goodwill and intangibles	(794)	(763)
	C	**Tangible net asset value**	**2,867**	**2,765**
	D	**Shares in issue at the period end**	1,027	1,023
B/D	**E**	**Net asset value per share**	**357**	**345**
C/D	**F**	**Tangible net asset value per share**	**279**	**270**

Alternative Performance Measures Reconciliations continued

4. Net written premium movement and constant exchange

			2018 £m	2017 £m
Note 9	A	**Net written premiums**	**6,470**	**6,678**
		Year-on-year movement	(208)	397
		Comprised of:		
		Volume change including portfolio actions and standard reinsurance	(153)	(25)
		Rate increases	238	163
	B	Additional reinsurance changes	(178)	–
	C	**Movement at constant exchange**	**(93)**	**138**
	D	Foreign exchange	(115)	259
		Total movement	**(208)**	**397**
C/(2017A-D)	E	**% movement at constant exchange**	**(1)%**	**2%**
(C-B)/ (2017A-D)	F	**% movement at constant exchange less reinsurance**	**1%**	

5. Controllable expenses

			2018 £m	2017 £m
		Underwriting and policy admin costs	**(1,945)**	**(2,007)**
APM Rec 1		Less: commission	886	911
		Less: non controllable premium related costs e.g. levies	139	130
		Add: claims expenses within net claims	(397)	(406)
		Add: other	(26)	(23)
	A	**Written controllable expense base**	**(1,343)**	**(1,395)**
		Less: controllable deferred acquisition costs	11	8
	B	**Earned controllable expense base**	**(1,332)**	**(1,387)**
	C	Add: investment expenses	(14)	(13)
	D	Add: central costs	(9)	(17)
A+C+D	E	**Total written controllable expense base**	**(1,366)**	**(1,425)**
B+C+D	F	**Total earned controllable expense base**	**(1,355)**	**(1,417)**
	G	Net written premiums	6,470	6,678
	H	Net earned premiums	6,537	6,605
A/C	I	**Written controllable expense ratio**	**20.8%**	**20.9%**
E/C	J	**Total written controllable expense ratio**	**21.1%**	**21.3%**
B/D	K	**Earned controllable expense ratio**	**20.4%**	**21.0%**
F/D	L	**Total earned controllable expense ratio**	**20.8%**	**21.5%**

Alternative Performance Measures Reconciliations continued

6. Underlying tax rate

			2018 %	2017 %
		Effective tax rate (ETR)	**23**	**28**
		Less tax effect of:		
		Withholding tax on intercompany dividend	0	(5)
		Unrecognised tax losses	(2)	(1)
		Underlying versus IFRS regional profit mix	0	(1)
		One off impact of Swedish law change	(1)	0
		Other	0	1
	A	**Underlying tax rate**	**20**	**22**
			£m	**£m**
APM Rec 1		Operating profit	**517**	**663**
APM Rec 1		Less interest costs	(25)	(43)
	B	**Underlying profit before tax**	**492**	**620**
AxB	**C**	**Underlying tax**	**(96)**	**(136)**
		Tax	(108)	(126)
	D	**Underlying tax differential**	**12**	**(10)**

7. APM Proformas

Occasionally management report additional or adjusted APMs when circumstance requires to further enhance understanding of reported results and of future performance potential. Additional proforma profitability metrics provided show:

- the impact of the new 2019 regional reinsurance programmes
- the results for our ongoing business given the portfolio exits undertaken in the UK business
- results after allocation of reinsurance premium and claims recoveries under group volatility cover

UK proforma for exits

The UK proforma adjusts the reported result for the estimated impact of the strategic portfolio exits (£195m NEP) primarily including London market portfolios and a number of UK MGA schemes and the impact of new reinsurance (assumed to be broadly neutral in the UK when exit adjustments are taken into account).

			UK 2018	UK & International 2018
Reported				
	A	NEP	2,629	3,129
	B	Underwriting result	(106)	(43)
(B/A)-1		**COR**	**104.0%**	**101.4%**
	C	**Operating result**	**29**	**105**
UK exits				
	D	Exited NEP	(195)	(195)
	E	Underwriting impact	120	120
Exits proforma				
A+D	**F**	NEP	2,434	2,934
B+E	**G**	Underwriting result	14	77
(G/F)-1		**COR**	**99.4%**	**97.4%**
C+E		**Operating result**	**149**	**225**

Alternative Performance Measures Reconciliations continued

7. APM Proformas continued

Canada proforma for GVC and new reinsurance

Proforma adjusts Canadian reported result to include share of GVC reinsurance premiums and claims recoveries and the impact of new reinsurance programmes.

			2018
Reported			
	A	NEP	1,607
	B	**Underwriting result**	**25**
(B/A)-1		**COR**	**98.5%**
	C	**Operating result**	**84**
GVC allocation			
	D	NEP allocation	(11)
		Recoveries allocation	25
	E	Underwriting impact	14
GVC proforma			
A+D	**F**	NEP	1,596
B+E	**G**	**Underwriting result**	**39**
(G/F)-1		**COR**	**97.6%**
C+E		**Operating result**	**98**
New reinsurance			
	H	Incremental cost	(1)
	J	Underwriting impact	14
GVC and new reinsurance proforma			
A+D+H	**K**	NEP	1,595
B+E+J	**L**	**Underwriting result**	**53**
(L/K)-1		**COR**	**96.7%**
C+E+J		**Operating result**	**112**

Alternative Performance Measures Reconciliations continued

7. APM Proformas continued

Group proforma for UK exits and new reinsurance

The Group reported result adjusted for the estimated impact of UK exits and new regional reinsurance programmes.

			2018	2017	2017 CFX	2018 v CFX
			S		T	(S-T)/T
Group reported						
	A	NEP	6,537	6,605	6,491	
	B	**Underwriting result**	**250**	**394**	**377**	**(33%)**
(B/A)-1		**COR**	**96.2%**	**94.0%**	**94.2%**	
	C	**Operating result**	**517**	**663**	**644**	**(19%)**
	D	Underlying profit after tax	350	444	430	
	E	Weighted average shares	1,026	1,021	1,021	
D/E		**Underlying EPS**	**34.1p**	**43.5p**	**42.1p**	**(19%)**
		UK exits				
	F	Exited NEP	(195)			
	G	Underwriting impact	82	(includes £(37)m of forgone GVC recoveries for exits)		
	H	Tax thereon (10%)	(8)			
		New reinsurance				
	J	Incremental cost	(12)	(includes £(11)m for Scandinavia)		
	K	Underwriting impact	12	(includes £(2)m for Scandinavia)		
	L	Tax thereon (22% and 27%)	(4)			
Group exit and new reinsurance proforma						
A+F+J	M	NEP	6,330			
B+G+K	N	Underwriting result	344			
(N/M)-1		**COR**	**94.6%**			
C+G+K	P	**Operating result**	**611**			
D+G+H+K+L	Q	Underlying profit after tax	432			
	R	Weighted average shares	1,026			
Q/R		**Underlying EPS**	**42.1p**			

Note: the impact of new UK reinsurance cover is assumed to be broadly neutral when exits taken into account.

Shareholder **information**

The Company is registered in England and Wales under Company No. 2339826. Its registered office address is 20 Fenchurch Street, London EC3M 3AU.

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.

When contacting Equiniti, please quote your shareholder reference number which can be found on your share certificate or dividend tax voucher. 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. To securely email Equiniti with an enquiry, visit www.help.shareview.co.uk.

Annual General Meeting

The 2019 AGM will be held at 200 Aldersgate, St Paul's, London EC1A 4HD on Friday 10 May 2019 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/agm2019.

Separate resolutions are proposed on each item of business. In accordance with the provisions of the Articles of Association, any proxy form sent by the Company to shareholders in relation to any general meeting must be returned to the Company, whether in written form or in electronic form, not less than 48 hours before the time for holding the meeting, excluding non-business days (or, in the case of a poll taken otherwise than at, or on, the same day as the meeting, not less than 24 hours before the time appointed for the taking of the poll). At any general meeting, every ordinary shareholder present shall have one vote on a show of hands and on a poll, every ordinary shareholder present in person or by proxy shall have one vote for each Ordinary Share of which he/she is the holder. Each resolution will be put to a poll at the AGM in 2019. The results of the vote on each resolution will be announced to the London Stock Exchange and will be available on the Company's website, www.rsagroup.com/agm2019.

Ordinary Share performance

The opening market price of an ordinary share on 2 January 2018 was 633.0 pence and the closing market price on 31 December 2018 was 513.6 pence. The highest daily closing price of an Ordinary Share during 2018 was 681.8 pence on 22 June 2018 and the lowest daily closing price was 496.6 pence on 17 December 2018.

REGISTERED SHAREHOLDINGS BY SIZE AS AT 31 DECEMBER 2018

	No of holdings	No of shares	% of holdings	% of shares
1 and 24,999	26,932	23,440,944	97.65%	2.28%
25,000 and 99,999	247	12,917,915	0.90%	1.26%
100,000 and 499,999	205	47,773,508	0.74%	4.65%
500,000 and 999,999	67	47,114,984	0.24%	4.59%
1,000,000 and 1,999,999	52	76,812,809	0.19%	7.48%
2,000,000 and 9,999,999,999	76	818,877,768	0.28%	79.74%
Total	**27,579**	**1,026,937,928**	**100.00%**	**100.00%**

American Depositary Receipts

The Company operates a sponsored American Depositary Receipts (ADRs) programme which is managed by JPMorgan Chase 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.

Any enquiry relating to the sponsored ADR programme should be addressed to JPMorgan Chase & Co, PO Box 64504, St Paul, MN 55164-0504 USA or visit adr.com/shareholder and select Contact Us.

Managing your shareholding

Information on how to manage your shareholding can be found at www.help.shareview.co.uk. If you do not find the information you require, you can send your enquiry via secure email from these pages. You will be asked to complete a form providing your name, address and shareholder reference number. If you require an email response, you will need to provide your email address.

Dividends

Shareholders are encouraged to have their dividends paid directly into their bank account. It is a more secure and faster way to receive the dividend payment, 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. Details of 2019 dividend dates are detailed overleaf.

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.

Corporate Sponsored Nominee (CSN)

The RSA CSN is an easy and convenient way for you to hold and manage your RSA shares electronically, so there is no need for a paper certificate. You are still the beneficial owner of the shares and you can instruct the nominee to buy, sell or transfer your holding on your behalf.

Shareholders participating in this service continue to receive dividend payments and annual reports and can attend and vote at RSA's general meetings. The service is administered by Equiniti Financial Services Limited, part of the same group of companies as our Registrar, Equiniti.

If you would like to join, please call Equiniti on 0371 384 2048 to obtain an application form today or visit www.shareview.co.uk/info/csn for more information, including the CSN terms and conditions. Lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding public holidays in England and Wales.

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.

Stocktrade offers an online dealing service. An account can be opened by visiting www.alliancetrustsavings.co.uk, applying for an account which enable to buy, sell or transfer. Alternatively, call +44(0) 13 8257 3737 for more detailed information on commission charges and their full terms and conditions.

Electronic communications

Receiving the Company's communications electronically allows the Company to communicate with its shareholders in a more environmentally friendly, cost effective and timely manner.

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.

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.

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. 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.

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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.